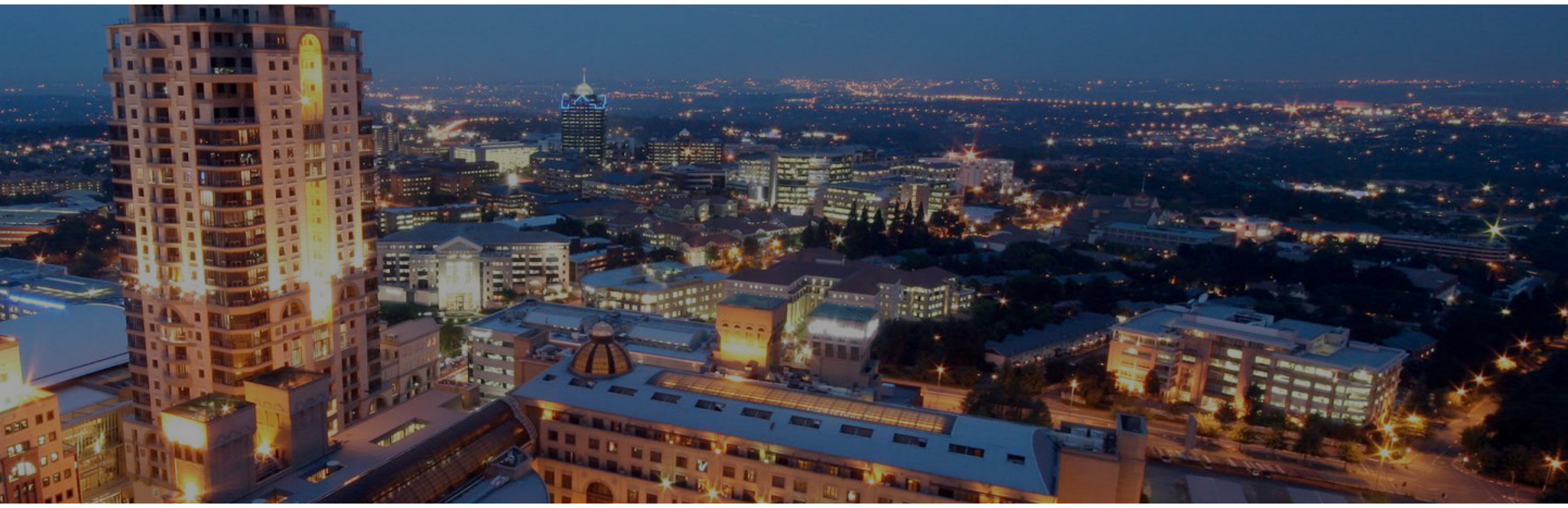
SOUTH AFRICAN LISTED PROPERTY REPORT
MARCH 2019



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SA LISTED PROPERTY REPORT

MARCH 2019

The SA Listed Property Index (SAPY) and the All Property Index (ALPI) recorded total returns of -1.46% and -1.92% respectively for the month of March, with the historic yield of the SAPY ending the month at 9.30%. The yield-to-maturity (YTM) on the Long-Term South African government bond (RLRS) re-rated by 7 bps to end the month at 8.99% (9.06% - 28 February 2019).

Asset Class	MTD	YTD	12 Months
SA Listed Property[1]	-1.46%	1.45%	-5.68%
All Property Index[2]	-1.92%	1.25%	-6.95%
Equities[3]	1.56%	7.97%	5.04%
Cash[4]	0.57%	1.73%	7.26%
Bonds[5]	1.28%	3.76%	3.45%

Source: Catalyst Fund Managers, RMB Credit Research
Note: 1 - SA Listed Property Index (J253T), 2 – All Property Index (J803T) 3 - All Share Index, 4 – Stefi, 5 - All Bond Index

SA Listed Property recorded the lowest total return (-1.46%) for the month of March, with SA Equities generating the highest return (1.56%) followed by SA Bonds (1.28%) and SA Cash (0.57%). SA Listed Property (SAPY) continues to underperform other asset classes on a rolling 12-month period (-5.68%), with SA Cash outperforming with returns of (7.26%), followed by SA Equities (5.04%) and SA Bonds (3.45%).

During the month of March, Growthpoint Properties reported results for the half year ended December 2018, achieving DPS growth of 4.5%. Growthpoint is often used as a proxy for the South African real estate market and their results are reflective of the constrained property fundamentals facing the SA market. Like for like net property income growth of 1.1% was largely dragged down by offices which declined by 1.5%. The main driver of the poor performance was the office sector, with vacancies increasing from 8.6% to 10.2% and negative reversions on new leases of -8.9%.

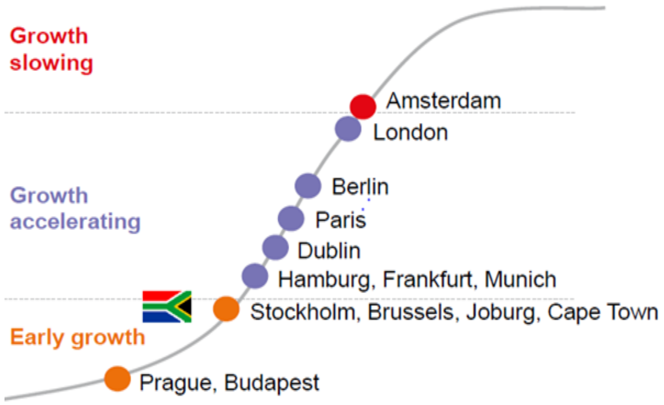
During 2018, Redefine Properties reported that the office sector is 'moving to younger, more efficient, modern facilities, enabling work life integration'. Following their recent partnership with WeWork, the company believes that the increased use of flexi-time and co-working environments continue to change office requirements and that the sector is booming.

Flexible workspace operators are expanding aggressively in virtually every major city, landlords are building flexible workspaces into their portfolios, and multinationals are incorporating flexible solutions into their real estate strategies. Organizations such as Microsoft, HSBC and Amazon have partially substituted their traditional workspace in favour of spaces that look nothing like the traditional offices of the past. It appears that no place or space is off limits with the likes of quiet stations at the office, office cafes, meditation rooms, neighbourhood co-working space and even one's own kitchen table. Flexible work trends are said to enable collaborative and mobile working options, freeing employees from their desk, at any given address. Financially, there can be significant front-end cost savings in flexible working versus fixed owing to a substantial decrease in overhead costs which is no longer borne by the company but the co-working firm itself. These costs include furniture, electricity, internet, insurances and cleaning services in comparison to a once off monthly fee paid to the coworking firm. Flexible workspaces already account for up to 20% of office take-up in global capitals such as London, New York, Paris and Amsterdam. Industry goliath, WeWork is currently New York City and Central London's largest office tenant. JLL predicts that 30% of all office space across the board will be flexible, on-demand space by 2030. CBRE research states that the flexible office market is growing at 13% a year globally.

Although still in its infancy in South Africa, it appears that flexible work spaces are poised to take off rapidly following WeWork's announcement earlier this year to extend its footprint in South Africa. WeWork is renting six floors of the state-of-the-art, four-star green-rated building on Oxford Road in Rosebank, Johannesburg, from Redefine Properties. Co-founded in 2010, WeWork already operates 580 office locations in 100 cities; about 400,000 people rent a desk across its global office network. WeWork's business model continues to rely heavily on funding from private investors who have a low cost of capital, namely their largest investor, the Softbank Group. The company then invest this capital aggressively into expensive real estate markets and makes money over time by collecting rent or membership fees. As a result, WeWork reported that revenue climbed from $886 million to $1.8 billion in 2018.

However, these upfront capital-intensive investments left WeWork with losses of $1.9 billion, up from $933 million in the previous year. The losses are attributed to the large capital expenditure it requires to open new offices, which takes time before they become profitable. Time will tell whether this model is financially viable over the long term.

Flexible Market maturity



Source: JLL Image showing that South Africa is still in the early growth stages

WeWork's entry into South Africa will bring on additional, futuristic supply to South African markets and this will no doubt unsettle local players who have started to explore the flexible work space phenomenon. Growthpoint Properties have brought on their version of this play with Workshop 17, in which they own a 50% stake; and later this year, 'Spaces' at the V&A Waterfront. 'Spaces', another co-working firm rents space at Attacq's Gateway West Building and at Towers' Sunclare building in Claremont. In 2018, Investec Property partnered with workspace specialist Giant Leap to create FutureSpace - an offering targeting professional business people. Redefine has exposure to Regus, the Business Exchange, and will provide the first two locations for WeWork in South Africa. The lease agreements between South African REITs and the co-working firms are usually structured as a head-lease agreement in which the co-working firm is the head-lessee and has the contractual responsibility to pay all due rents to the landlord regardless of whether they have collected rents from the sub-lessee.

Flexible workspace providers in South Africa

The mismatch between assets and liabilities remain a concern for lenders who are reluctant to issue debt to this business model of securing longer term leases before renting the space. Lenders tend to be more comfortable issuing debt on a property with a long-term lease. The success of this model is also questionable during periods of economic downturn in the real estate market when the company may struggle to fill its buildings and have committed to long term leases of 10-15 years with landlords.

Corporates are undoubtedly moving towards a more dynamic, modern work environment and co-working firms have provided flexible, operationally efficient office space which can lead to possible cost savings. Albeit the high accounting risk and sustainability risk, if co-working firms continue to improve its efficiencies in office design and not just sell the concept as a marketing tool, flexible workspace could create a new paradigm shift for the real estate management business.

South African real estate is currently in a low-growth environment, with the office sector being in the most distress. The sector is characterised by oversupply, combined with a reduction in demand due to the rise of co-working and densification from tenant consolidations. As a result, the office sector remains under pressure, with the overall vacancy rate moving sideways and rental growth remaining negative in real terms. SAPOA quoted the national office vacancy rate at 11.1% and due to the lack of growth drivers, it is becoming increasingly difficult to see an improvement in this rate within the near future. On the other hand, renewed business confidence amidst a change in the political landscape could be the much needed catalyst to unlock demand drivers and thus improve the national office vacancy rate.

On average, SA-centric companies are trading at forward yields of c.10.0%, with the yield on the Long-Term South African Government Bond at 8.99%. We expect the sector's growth in distribution per share over the medium term to be inflationary.

KIRSTIN GOVINDASAMY
INVESTMENT ANALYST

SECTOR SNAPSHOT

RSA LONG TERM GUILT (RLRS) 8.99%						
SHARE	MARKET CAPITALISATION (R '000)	CLOSE	HISTORIC ROLLED YIELD (SAPY)	NTAV	PREMIUM OR DISCOUNT OF CLEAN PRICE TO NTAV	DEBT %
COMBINED MARKET CAP WEIGHTED	607 946 078 942		9.30%			
GROWTHPOINT	72 551 363 053	2 442	9.2%	2 570	-9.32%	35.9%
NEPI ROCK	70 168 117 008	12 144	7.4%	11 405	2.49%	28.0%
REDEFINE	55 928 257 711	970	10.4%	1 083	-4.07%	45.0%
HAMMERSON	48 521 711 575	6 332	7.5%	12 992	-51.41%	43.0%
CAPCO	38 899 497 304	4 572	1.0%	6 113	-25.58%	18.8%
INTUPLC	27 236 308 884	2 010	6.8%	5 066	-61.91%	53.1%
RESILIENT	23 244 983 800	5 470	9.9%	5 942	-8.66%	25.7%
FORTRESS A	21 846 841 934	1 836	8.0%	1 726	6.23%	32.3%
VUKILE	18 419 242 900	2 000	9.3%	2 027	-3.90%	39.1%
HYPROP	18 035 445 488	7 048	10.9%	9 987	-29.73%	32.8%
POLSKA PROP	16 176 501 260	1 949	10.0%	2 172	-14.52%	50.1%
GLOBE TRADE SA	14 989 646 876	3 100	3.3%	2 886	-7.10%	48.0%
MAS	14 133 029 176	2 190	6.4%	2 135	2.55%	10.0%
SIRIUS	12 316 797 544	1 205	4.6%	1 129	5.28%	32.5%
FORTRESS B	11 766 725 675	1 078	15.2%	1 387	-22.50%	64.0%
INVESTEC PROP	11 007 550 345	1 495	9.7%	1 780	-18.42%	36.3%
RDI PLC	10 908 580 790	2 870	8.4%	4 000	-29.61%	46.2%
ATTACQ	10 761 391 850	1 435	5.5%	2 366	-34.85%	36.0%
EQUITES	9 821 661 495	1 951	7.4%	1 667	13.55%	22.1%
SA CORPORATE	9 211 707 960	364	12.3%	508	-32.46%	34.6%
EMIRA	7 223 261 354	1 382	10.9%	1 783	-23.11%	41.0%
IAPF	6 080 791 166	1 270	6.9%	1 327	-5.73%	36.3%
LIBERTY 2D	6 041 148 171	665	9.0%	945	-29.98%	16.0%
STENPROP	6 017 732 101	2 044	6.5%	2 655	-24.03%	47.2%
GRIT REAL	5 956 338 920	1 944	9.2%	2 085	-7.40%	43.7%
HOSPITALITY-B	5 671 692 771	981	13.2%	1 813	-47.98%	16.0%
OCTODEC INV LTD	5 124 302 549	1 925	11.0%	2 939	-38.31%	37.4%
STOR-AGE	4 590 662 756	1 291	8.5%	1 171	11.89%	28.4%
ARROWHEAD	3 918 317 534	374	19.5%	754	-53.20%	38.0%
CAPREG	3 537 515 000	487	9.9%	1 103	-57.88%	46.0%
ATLEAF	3 307 090 990	1 750	10.4%	2 019	-16.77%	43.0%
LIGHTHOUSE	3 090 083 418	675	18.7%	863	-29.13%	28.6%
TRADEHOLD	2 995 604 028	1 183	15.1%	2 225	-52.51%	58.9%
DIPULA A	2 831 924 263	1 070	10.5%	1 003	2.32%	40.6%
ACCPROP	2 734 352 838	275	21.4%	778	-66.91%	41.9%
GEMPROP B	2 396 248 545	598	13.2%	805	-28.70%	35.2%
INDLU	2 334 347 368	679	14.2%	1 009	-35.87%	30.1%
FAIRVEST	2 112 474 836	210	10.7%	233	-14.16%	27.1%
DIPULA B	2 056 453 414	777	13.0%	1 003	-26.43%	67.0%
TOWER	1 969 387 953	580	13.0%	984	-36.89%	33.0%
SPEAR REIT	1 843 553 800	976	9.3%	1 166	-19.06%	36.3%
TEXTON	1 504 267 064	400	21.7%	827	-51.81%	40.3%
SAFARI	1 456 116 555	468	11.5%	820	-44.83%	12.5%
REBOSIS A	1 327 953 592	2 099	12.9%	2 275	-11.55%	51.6%
DELPROP	1 249 902 007	175	46.9%	993	-85.04%	43.0%
REBOSIS	1 233 563 870	179	35.7%	1 295	-76.37%	51.6%
BALWIN	1 218 256 887	258	12.0%	509	-53.77%	34.4%
TRANSCEND	850 816 155	650	10.0%	957	-32.20%	47.8%
FRONTIER	730 729 160	700	16.7%	262	152.51%	61.8%
GEMPROP A	595 827 251	950	11.9%	962	-4.64%	26.8%

Data	IRESS unless stated otherwise
Calculations and forecast estimates	Catalyst Fund Managers
Rolled yield	Time weighted current 12 month historic distribution divided by the clean price.
NTAV	Net Asset Value adjusted for deferred tax and intangibles calc. as at the last reported period. Due to market movements and post balance sheet changes, NAV reported may not be a true representation of actual NAV at month end.
Debt%	Balance sheet long term interest bearing debt / income earning property assets, adjusted for see-through debt where information provided calc. as at the last reported period.

INDIVIDUAL SHARE PERFORMANCE

Total Return	Jan	Feb	Mar	YTD
SA Listed Property Index (SAPY)	9.18%	-5.70%	-1.46%	1.45%
All Property Index (ALPI)	8.39%	-4.75%	-1.92%	1.25%
TRANSCEND	0.00%	7.32%	14.23%	22.59%
PUTPROP	-0.87%	8.55%	11.11%	19.57%
TRADEHOLD	3.48%	20.19%	-5.36%	17.71%
STENPROP	10.40%	7.23%	-2.25%	15.73%
DIPULA-A	9.47%	6.92%	-3.78%	12.63%
OCTODEC	16.24%	2.21%	-5.36%	12.44%
HOSPITALITY-B	8.57%	1.05%	2.19%	12.11%
RI PLC	6.59%	-5.45%	10.38%	11.24%
REBOSIS A	13.16%	-3.95%	1.65%	10.47%
SIRIUS	-0.55%	3.58%	6.83%	10.05%
INVESTEC PROPERTY FUND	12.73%	0.00%	-3.55%	8.73%
SA CORPORATE	11.61%	-2.40%	-0.55%	8.33%
CAPCO	3.71%	7.49%	-3.16%	7.96%
HAMMERSON	8.19%	6.96%	-6.81%	7.83%
GRIT REAL	6.13%	-2.76%	4.36%	7.70%
NEPI ROCK	11.01%	-5.64%	2.60%	7.47%
FORTRESS-A	6.14%	-2.22%	0.99%	4.81%
GROWTHPOINT	11.46%	-5.97%	0.00%	4.81%
POLSKA PROP	-0.48%	0.00%	4.45%	3.95%
HERIOT	0.00%	0.00%	3.72%	3.72%
SCHROEDERS	-1.76%	1.55%	3.84%	3.59%
ATLEAF	0.59%	2.94%	0.00%	3.55%
MAS	4.91%	1.93%	-3.40%	3.30%
STOR-AGE	6.00%	-0.38%	-2.20%	3.28%
DIPULA-B	-0.40%	7.15%	-3.96%	2.51%
SAFARI	9.78%	-14.85%	8.84%	1.74%
IAPF	3.92%	-4.23%	2.01%	1.52%
GEMPROP A	-0.21%	4.93%	-3.06%	1.50%
EQUITES	5.89%	-2.05%	-2.84%	0.77%
REDEFINE	9.10%	-7.96%	-0.10%	0.31%
VUKILE	5.26%	-4.19%	-0.60%	0.25%
RESILIENT	13.35%	-4.77%	-7.19%	0.19%
SPEAR REIT	0.00%	7.69%	-7.05%	0.10%
ATTACQ	7.86%	-1.13%	-6.18%	0.05%
GLOBE TRADE CENTRE	0.00%	0.00%	0.00%	0.00%
GEMPROP B	-0.17%	0.00%	-0.17%	-0.33%
TOWER	3.06%	-4.54%	1.13%	-0.50%
EMIRA	6.76%	-4.87%	-3.34%	-1.83%
LIBERTY 2D	6.66%	-6.38%	-1.84%	-1.99%
INDLU	3.57%	0.00%	-6.34%	-3.00%
FAIRVEST	-3.21%	6.64%	-6.67%	-3.67%
INGENUITY	-0.83%	-3.36%	0.00%	-4.17%
LIGHTHOUSE	-0.37%	1.56%	-5.46%	-4.34%
INTUPROP	-3.45%	4.61%	-5.85%	-4.92%
EXEMPLAR	0.00%	-3.85%	-3.00%	-6.73%
ARROWHEAD A	13.18%	-9.01%	-9.66%	-6.97%
HYPROP	10.43%	-13.90%	-4.37%	-9.08%
TEXTON	4.38%	-10.00%	-3.30%	-9.16%
CAPREG	-5.96%	12.48%	-16.89%	-12.09%
BALWIN	-13.71%	-6.20%	6.61%	-13.71%
ACCPROP	19.09%	-15.78%	-16.92%	-16.67%
FORTRESS-B	6.97%	-10.38%	-16.91%	-20.35%
REBOSIS	3.72%	-28.32%	-10.50%	-33.46%
NEW FRONTIER	-44.00%	0.00%	0.00%	-44.00%
ACSION	0.00%	-45.45%	0.00%	-45.45%
DELPROP	-5.11%	-41.22%	-30.28%	-61.11%

Data

Calculations and forecast estimates

Suspended / Delisted / Not yet listed

INFORMATION SOURCE AND METHODOLOGY:

Data IRESS unless stated otherwise

Calculations Catalyst Fund Managers

IMPORTANT INFORMATION

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