

Specialised property on investors' radar

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US investors are seeking specialised property funds and SA, which has potential for more specialisation, is now on their radar...

This is according to Byron Carlock, consulting firm PwC's practice leader for US real estate, who was speaking at the South African Property Owners Association's annual convention, which was held in Durban last week.

The South African listed property sector is worth about R448bn and is the eighth biggest listed real estate market in the world. But this is far smaller than the North American listed property sector, including the US and Canada, which is worth R6.6-trillion, according to research by asset managers Catalyst Fund Managers.



While SA's sector has grown tremendously in the past five to 10 years, it is still dominated by a few funds, which are invested in a mixture of retail, office and industrial assets. © Juan Pablo Gonzalez – [123RF.com](#)

Meanwhile many listed funds in the US are specialised with investments in various subsectors of property, including hospitals, hotels, cellphone towers or renewable energy assets such as wind farms.

SA's listed property sector has gained attention abroad since it adopted the real estate investment trust (Reit) capital structure to align itself with developed markets.

"While we have a more developed listed property sector in the US, we want more investment targets. Reit status puts SA on the map.

"Many US funds have bought indices which have the big South African (property) funds in them but now we want more. We want to know what is 'Reitable'.

"US investors have been especially attracted to power and telecom-based Reits in the US. We want to see specialised Reits come to SA's market," says Carlock.

The Reit structure replaced the property loan stock and property unit trust structures and created a uniform tax dispensation for the South African listed property sector.

Property loan stocks and property unit trusts had created confusion among investors as they were taxed differently in the past. The average US real estate investor would understand the tax treatment for SA property funds since they became Reits, according to Carlock.

Jeff Zidel, Fortress Income Fund's independent nonexecutive chairman, says he expects to see more specialisation occur in South African property in the next year.

"A number of funds may look to list their portfolios in new vehicles. We could see an office or industrial only fund. Capital Property Fund, which is part of the Resilient stable of property companies, as Fortress is, is the kind of fund which would be able to list its office portfolio separately, for example. I think at this stage the sector needs to see what kind of specialisations investors demand and then act accordingly," he says.

Apart from funds listing office, retail and industrial portfolios separately, Arrowhead Residential is expected to list a residential only fund in SA within the next two months with about R2bn in assets.

Peter Clark, listed property sector head at Investec Asset Management, says while there are potential specialisations for SA property, the reality of telecom or healthcare or renewable energy asset-based South African Reits is quite far away.

"Investors in development markets prefer specialist and focused Reits that can provide the required exposure to a certain asset class, such as retail, office or residential. The specialisation often drills down further to a specific part of a sector, for example, super region malls, or to a specific geography, for example west coast offices. This is preferred by most investors as it allows them to select and manage their desired exposure.

"In SA, however, we do not as yet have the size, liquidity and critical mass for funds to be specialised. As the SA market continues to evolve, we expect more specialised funds to come to market," Clark says.

Old Mutual Investment Group portfolio manager Evan Robins says specialist funds will be positive for the listed property sector.

"Specialist funds are more focused, tend to outperform and allow investors to better position for their views," Robins says.

Source: Business Day

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