METOPE

Market Commentary

30 June 2024

Market Commentary for the quarter ending 30 June 2024

Local markets and the currency saw some heightened volatility during the quarter, leading up to and post the national elections, whereby the ANC lost its majority for the first time in South Africa's democratic history. Following the announcement of the formation of the Government of National Unity, SA assets enjoyed a strong rally, with bonds, listed property, SA Inc shares and the currency enjoying strong gains in June.

The listed property sector gained 5.7% for the quarter on the back of lower bond yields and improved investor sentiment for SA assets. Bond yields strengthened by c.70bps while the currency strengthened against the US dollar by 2.6%.

On the global front, the US continues to outperform its global peers on macroeconomic data including employment and GDP, while inflation has moderated at a slower pace than previously expected, leading the market to push out the expected date of the first rate cut to September 2024.

Over in Europe however, the ECB was one of the first major central banks to initiate rate cuts, deciding to reduce rates by 25 bps in June 2024 due to consistently lower inflation levels approaching the bank's target and a growth outlook that remains weak. This cut offers some relief to interest rate-sensitive investments such as real estate and highly indebted consumers.

Among the top performers for the quarter were SA REIT's including Emira (+25.4%), Growthpoint (+13.4%) and Fortress (+10.6%) which all benefited from the strong trade in SA property counters. Offshore stocks including Nepi Rockcastle, MAS Real Estate and Hammerson were among the worst performing in the sector due in part to the strengthening rand.

Vukile Property Fund, a consumer-focused REIT, exceeded its full-year market guidance, delivering a 10.5% increase in dividend per share to 124.2cps for the year ending 30 March 2024, along with a 6.7% growth in funds from operations (FFO) to 154.2cps. Vukile's retail property assets portfolio, valued at R40.2 billion, is diversified across South Africa and Spain through its 99.5%-held Madrid-listed subsidiary, Castellana Properties. Notably, 61% of Vukile's assets are in Spain, generating 50% of its earnings in Euros. The company's South African portfolio reported like-for-like retail net operating income growth of 5.4%, with low portfolio vacancies of 1.9%. In Spain, the portfolio saw 11% normalized net operating income growth, with a 5.5% increase in footfall, 6.4% growth in tenant sales, and low portfolio vacancies of 1.1%.

Supported by strong fundamentals in Spain and signs of recovery in South Africa, Vukile's management remains optimistic about growth for the next 12 months, expecting FFO per share growth between 2% and 4% and DPS growth between 4% and 6%.

Spear REIT, a property company focused on the Western Cape, reported full-year results showcasing the resilience of the Western Cape market. Distribution per share (DPS) for the financial year ending 29 February 2024 increased by 3.8% to 78.86 cents per share, up from 75.97 cents per share in the prior period. Net asset value per share rose by 2.79% to R11.80 per share, from R11.48 cents per share. The company's operations remained broadly resilient, with an average rental reversion of slightly negative -0.3%, while maintaining lease escalations 7.5% and an occupancy rate of 93.12%.

Key takeaways from these and other recent results include the improvement in property fundamentals in South Africa, with rental reversions showing shallower or slightly positive trends, notably in the retail and industrial sectors, despite ongoing struggles in offices, potential signal that we at the bottom of the cycle. This offers some optimism for sustained rental growth in the future, albeit at a slow pace. However, higher interest rates remain challenging in the short to medium term, though potential rate cuts could offer upside. Furthermore, pre-close and trading updates reinforced the recovery themes observed in company results, particularly showing cautious optimism about the office sector.

Despite the recent rally, the sector is still trading at a discount to NAV of c.25%. and a forward earnings yield of 9.8%, indicating there is further upside in valuations.

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