Market Commentary for the quarter ending 31 December 2024

The victory of Donald Trump in the US presidential election triggered significant market volatility across financial markets and a sharp rise in bond yields and the dollar as investors anticipated stronger US growth as well as inflationary pressures under the new administration. Moderating US inflation over the quarter saw two rate cuts totalling 50bps by the US Fed over two consecutive meetings in November and December; however markets have since moderated the expected rate cuts in 2025 due to higher expected inflation over the medium term and rates are expected to remain higher for longer.

Despite local inflation falling to below 3% in October, the South African Reserve Bank (SARB) opted for a more cautious approach, reducing rates by 25bps in November amid concerns over upside risks to the inflation outlook on a weaker rand post-election, further complicating the operating environment for South African property companies.

The listed property sector was largely flat for the quarter with the benchmark ALPI index falling 0.4% for the quarter, bringing the total return for the year to 29.8%. The final quarter of 2024 sustained the positive momentum in fundamentals seen throughout the year, with many companies posting improved results compared to prior years. Retail real estate, in particular, continued to drive optimism in the sector, supported by inflation-beating growth outlooks.

Fairvest, a retail-focused REIT operating purely in South Africa, delivered strong results for the 12 months ending 30 September 2024. The company reported dividend per share (DPS) growth of +4.8% for its B shares, exceeding guidance, and forecast FY25 DPS growth of 4.0% to 6.3%. Additionally, Fairvest increased its stake in Dipula to 26%, signalling further confidence in the sector.

Dipula met its guidance for FY24 and expects DPS growth of +5% for FY25. Both Fairvest and Dipula maintain prudent gearing levels below 40%, providing flexibility for growth. They are also well-positioned to benefit from declining interest rates.

Redefine, South Africa's second-largest REIT, reported results in line with guidance, with DPS down 2.9% year-on-year. Notably, the company anticipates DPS growth of between flat to 6% in FY25. Operational performance was mixed: industrial and retail segments showed improvement, while office properties remained under pressure. Gearing remains elevated at 42.3% and is expected to remain elevated, as the company endeavours to simplify its offshore structures, but management remains optimistic about South Africa's improving operating environment.

Among the offshore funds, NEPI Rockcastle demonstrated significant activity, completing nearly €800 million in retail acquisitions in the second half of the year, funded by a €300 million equity raise and asset sales. The company's LTV ratio remains below 35%. In a recent pre-close update, NEPI highlighted robust operational performance in Central and Eastern Europe (CEE), with sales up +9%, YTD to October 2024 and the company expects net operating income projected to grow 13% for 2024 financial year. The CEE region's economic growth is expected to outpace the rest of the EU, with real wage growth continuing to support retail sales and landlord performance.

Vukile continued its expansion into the Iberian Peninsula, with acquisitions in Portugal and plans for further investment in both Spain and Portugal. The company's interim results reflected strong performance in SA, with trading density growth of +4.2% and NOI growth of +4.6%, in Spain sales were up 4.0% in shopping centres and normalised NOI growth of 2.1%. Vukile's capital allocation strategy in Iberia remains disciplined, and management is bullish on the region's long-term potential and is looking to grow it exposure in the region.

Lighthouse acquired a €170 million regional mall in Spain, raising its second half of 2024 Iberian mall acquisitions to €350 million, following a €180 million deal in Portugal. It also disposed an asset in Slovenia which further aligns with its Iberian focus. The company reaffirmed its €2.5 DPS guidance, reflecting strong execution and growth confidence.

The South African listed property sector ended 2024 as the best-performing asset class for the second consecutive year. This rally was driven by improved sentiment surrounding the Government of National Unity (GNU) and the SARB rate-cutting cycle. Strengthening property fundamentals also played a key role, with trading densities improving, occupancy levels rising, and rental affordability—outside of the office segment—reaching more sustainable levels.

Importantly, with most companies operating at sustainable payout ratios and stronger balance sheets, maintenance capex is now covered internally generated cash flows rather than debt. Stock picking will remain critical as the dispersion of returns within the sector continues to grow.

We remain constructive on the economic fundamentals in both the Iberian and CEE regions, where declining interest rates and rising rental levels should further support valuations. South Africa's improving macroeconomic environment and resilient property fundamentals provide a solid foundation for continued growth into 2025.

Metope Investment Managers (Pty) Ltd
Email: info@metopegroup.com | Web: www.metopegroup.com
Tel: +27 21 418 3760
Moorings 4 | Portswood Ridge | Portswood Road
V&A Waterfront | 8001 | PO Box 51316 | Waterfront | 8002
Registration No: 2004/035077/07
Directors: Liliane Barnard | Aimee Glisson | Zovuyo Magxala