METOPE

Market Commentary

30 September 2022

Market Commentary for the quarter ending 30 September 2022

The increasing likelihood of a recession and downgrades to global growth projections amid sharply rising interest rates and persistent inflation saw global markets de-risking and selling off sharply. The MSCI World Index lost 6.1% for the quarter, reaching a new low for the year with 25% lost year-to-date. The US Dollar's safe-haven status saw it strengthen over the period, reaching and surpassing parity against the Euro, and strengthening 11% against the rand. This dollar strength poses further upside risks to inflation, in particular for net importers.
Across the Atlantic, the pound tumbled to its lowest level ever recorded against the US dollar in reaction to a package of tax cuts announced by the new cabinet, coupled with plans to raise government borrowing. Concerns over the government's financial stability and market turmoil in the wake of the decision led to the plan being reversed in what was a roller-coaster period for markets.

Locally, the SARB continued its normalisation path, raising rates by 75bps at each of the two meetings in July and September. This brings the total rate hikes to 275bps since November 2021 with the prime lending rate now at the pre-pandemic level of 9.75%.

Despite the challenging macro-economic backdrop, the listed property sector continues to improve from an operational basis. Recent results from a number of counters point to improving metrics in some subsectors such as retail, while others such as office continue to struggle. Balance sheets however remain healthy and a number of counters have resumed regular and growing dividend payments.

L2D's half year results showed that despite continued negative reversions, the retail portfolio received strong turnover growth with Sandton City delivering good results. There was a 16.1% improvement in turnover growth compared to 2019 at a portfolio level. This has been supported by some recovery in the hospitality assets that are starting to show increased levels of occupancy. Backed by a strong balance sheet, L2D declared a dividend of 17.48 cents per share at a 100% pay-out ratio for the interim period, 10.7% growth over the prior comparative period.

Capital & Counties property Plc released a strong set of interim results. The prominent asset, Covent Gardens, continues to perform well against most fundamental metrics. Leasing activity for the first half was 9% ahead of Dec 21 ERV resulting in a 5% valuation uplift indicating demand for space and customer sales were in aggregate ahead of 2019. Shareholders have also voted in favour of the merger with Shaftesbury PLC. Whilst the macroeconomic and political outlook remains uncertain, Capco is well positioned with a strong balance sheet, low leverage and high liquidity.

Emira presented a set of full year results which reflected sound performance. Emira grew its distributable earnings by 3.8% year-on-year, with dividends growing by 1% after applying a payout ratio of 93%. The increase in distributable earnings was driven by strong contributions from the USA investment and Transcend Property Fund, for which the company has made a general offer to purchase all shares not already owned in a bid to increase exposure to the residential sector. The company also managed to reduce vacancies by 1.1% to 5.3% across the portfolio. The company is trading on a clean yield of around 12%.

Resilient continues to invest in offshore markets where management sees better growth opportunities than locally. The company plans to increase its exposure to French convenience retail by increasing its stake in the JV between Resilient and Lighthouse. The local portfolio performed well, with tenant growing at 9.9% across the portfolio. The company declared a dividend of 234cps, up 3.5% from the comparable period. Gearing remains comfortable at 32%, and the NAV declined 3% after the company distributed a portion of its Lighthouse shares to shareholders.

Fortress presented their full year results for the year-ended June 2022. As the company's distributable income did not reach the A-share benchmark, and a vote to change the MOI and collapse the share structure into a single share class was not approved by the required number of shareholders, the company has not declared a dividend for the year, meaning it does not comply with REIT legislation. Failing a solution to maintain REIT status by the end of October, the company will lose its REIT status, in which case we expect there will be no dividends declared for at least 3 years. Despite the issues around the capital structure, operational performance was in line with expectations. Rental income from the direct portfolio grew by +6.6% underpinned by strong leasing activity in the logistics segment, positive trading activity in the retail segment and rising demand for older good, quality assets. Fortress disposed of 24 properties with a combined premium to book value of +4.9% which will be reinvested to enhance the current portfolio.

Growthpoint presented their full year results for the year ended 30 June 2022. The REIT declared a final dividend of 66.9 cents per share bringing the full year amount to 128.4 cents per share (8.4% higher than the previous year). This growth was primarily driven by strong operating performances from Growthpoint Australia and the V&A Waterfront which delivered DIPS growth of 2.2% and 4.2% respectively. The company increased its payout ratio marginally to 82.5% from 80% in the prior period, with management guiding towards levels of 80-85% until there is a strong recovery in the share price. Growthpoint also launched the student accommodation fund during the year consisting of 9 properties valued at R2.2bn. Growthpoint aim to achieve a portfolio of R12bn in seven years before listing the fund separately. The office portfolio continues to face downward pressures as persisting negative reversions of -17% and vacancies at 20.7% reveal weak demand for office space in the current environment. Balance sheet metrics remain comfortable for Growthpoint with LTV declining to 37.9% (FY2021: 40.0%) and interest expense covered sufficiently by cash flow from operations with the coverage ratio improving to 3.1x (FY2021: 2.9x).

Attacq presented their full year results for the year to 30 June 2022. The REIT delivered year-on-year DIPS growth of +34.2% primarily driven by lower cost of financing and a resumption in the MAS dividend. Based on a pay-out ratio of 80%, Attacq declared a full year dividend of 50 cents per share with no interim dividend paid during the period. Attacq continues to fund the development of Waterfall City through dividend retention, sales of assets and joint ventures given the tough conditions to raise equity from the market. Furthermore the REIT is in a comfortable liquidity position with R1.9billion in cash, undrawn facilities and prepaid access facilities. Over the period, interest bearing borrowings decreased by 18.7% resulting in a decrease in the LTV to 37.2% (FY2021: 43.3%) and de-risking of the balance sheet.

After a strong start to the quarter, the listed property sector gave up gains in August and September, with the ALPI ending the quarter 4.1% down. UK Stocks Capital and Counties (down 23.7%), Industrials REIT (-14.2%) and German and UK business park owner Sirius (-21.7%) were among the worst performers, while SA focused Attacq (+22.5%), Liberty 2 Degrees (+30.9%) and Emira (+21.2%) were among the top performers for quarter. The sector is currently trading on a forward dividend yield of around 9.5% and a discount to NAV of 35% providing significant upside to capital values.

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