

PRESS INFORMATION

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PUTs a step closer to being converted to REITs

As the South African listed property sector moves towards aligning itself with global best practice, specifically by adopting a tax-transparent structure that resembles current global Real Estate Investment Trust (REIT) vehicles, certain changes to legislation are necessary.

The Association of Property Unit Trusts (APUT) has been working to overcome any obstacles to the conversion and one of the first steps towards it has been the broadening of the assets in which Property Unit Trusts (PUTs) may invest.

The Collective Investment Schemes Act defines the assets in which a PUT may invest. It also makes provision for the registrar to determine other assets which may be included in PUT portfolios, and in terms of this, the registrar has recently given notice of additional assets in which the PUTs may invest.

Three new assets, which must be listed on an exchange in South Africa, may now be included in PUTs:

- Participatory interests in a collective investment scheme in property;
- Linked units (consisting of shares and debentures) in a property loan stock company;
and
- Shares or interests in a company or concern which derives its income solely from property related investments.

This addition means that PUTs may now invest in listed property investments, bringing them in line with Property Loan Stock (PLSs) and REITs. There had been an anomaly until the notice was published: PUTs have been able to invest in assets listed on offshore exchanges, but not those listed in South Africa and this now overcomes that inconsistency.

“We welcome this announcement,” states Craig Hallowes, spokesperson for APUT, “as it brings more options to the table. Although PUTs are very REIT-like, this will smooth the conversion to the proposed new South African REIT structure.”

There are certain limitations placed on investments in the new assets. They may not comprise more than 25% of the market value of a PUT's total assets and no single investment may exceed 10% of the market value of all assets in that PUT's portfolio.

The extension to permissible assets will enable all PUTs to increase their investment universe, but individual PUTs may also need to alter their trust deed to allow the new assets. This is a matter for the individual PUTs to address.

“This announcement is timeous,” notes Hallowes, “given the current valuations on offer in the SA listed property sector. It represents an opportunity for PUTs to acquire real estate assets on notably high yields: the SA Listed Property Index (SAPY) is currently trading on a historical yield of 10% with one-year forward yields projected to be at 11%.”

“Although there may be some further rise in yields, the sense in the market is that interest rates are nearing a peak. So we are possibly close to the top as far as the SAPY yield is concerned. If so, this would represent an attractive buying opportunity for PUTs,” says Hallowes.

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