

SOUTH AFRICAN LISTED PROPERTY REPORT AUGUST 2019



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SA LISTED PROPERTY REPORT

The SA Listed Property Index (SAPY) and the All Property Index (ALPI) recorded total returns of -3.57% and -3.06% respectively for the month of August, with the historic yield of the SAPY ending the month at 9.96%. The yield-to-maturity (YTM) on the Long-Term South African government bond (RLRS) remained relatively flat, ending the month at 8.81% (8.84% -31 July 2019).

Asset Class	MTD	YTD	12 Months
SA Listed Property ¹	-3.57%	1.03%	-5.52%
All Property Index ²	-3.06%	-2.97%	-11.33%
Equities ³	-2.44%	6.88%	-2.58%
Cash ⁴	0.58%	4.83%	7.31%
Bonds ⁵	0.95%	7.87%	11.16%

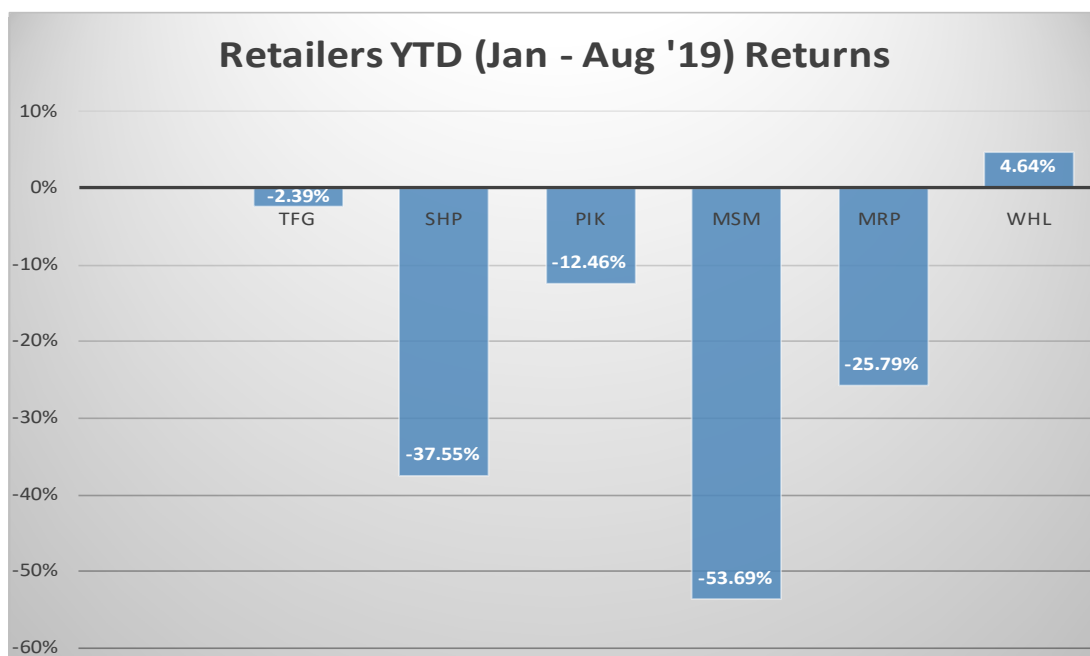
Source: Catalyst Fund Managers, RMB Credit Research

Note: 1 - SA Listed Property Index (J253T), 2 – All Property Index (J803T) 3 - All Share Index, 4 – Stefi, 5 - All Bond Index

Geopolitical risk and concerns of a slowing global economy have again weighed heavily on our local markets. The Rand weakened by 6% to the US Dollar and British Pound, and 5% against the Euro during the month, which subsequently lead to the outperformance of dual listed real estate companies. Hammerson (17.02%), Sirius (13.34%), Capital&Counties (11.90%), Lighthouse (6.37%), Schroeders (8.70%), Investec Australia (5.48%), and Nepi Rockcastle (3.72%) all outperformed the SAPY and ALPI during the month of August. The SA Listed Property Index (SAPY) and the All Property Index (ALPI) continue to underperform other asset classes on a rolling 12-month period with returns of -5.52% and -11.33% respectively while SA Bonds outperformed with returns of (11.16%), followed by SA Cash at (7.31%) and SA Equities at (-2.58%).

The South African consumer is experiencing severe pressure as a result of rising costs with not much wage or income growth. Consequently, retailers are also under pressure and real estate landlords continue to see significant push-back on renewal growth rates, escalations, lease terms and tenant installation contributions. Gross rent to sales ratios continues to increase as rents continue to escalate above inflation. The Foschini Group (TFG) Africa in their last results presentation reported low escalations and negative rent reversions on expiring leases. A stark contrast to the reported reversions across Resilient’s local property portfolio, being +2.2% on renewals and +4.9% on new tenants. This difference could largely be attributed to Resilient’s retail centres being exposed to government spending, including social spending, which has performed better than centres in the metropolitan area of Gauteng, three of which recorded negative sales growth in the period. Resilient further reported in-place lease escalations of 7.1% in the South African retail portfolio.

Redefine notes that renewals with national retailers continue to be protracted with the risk of significant base rental and escalation push-backs in the short-term. Redefine last reported in-place retail escalations of 6.9%. Pick and Pay (PIK) in their FY’19 annual results reported occupancy costs increases of 3.3% on a like-for-like basis, and most worrying for real estate landlords would be the commentary PIK made around securing rental and escalation terms that reasonably reflect the economic environment in which retailers operate. Massmart (MSM) reported comparable sales growth of 3.6% whilst occupancy costs increased by 6.5% on a comparable basis. Liberty2Degrees & Hyprop, two retail focused funds, continue to report in-force escalations of 7.8% & 7.7%, respectively on their retail portfolios, above that of peers, who we could see coming underpressure given the already high occupancy cost ratios of super regional shopping centres.



* Source : Bloomberg

The impact of online retailers in South Africa remains significantly immaterial relative to our European counterparts, accounting for c. 1.4% of total retail sales in 2018, and while growing c. 20 – 25% each year it is estimated to only account for c. 2% of total retail sales by 2022. Massmart group reported an increase of 20% in the number of articles available online, basket sizes increased by 20% and they reported having 316 unique customer collection points. Click and-collect expanded into Africa with Builders Warehouse launching their online sales platform in Botswana. TFG reported that online sales, which contributes 9.3% of total turnover, grew by 9.9% and management continues to relentlessly focus on digital transformation. Redefine, in its most recent pre-close roadshow to Investors noted that retailers are trending towards an omni-channel retail offering.

The impact of changing legislation can no doubt create risks and opportunities for any business. This is the case with the new IFRS 16 accounting policy "Accounting for leases" currently being adopted by most retailers. The biggest change required by adopting IFRS 16 is that a lessee's balance sheet should show the assets and liabilities arising from all leases, regardless of whether they are classified as an operating lease or a finance lease. The model presumes that all leases create an asset and a liability for the lessee. Retailers do not generally make profits by owning real estate and maintaining it, they make money by selling goods and providing services from inside the real estate owned or leased. By leasing office/retail space, they can enter and withdraw from markets quickly and allocate their people resources to where they can earn the highest return on capital. CFA Institute's research paper titled "Leases: What Investors Need to Know About the New Standard" suggests that the retailing industry is the industry that will see the biggest impact, partly because they use operating lease accounting frequently and partly because there are so many of them.

Shoprite estimates a decrease of circa 21% in the June 2019 net asset value post the adoption of IFRS 16 and a net decrease of 15% in profits after tax. Management intends to dispose of some or all of the assets in its R7bn property portfolio. Of this, R740m is earmarked for sale in 1H20. Mazi Macquarie Research believe a reasonable assumption for the premium on the sale is 20% above book value. Equites management, on their pre-close roadshow that was hosted in the month, communicated to investors their interest in some of the Shoprite distribution centres and think that further opportunities can be unlocked with retailers on sale and leaseback agreements. Pick & Pay notes that IFRS 16 will be adopted for its 2020 financial year and will have a material impact on the Group's financial statements.

Management teams of both retailers and real estate landlords agree that the current fundamentals are not supportive of growth in the retail environment. Consumers continue to be constrained, which is affecting their propensity to spend. Low GDP growth and increasing unemployment are some of the challenges that weigh on consumer spending. Despite the weak outlook for local property fundamentals & downward revisions to earnings over the long term, SA listed real estate remains attractively priced should dividends remain intact and growth return over the medium to long term. On average, SA centric companies are trading at forward yields above the long-term South African Government Bond proxy (RLRS). Similarly, dual listed offshore companies are trading at attractive forward yields relative to their respective long- term government bond yields. We expect the sector to achieve inflationary growth in distribution per share over the long term.



MVULA SEROTO
PORTFOLIO MANAGER

SECTOR SNAPSHOT

RSA LONG TERM GUILT (RLRS) 8.81%

SHARE	MARKET CAPITALISATION	CLOSE	HISTORIC ROLLED YIELD (SAPY)	NTAV	PREMIUM OR DISCOUNT OF CLEAN PRICE TO NTAV	DEBT %
COMBINED MARKET CAP WEIGHTED INDEX	553 471 511 902		9.96%			
NEPI ROCK	78 789 471 913	13 449	7.1%	12 119	8.08%	32.5%
GROWTHPOINT	68 332 569 624	2 300	9.9%	2 570	-14.02%	35.9%
REDEFINE	45 476 488 175	785	13.3%	1 059	-20.63%	50.0%
CAPCO	32 358 004 148	3 801	1.8%	5 766	-34.10%	18.8%
HAMMERSON	32 077 050 640	4 186	10.3%	11 607	-63.99%	46.0%
RESILIENT	25 188 262 439	6 295	8.9%	6 830	-11.67%	26.9%
FORTRESS A	25 119 108 563	2 111	7.3%	1 726	18.55%	32.3%
VUKILE	17 900 562 476	1 872	10.0%	2 027	-9.49%	39.1%
GLOBE TRADE SA	17 479 984 392	3 600	3.0%	2 995	3.00%	48.0%
POLSKA PROP	16 978 605 010	1 870	10.7%	2 254	-20.60%	51.9%
HYPROP	16 840 418 098	6 581	12.3%	9 987	-38.10%	28.1%
SIRIUS	13 484 371 378	1 308	4.5%	1 249	4.06%	32.5%
FORTRESS B	11 755 810 345	1 077	16.1%	1 387	-27.41%	71.9%
EQUITES	11 535 312 557	2 117	6.9%	1 667	24.81%	27.0%
INVESTEC PROP	10 654 130 669	1 447	10.2%	1 783	-20.76%	35.9%
MAS	10 253 855 054	1 595	9.6%	2 215	-28.74%	24.9%
INTUPLC	10 054 398 603	742	3.5%	3 881	-81.62%	57.6%
IAPF	8 447 028 071	1 520	6.7%	1 328	12.20%	38.1%
ATTACQ	8 249 150 547	1 100	7.8%	2 366	-51.64%	36.0%
SA CORPORATE	8 123 511 690	321	13.8%	526	-40.27%	34.6%
RDI PLC	7 153 292 351	1 882	12.3%	3 778	-51.64%	48.5%
EMIRA	6 705 820 779	1 283	12.6%	1 791	-32.53%	51.7%
LIBERTY 2D	6 359 103 338	700	8.5%	959	-27.21%	16.0%
STENPROP	5 740 987 083	1 950	6.9%	2 606	-25.72%	44.2%
GRIT REAL	5 361 930 613	1 750	11.4%	2 213	-25.14%	43.7%
STOR-AGE	5 168 020 708	1 315	8.5%	1 170	10.87%	24.6%
HOSPITALITY-B	5 139 790 900	889	14.7%	1 777	-51.57%	16.0%
OCTODEC INV LTD	4 237 864 757	1 592	13.0%	2 916	-47.83%	38.3%
LIGHTHOUSE	3 593 652 568	785	9.0%	889	-17.25%	30.9%
ARROWHEAD	3 342 094 367	319	18.7%	690	-56.00%	41.4%
TRADEHOLD	3 005 485 555	1 150	14.8%	2 111	-51.23%	61.0%
ACCPROP	2 945 647 511	295	16.7%	784	-63.08%	39.0%
ATLEAF	2 931 027 500	1 551	11.9%	1 904	-21.25%	44.8%
DIPULA A	2 778 991 100	1 050	10.8%	971	5.58%	41.6%
CAPREG	1 961 250 616	270	17.8%	1 090	-76.95%	46.0%
TOWER	1 901 478 023	560	14.2%	979	-42.38%	34.1%
SPEAR REIT	1 893 143 993	920	9.9%	1 212	-25.83%	39.0%
FAIRVEST	1 883 532 066	185	12.6%	233	-24.51%	27.1%
GEMPROP B	1 883 339 157	470	15.8%	804	-43.93%	35.2%
DIPULA B	1 450 368 688	548	15.9%	971	-45.51%	71.0%
INDLU	1 443 926 207	420	19.0%	993	-60.09%	32.7%
SAFARI	1 398 717 072	450	10.9%	723	-38.78%	24.0%
BALWIN	1 322 139 258	280	10.5%	568	-51.78%	38.0%
TEXTON	1 203 413 651	320	30.6%	827	-65.95%	26.8%
TRANSCEND	903 174 072	690	8.9%	957	-27.99%	52.2%
REBOSIS A	863 581 064	1 365	0.0%	2 065	-33.90%	57.1%
DELPROP	785 652 690	110	53.8%	930	-89.40%	45.1%
GEMPROP A	627 186 580	1 000	11.4%	959	1.56%	32.0%
REBOSIS	234 308 221	34	0.0%	954	-96.15%	57.1%
FRONTIER	154 497 022	148	179.0%	129.37	-52.18%	90.0%

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	Apr	May	June	July	Aug	YTD
SA Listed Property Index (SAPY)	9.18%	-5.70%	-1.46%	3.17%	-0.87%	2.20%	-1.20%	-3.57%	1.03%
All Property Index (ALPI)	8.39%	-4.75%	-1.92%	2.03%	-2.04%	1.54%	-2.60%	-3.06%	-2.97%
TRANSCEND	0.00%	7.32%	14.23%	1.54%	-1.52%	3.08%	-2.99%	11.02%	36.10%
IAPF	3.92%	-4.23%	2.01%	5.51%	7.63%	4.46%	0.77%	5.48%	28.00%
NEPI ROCK	11.01%	-5.64%	2.60%	1.69%	3.21%	5.16%	0.20%	3.72%	23.27%
FORTRESS-A	6.14%	-2.22%	0.99%	4.96%	3.53%	7.47%	-0.42%	-1.12%	20.51%
TRADEHOLD	3.48%	20.19%	-5.36%	-7.02%	-7.64%	23.89%	-4.25%	0.00%	19.93%
SIRIUS	-0.55%	3.58%	6.83%	-0.91%	-1.93%	2.56%	-3.91%	13.34%	19.45%
PUTPROP	-0.87%	8.55%	11.11%	0.92%	0.00%	-0.18%	-1.46%	0.00%	18.69%
DIPULA-A	9.47%	6.92%	-3.78%	2.71%	0.00%	-1.74%	2.34%	0.10%	16.44%
GLOBE TRADE CENTRE	0.00%	0.00%	0.00%	16.13%	0.00%	0.00%	0.00%	0.00%	16.13%
RESILIENT	13.35%	-4.77%	-7.19%	3.80%	3.87%	5.05%	-0.71%	2.32%	15.30%
LIGHTHOUSE	-0.37%	1.56%	-5.46%	5.19%	-1.40%	10.06%	-0.81%	6.37%	15.21%
STENPROP	10.40%	7.23%	-2.25%	4.45%	-2.86%	-3.57%	-2.61%	3.23%	13.84%
EQUITES	5.89%	-2.05%	-2.84%	4.56%	2.46%	6.24%	-4.57%	3.42%	13.21%
GEMPROP A	-0.21%	4.93%	-3.06%	5.26%	2.50%	0.93%	0.51%	1.52%	12.78%
INVESTEC PROPERTY FUND	12.73%	0.00%	-3.55%	6.35%	-1.89%	3.02%	-2.09%	-3.40%	10.54%
STOR-AGE	6.00%	-0.38%	-2.20%	4.57%	2.67%	3.54%	-4.94%	0.23%	9.38%
SCHROEDERS	-1.76%	1.55%	3.84%	6.54%	-4.35%	-3.54%	-2.14%	8.70%	8.31%
HOSPITALITY-B	8.57%	1.05%	2.19%	4.99%	1.94%	-4.65%	-3.19%	-2.31%	8.21%
LIBERTY 2D	6.66%	-6.38%	-1.84%	9.02%	-3.45%	1.00%	1.70%	1.68%	7.75%
POLSKA PROP	-0.48%	0.00%	4.45%	-0.96%	-0.54%	9.89%	-2.37%	-5.27%	4.06%
HERIOT	0.00%	0.00%	3.72%	0.00%	0.00%	0.00%	0.00%	0.00%	3.72%
SAFARI	9.78%	-14.85%	8.84%	-0.64%	0.00%	-9.68%	32.73%	-14.93%	3.09%
GROWTHPOINT	11.46%	-5.97%	0.00%	6.39%	-2.77%	0.37%	-1.73%	-3.60%	3.07%
SA CORPORATE	11.61%	-2.40%	-0.55%	3.51%	-17.75%	6.85%	12.18%	-8.29%	1.40%
VUKILE	5.26%	-4.19%	-0.60%	2.75%	0.73%	-2.41%	-1.62%	-0.85%	-1.23%
SPEAR REIT	0.00%	7.69%	-7.05%	2.36%	1.80%	5.75%	-3.79%	-7.07%	-1.38%
BALWIN	-13.71%	-6.20%	6.61%	10.85%	-3.85%	14.84%	-3.33%	-3.45%	-1.42%
OCTODEC	16.24%	2.21%	-5.36%	4.42%	-6.12%	3.08%	1.36%	-14.64%	-1.69%
GRIT REAL	6.13%	-2.76%	4.36%	-2.26%	2.37%	-7.46%	8.33%	-10.26%	-3.05%
ATLEAF	0.59%	2.94%	0.00%	5.43%	4.13%	-1.64%	-7.50%	-6.85%	-3.65%
ACCPROP	19.09%	-15.78%	-16.92%	9.82%	5.96%	-1.88%	1.13%	0.00%	-3.77%
TOWER	3.06%	-4.54%	1.13%	1.72%	1.69%	0.00%	-1.67%	-5.08%	-3.93%
EXEMPLAR	0.00%	-3.85%	-3.00%	2.99%	-5.01%	4.72%	4.85%	-5.03%	-4.85%
EMIRA	6.76%	-4.87%	-3.34%	2.97%	-3.16%	0.15%	-3.04%	-4.11%	-8.87%
CAPCO	3.71%	7.49%	-3.16%	-0.71%	-11.77%	-3.36%	-11.67%	11.90%	-9.66%
FAIRVEST	-3.21%	6.64%	-6.67%	-0.15%	-2.50%	1.54%	0.00%	-6.57%	-11.03%
INGENUITY	-0.83%	-3.36%	0.00%	-0.87%	-0.88%	-11.50%	2.00%	2.94%	-12.50%
ARROWHEAD A	13.18%	-9.01%	-9.66%	6.42%	-7.79%	3.05%	2.01%	-10.39%	-14.01%
REDEFINE	9.10%	-7.96%	-0.10%	1.55%	-3.00%	-0.33%	-2.65%	-10.80%	-14.48%
HYPROP	10.43%	-13.90%	-4.37%	-0.68%	1.04%	-1.22%	-0.31%	-5.51%	-15.10%
GEMPROP B	-0.17%	0.00%	-0.17%	-0.67%	-13.30%	-1.21%	-0.42%	-0.42%	-15.92%
FORTRESS-B	6.97%	-10.38%	-16.91%	0.74%	8.84%	2.20%	-3.97%	-7.16%	-20.43%
MAS	4.91%	1.93%	-3.40%	3.81%	-8.37%	3.21%	-3.35%	-21.04%	-22.60%
DIPULA-B	-0.40%	7.15%	-3.96%	-9.91%	-0.86%	-0.08%	-5.38%	-10.89%	-22.87%
ATTACQ	7.86%	-1.13%	-6.18%	-2.44%	-7.21%	1.00%	-1.68%	-14.73%	-23.30%
RI PLC	6.59%	-5.45%	10.38%	-16.90%	-15.47%	-0.42%	-3.85%	0.37%	-24.90%
HAMMERSON	8.19%	6.96%	-6.81%	-4.90%	-17.52%	-0.70%	-24.57%	17.02%	-25.87%
TEXTON	4.38%	-10.00%	-3.30%	15.50%	-9.31%	-6.92%	-5.13%	-13.51%	-27.32%
REBOSIS A	13.16%	-3.95%	1.65%	-8.29%	-16.88%	-5.63%	-3.97%	-5.86%	-28.16%
ACSION	0.00%	-45.45%	0.00%	0.00%	20.00%	-16.67%	0.00%	20.83%	-34.09%
INDLU	3.57%	0.00%	-6.34%	-0.59%	-11.56%	-12.84%	-7.22%	-6.67%	-35.63%
CAPREG	-5.96%	12.48%	-16.89%	-7.60%	-27.78%	-20.00%	5.77%	-1.82%	-51.26%
INTUPROP	-3.45%	4.61%	-5.85%	-11.24%	-5.44%	-20.04%	-37.73%	-11.67%	-64.90%
DELPROP	-5.11%	-41.22%	-30.28%	24.57%	-9.17%	9.13%	-8.50%	-39.89%	-73.59%
REBOSIS	3.72%	-28.32%	-10.50%	-27.37%	-31.54%	-29.21%	-11.11%	-39.29%	-87.36%
NEW FRONTIER	-44.00%	0.00%	0.00%	-43.00%	-37.34%	0.00%	-40.80%	0.00%	-88.16%

Data

Calculations and forecast estimates

Suspended / Delisted / Not yet listed

INFORMATION SOURCE AND METHODOLOGY:

Data IRESS unless stated otherwise

Calculations Catalyst Fund Managers



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