

Why REITS are well placed to weather SA's economic, political volatility

According to the South African Real Estate Investment Trust Association (SA REIT), REITs are relatively well-placed to weather the expected market instability following South Africa's downgrade to junk status and the "ongoing political tomfoolery".



Izak Petersen, chairman, SA Real Estate Investment Trust Association

In spite of the uncertainty created by the current environment, REITs are forecast to post total returns in the range of 8% to 10% for 2017.

"It is important to realise that many SA REIT counters were aware of the possibility of a rating downgrade and had planned accordingly," says SA REIT chairman Izak Petersen, who is also CEO of Dipula Income Fund. "This is where the benefit of experienced and professional management can be clearly seen."

Offshore exposure

Offshore diversification is one strategy that local REITs are also employing.

“SA REITs currently have offshore exposure of about 30% to 40% of their earnings,” explains Mark Stevens, chairman of the SA REIT Marketing Committee and CEO of Fortress Property Fund. “This provides a buffer against local market uncertainty and serves as a rand hedge.”

Interest rate hedging is another strategy.

REITs in South Africa have on average typically hedged about 80% of their interest exposure with the hedge expiry profile being three to four years, making them less vulnerable to interest rate fluctuations due to a volatile rand.

Low gearing levels

And finally, low gearing levels in the sector ensures REITs are resilient to fluctuations.

“With low loan-to-value (LTV) ratios and strong balance sheets, REITs are able to wait out market ebbs and flows, and perform well over the longer-term horizon,” points out Petersen.

REITs have in fact consistently outperformed other investment sectors in the last 20 years.

“Compared to the 16% average return generated by equities over that time, listed property has achieved a 19% average return,” explains Petersen.

The SA REIT Association represents the South African listed REIT sector, which is one of the most active and innovative sectors on the JSE. SA REIT members comprise all listed SA REITs and represents a market capitalisation of around R400bn. The quality of these REITs influence our economy and the quality of people's lives.

For more, visit: <https://www.bizcommunity.com>