



## ***Asset Magazine | Issue 104***

### ***Liliane Barnard: CEO & Portfolio Manager of Metope, a specialist listed property investment management company***

Liliane: the name sounds French. Are we correct in our assumption?

Yes it is French. I am South African and have Belgian and Serbian heritage. I speak a smattering of French.

**Why and when did Metope come into being?**

After I left Old Mutual Asset Managers in 2002, I was awarded the management of a number of listed property mandates and this eventually led me to manage these funds under the Sortino fund management licence. In 2012 I bought out the shareholders and rebranded the company as Metope Investment Managers to reflect the unwrapped focus of the business on REITS and real estate.

**What is Metope's focus?**

Metope manages investments in the REIT sector via segregated mandates and through two of its unit trusts: the Metope Property Prescient Fund which focuses on companies that are expected to deliver superior income and capital growth, and the Metope Property Income Prescient Fund which aims to deliver a high income yield to its investors. We will launch global and impact products next year.

**Was an all-women team a specific aim?**

No, we didn't set out to be an all-women team, it happened organically. I have enjoyed the supportive ethos of the all-female team. We work very well together, with enthusiasm and ease, and the team will always go the extra mile despite all the other demands placed on them as women. We expect to become a fully diversified team as the business develops, and for now we remain a women-owned and managed organisation.

**What would you say the biggest strengths of your team are?**

We are a very experienced team, with 50 years of experience between us. We are dedicated and passionate about the work we do and have a profound sense of stewardship of investors' hard earned savings. We all believe in the value of holding real estate in a diversified portfolio and we live this belief, as individually we are all invested in physical real estate. During these unprecedented times of the toughest, most uncertain markets, our team displayed grit, resilience and determination. Importantly, we are completely independent and make our investment calls unimpeded.

A number of REITS have posted good results over the last six months and some have started paying dividends again. Is the property sector over the worst?

Yes we think so, although there is always the outlier risk of further riots and social unrest, climate change wreaking havoc, or the possibility of a virulent mutation of the Covid virus. This translates into higher insurance premiums for the real estate sector, and companies must now navigate the cap placed on SASRIA insurance cover. Whilst it remains a difficult property market, there are signs of improved leasing activity, particularly in the Western Cape. Investors in listed property stocks can expect further increases in distribution payments in the next few years as the sector continues to recover.

How has the non-payment of dividends over the last two years impacted private investors?

I think it was VERY hard on investors. Management of some the REITs took fright at the enormous uncertainty presented by the lockdowns. They sought to hold onto the cash earmarked for dividends to cushion any potential liquidity constraints arising from debt not being rolled over, or to cure potential Loan to Value covenant breaches. The larger REITs pressed for an exemption to REIT rules, leaving investors uncertain about whether or when their previously predictable annuity income stream would return.

Is there less confidence in the property sector from these investors?

Unfortunately, yes, I think so. The uncertainty around whether the investor will indeed receive their semiannual dividend, has done a lot of damage to the sector, especially when the raison d'être of REITs is to provide a predictable income stream to both institutional and retail investors. I think it will take years to rebuild investor confidence. Metope made submissions to the JSE arguing that if a company wished to hold on to their dividend, they were entitled to, but had to de-REIT. Companies via the Company's Act found a legitimate way to withhold dividend payments. We think the market is not always fully pricing in, in some counters, the fact that holding back a dividend payment strengthens the balance sheet and increases the net asset value of the company.

Will Green Bond funding become more prevalent in the coming years?

Most definitely. The war in Ukraine is speeding up the drive to net zero carbon and a move away from fossil fuels. The appetite for Green Bond issues will only increase. In the case of Nepi Rockcastle 40% of their debt is funded through the issue of Green Bonds. In South Africa only a handful of companies have tapped into this market, although one can expect this to grow in time.

Do you envisage any possible disruption (negative or positive) to the property sector in the next 12 months?

Let's hope there won't be another virulent strain of Covid, or another pandemic that results in further lockdowns. In the meantime, we have learnt to live with Covid and are slowly getting back to a new normal. So if the status quo remains, property will recover further. Rampant inflation is rearing its ugly head, and this should draw investor attention to the listed property sector, as a hedge against the ravages of high inflation. Whilst there is limited pricing power in the rental market

at present, the imbedded rent escalations in leases provide some protection against the erosion of returns. At the very least, the pressure on lower escalations should evaporate. Importantly, the rise in construction costs provides support to property valuations due to higher replacements costs.

**What fallout has there been from the war in Ukraine?**

Listed property share prices took a knock initially, as fear was the prevailing sentiment. The stocks most exposed to the Central Eastern European markets, such as Nepi Rockcastle and MAS, appear most at risk in the basket of SA property stocks. The real concern to investors is the fallout from sustained high inflation, a grain shortage and an energy crisis causing a recession in Europe and global growth slowdown. SA listed property may be somewhat protected from this given imbedded annual rental escalations currently still occurring in real terms.

**Are you eyeing any particular property asset classes, apart from logistics, for growth in the next few years?**

Yes, I think offshore residential in the CEE region has good upside. In South Africa, affordable housing demand will continue, there will be a recovery in retail and an eventual return to the office. Then there are the datacentres and towers currently held as unlisted assets, which could transition to the listed market. Other sectors of interest to institutional investors are student accommodation and healthcare. Your work is very intense.

**How do you unwind?**

I try to maintain a healthy lifestyle. I have wonderful support and I live in a beautiful environment, surrounded by nature which I enjoy sharing with my family, friends and my dogs. All this helps me recharge.

**What's one surprising thing your clients don't know about you?**

I love to play my piano late at night. The sonority of the sound against the stillness of the night is better than savouring the finest dark chocolate!