Publication: Financial Mail
Title: Wheeling and dealing hots up
AVE: 181356.8

Page: 29
Publish Date: 22 August 2024
Author: Joan Muller

Ghana: Accra Mall

PROPERTY

Wheeling and dealing hots up

Reits have emerged from a prolonged downturn with shored-up balance sheets and renewed appetite for corporate action

Joan Muller

● There's been an interesting flurry of deal-making in the JSE's real estate sector in recent weeks, which has bolstered the rebound in investor sentiment – and share prices.

This week, the South Africa-listed property index reached levels last seen in early March 2020, bringing the index's rally since end-October to nearly 40%.

The top-performing counters year to date are mostly South Africa-focused real estate investment trusts (Reits) such as Emira Property Fund, Fortress Real Estate Investments, Attacq, Vukile Property Fund, Resilient Reit, Texton Property Fund, Fairvest B shares and SA Corporate Real Estate.

Buyers climbed back into property stocks after the US Federal Reserve signalled the end of the interest rate hiking cycle late last year.

The recovery has been supported by softer bond yields, the positive outcome of the election and the formation of the government of national unity, the end (albeit perhaps temporarily) of load-shedding, a stronger rand and improved economic growth outlook.

In recent months, local Reits have also reported a continued recovery in net operating income on the back of lower vacancies – even in the struggling office sector – and higher rentals on lease renewals.

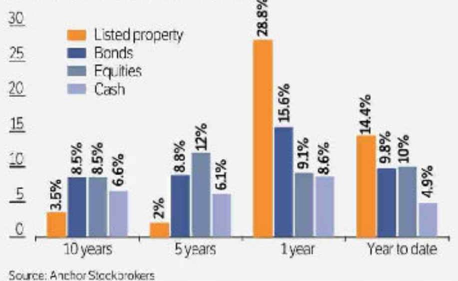
The positive result for shareholders is that dividend payouts are finally on the rise again.

Importantly, many Reits have used the four-year downturn to sell noncore assets, repay debt and recapitalise their businesses. As a result, debt levels are under control, with the loan-to-value ratios of

The copyright act of 1978 (as amended) prohibits the reproduction of this copy IN ANY FORMAT, without prior permission of the original publisher.

SAPY VS ASSET CLASSES

Total returns for periods ending July 2024
(annualised returns except for <1yr periods)



Source: Anchor Stockbrokers

several Reits having dropped to below 35%. So, many are ready to pounce on buying opportunities.

This means that after an uneventful few years on the corporate action front, merger & acquisition activity among property stocks is back on the table.

As independent property analyst Keillen Ndlovu points out, several factors have converged to make it easier for Reits to start deal negotiations.

These include improved share prices, a better earnings growth outlook and more certainty that rates are likely to ease in the next few months. This will translate into lower debt-funding costs, which make it more viable to bulk up portfolios.

It suggests the listed property sector is no longer playing defence — instead, Reits are now taking advantage of opportunities

Naeem Tilly

Ninety One portfolio manager Luqman Hamid shares this sentiment, saying the share price action and resetting of values seen in recent months have opened the door to reignite acquisition activity, both locally and offshore.

He adds: "If current market conditions continue, we could start seeing the return of offensive capital raising in the Reit sector."

The latter will be used for acquisitions instead of deleveraging balance sheets, as has mostly been the case in the past five years, says Hamid.

Notable deals announced in recent weeks include the long-awaited sale of Hyprop Investments and Attacq's interests in four shopping centres in Nigeria and Ghana, and Emira's first entry into Europe via a stake in a Polish property investment company.

Lighthouse Properties last month bagged another shopping centre in Portugal, its third Iberian deal this year, with a further acquisition pending, while Texton has expanded its UK footprint to North Carolina in the US.

Meanwhile, the Burstone Group (formerly Investec Property Fund) announced it has entered negotiations to dispose of most of its stake in a pan-European logistics platform.

The market is also awaiting the outcome of the potential buyout of Growthpoint's 68% stake in UK retail-focused Capital & Regional, and takeover advances on Spain-listed Lar España in which Vukile indirectly owns a 28.7% stake.

While the drivers of each deal may differ, Naeem Tilly, portfolio manager and head of research at Sesfikile Capital, says the recent spate of corporate action is broadly positive.

"It suggests the listed property sector is no longer playing defence – instead, Reits are now taking advantage of opportunities both locally and offshore."

Tilly adds: "We believe corporate activity will boost investor sentiment, as these deals are typically accretive to earnings and portfolio quality."

In Hyprop and Attacq's case, the sale of Accra Mall, Kumasi City Mall and West Hills Mall in Ghana and Ikeja City Mall in Nigeria to Lango Real Estate in a deal worth just more than R1bn won't immediately realise any cash.

The sale to Lango, jointly founded in 2018 by Growthpoint and Ninety One as an unlisted African (excluding South Africa) property fund, will be settled by the issue of shares and the takeover of Hyprop and Attacq's in-country debt in Ghana and Nigeria.

Tilly nevertheless welcomes the transaction, given that neither Hyprop nor Attacq needs to further invest in these assets and can now focus on their core portfolios.

Previous attempts by both companies to exit the loss-making West African portfolio were unsuccessful.

Hyprop CEO Morné Wilken says the sale of these assets was delayed for several years by Covid, dollar shortages in Nigeria and exchange rate volatility.

Wilken adds that the transaction will allow Hyprop to focus its energy and resources on extracting further value from its shopping centre portfolios in Eastern Europe and South Africa, which include prime centres such as Rosebank Mall and Hyde Park Corner in Joburg and Canal Walk in Cape Town.

Hyprop recently also acquired Table Bay Mall near Bloubergstrand. Wilken is keen to further grow Hyprop's footprint in the Western Cape, given that retail sales in the province have been boosted by semigration.

Geoff Jennett: Enters Polish economy

www.marketiq.co.za | Tel: 011 884 7847 | enquiries@marketiq.co.za
The copyright act of 1978 (as amended) prohibits the reproduction of this copy IN ANY FORMAT, without prior permission of the original publisher.

Publication: Financial Mail
Title: Wheeling and dealing hots up
AVE: 181356.8
Page: 29
Publish Date: 22 August 2024
Author: Joan Muller

investing

As far as Emira is concerned, the company used the proceeds of a portfolio of Western Cape-based properties sold to Spear Reit this year to acquire a 25% stake for €55.5m in DL Invest Group, a logistics-focused developer which owns a portfolio of about 50 business and retail parks across Poland.

Emira has also secured the option to acquire a further interest for €45.5m which, if exercised, will push its stake in DL Invest to 45%.

Emira CEO Geoff Jennett says the deal marks "a significant milestone" in the South Africa-focused company's offshore expansion strategy, and will increase exposure to international real estate to 32% of total assets — 13% in Poland and 19% in the US, where Emira owns a stake in a portfolio of value retail centres.

Jennett adds: "We've taken the time to find the right partner. For us, this is the right way to enter this economy at the right time."

He says capitalising on opportunities in the growing Polish economy aligns with Emira's co-investment model, where the company mitigates risk as a minority partner paired with an established local specialist.

The question is to what extent the rise in corporate action will support a further rebound in listed property share prices, still effectively trading at 2010 levels and an average discount to NAV of more than 30%.

Ndlovu says there's no doubt that continued deal-making will boost investor sentiment and money flow to Reits.

"Corporate action shows that there are still opportunities in the sector and helps to unlock value. It also provides transactional evidence and confidence in property valuations."

Despite an already strong rally in share prices since October, Ndlovu points out that there's been no new inflow from retail investors this year.

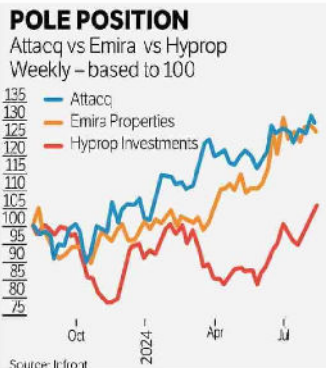
He believes the recovery to date has been driven mainly by institutional investors.

In fact, retail investors have disinvested about R1.1bn year to date (to end-June), according to recent numbers from the Association for Savings & Investment South Africa.

That comes on the back of a record net outflow of R3.2bn from retail investors in 2023.

Ndlovu reckons recent retail investor outflows may have been partly driven by profit-taking after the rally in property share prices since end-October.

Of course, the flip side of these outflows is the huge upside potential if and when retail investors decide to re-enter the fray. ▪



The copyright act of 1978 (as amended) prohibits the reproduction of this copy IN ANY FORMAT, without prior permission of the original publisher.