

Time to buy PUTs

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The jury may be out as to when interest rates will peak, but experts agree that when they do, it will be the best time to buy property unit trusts.

Analysts had been expecting another interest rate hike during August, but most have done an about-turn and are now forecasting that they will stay unchanged. Forecasts for the first interest rate cut are also being brought forward, with some calling it as early as June next year. This has been prompted by the row brewing over the true level of inflation in South Africa: some analysts (notably Investec Asset Management) are concerned that Stats SA will introduce the new CPI weights only in 2009, thus prolonging an artificially high inflation rate.

“Notwithstanding the inflation rate debate,” comments Craig Hallowes, spokesperson for the Association of Property Unit Trusts (APUT), “it looks like a good buying opportunity for property unit trusts (PUTs), which are showing excellent value at the moment. While we don’t advocate trying to time the market – as we view PUTs, and real estate generally, as essentially long term investments – if interest rates are at or near a peak, this is definitely a great chance to raise exposure to the sector.”

Michael Levin, a senior investment manager at Cannon Asset Managers adds that: “To June this year, listed property prices fell by 31% since the start of 2008 and the sector is off 37% from its November 2007 peak, significantly underperforming other investment options. This can be largely attributed to the interest rate environment, but it means that most of these instruments are now showing good value.”

“Property fundamentals remain sound: on the supply side, there is a constraint on new stock becoming available while vacancies are low across all three market segments – office, industrial and retail,” comments Mandy Ramsden, director of Standard Bank’s Real Estate Investments division and the new Chairperson of the Association of Property Unit Trusts. “We have also found that market rentals are buoyant which would imply that demand is still increasing.”

Leon Allison, property analyst at Macquarie First South Securities, agrees with this view, stating that “SA property fundamentals remain solid, with vacancies at 10-year lows,

resulting in positive rental growth. New developments will likely be limited by several supply-side constraints, meaning vacancies are likely to remain low in the next three years.” In addition, Allison points out that the risk in listed property investing is mitigated by the contractual nature of property leases in South Africa with their fixed annual escalations.

A further positive factor for SA listed property will be its 10% weighting in the new FTSE EPRA/NAREIT global emerging market index (see box), to be launched in September 2008. SA property will make up 39% of the EMEA region and 10% of the overall index.

Investors can look to the long bond market for direction: bond yields have edged lower, dipping below 10% in July while the All Bond Index (ALBI) has lifted. Allison notes that “Once long bond yields peak, we expect significant positive capital returns from listed property in addition to double-digit income yields.”

Note to editors

FTSE EPRA/NAREIT indices are designed to represent general trends in eligible real estate equities worldwide.

The FTSE EPRA/NAREIT Emerging Markets Index Series is designed to represent general trends in eligible emerging market listed real estate stocks worldwide. Relevant real estate activities are defined as the ownership, trading and development of income-producing real estate.

EPRA – European Public Real Estate Association

NAREIT – National Association of Real Estate Investment Trusts

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