SA LISTED PROPERTY: MID YEAR OUTLOOK 2026

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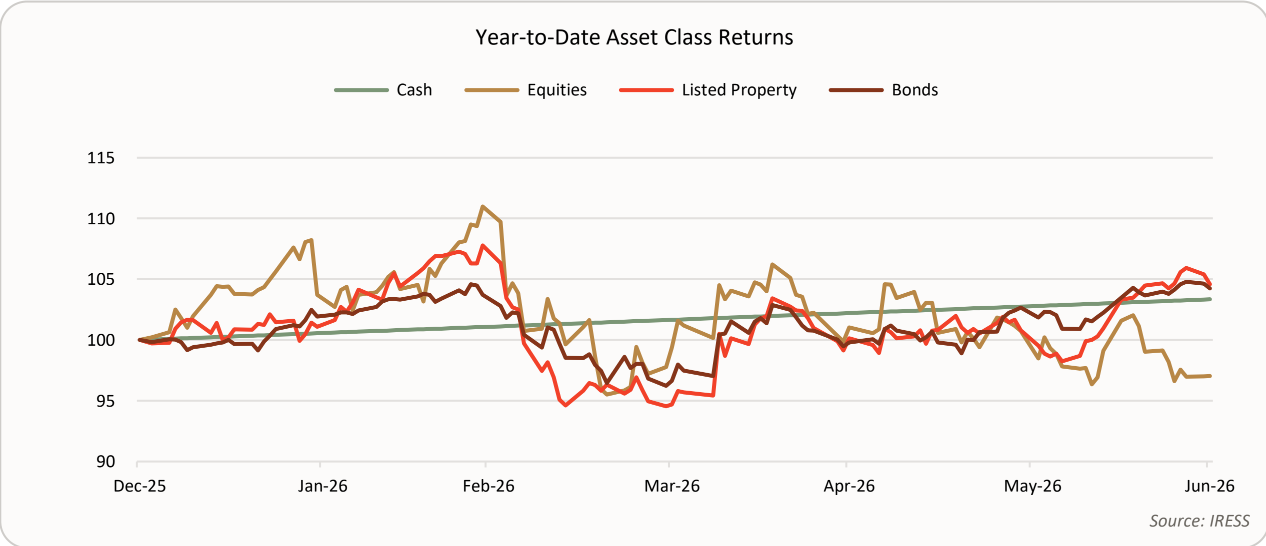
First Half 2026 Review and Second Half Outlook: Earnings Resilient Against a Tougher Macro Backdrop

Listed property delivered a total return for the 6 months to 30 June 2026 +4.6%. While this performance is below our expectations at the beginning of the year, prior to the Iran war, it nevertheless reflects resilient operational performance against a far more volatile macro environment. Listed property outperformed South African bonds +4.2%, SA cash +3.4%, and equities -3.0% over the period, with income growth providing support while capital returns were constrained by higher bond-yield volatility.



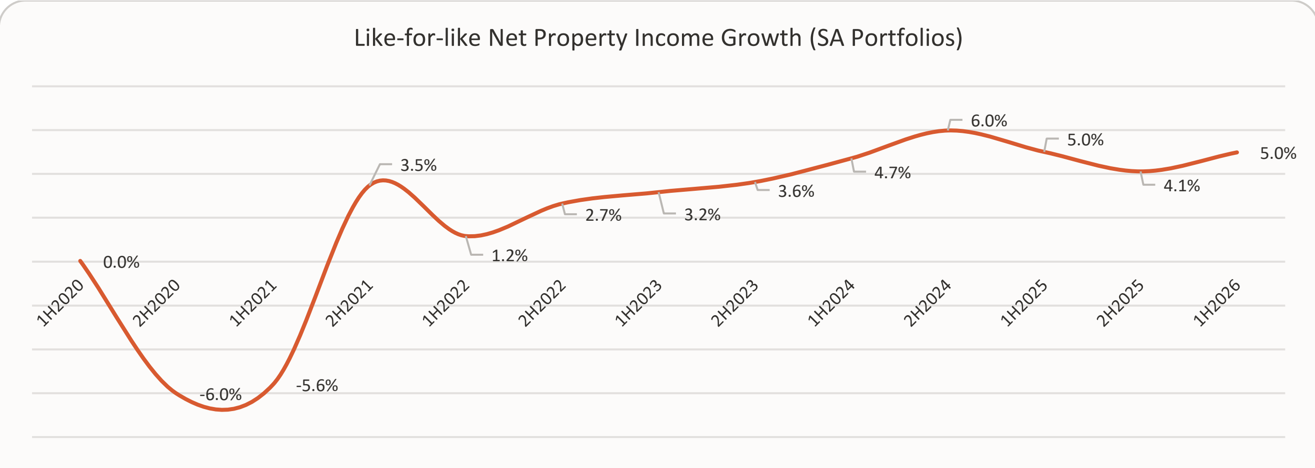
In our 2026 outlook, we argued that sector returns would be earnings-led rather than driven by a further bond re-rating. This was expected to be underpinned by improving vacancies, continued real rental growth in retail and industrial portfolios, a stabilisation and selective recovery in offices, lower average funding costs and a growing contribution from renewable energy investments.

Six months on, this thesis is playing out. Operational momentum remained positive through the first half, with rental reversions continuing to improve, particularly across retail and industrial portfolios, alongside a modest recovery in offices. Renewable energy investments, primarily rooftop solar and battery storage, continued to scale and further supported like-for-like performance, with growth exceeding inflation.

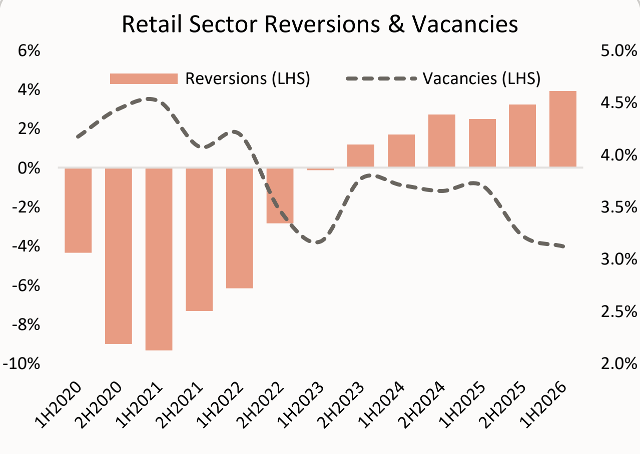
The key change since the start of the year has been the reversal in interest-rate expectations. The expected tailwind from further rate cuts has moderated as Middle East tensions added uncertainty to oil prices, inflation and the interest-rate path. Importantly, this shift has been driven by exogenous macro factors rather than any deterioration in local property fundamentals. Given the hedged interest rate profile of most companies, we do not expect a material near-term impact on earnings, although the medium-term benefit previously expected from lower funding costs is now deferred.

Operational Momentum: Retail, Industrial and Office Stabilisation

SA like-for-like net operating income growth averaged approximately 5%, ahead of average inflation of 3.9% over the period, with several counters reporting high-single-digit to near double-digit growth. Retail and industrial portfolios remained the main drivers of this performance, supported by positive rental reversions, resilient tenant trading, improving vacancies and in-place escalations of approximately 5–7%.



Source: Metope Research and Company data



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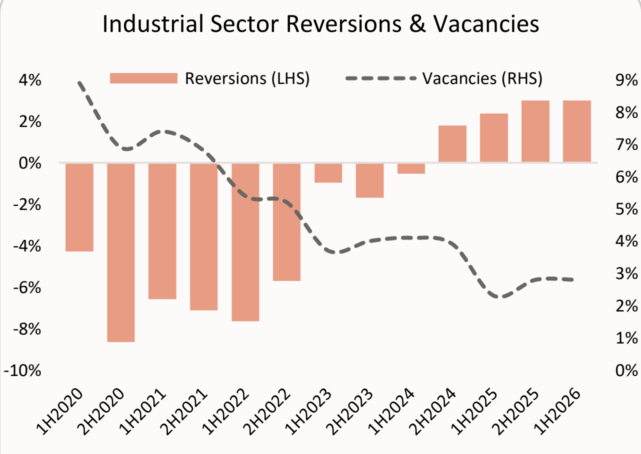
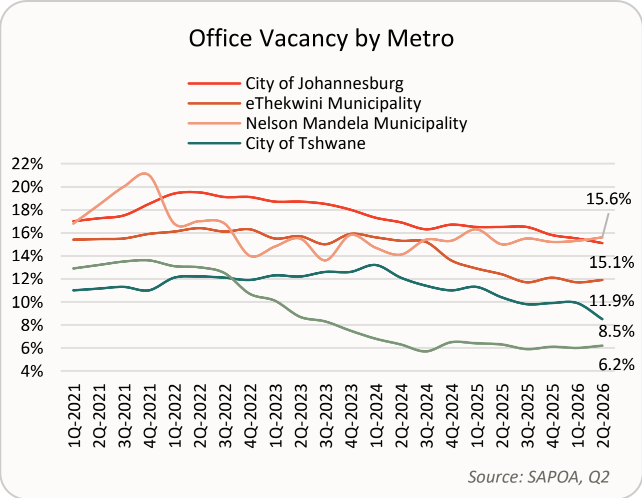
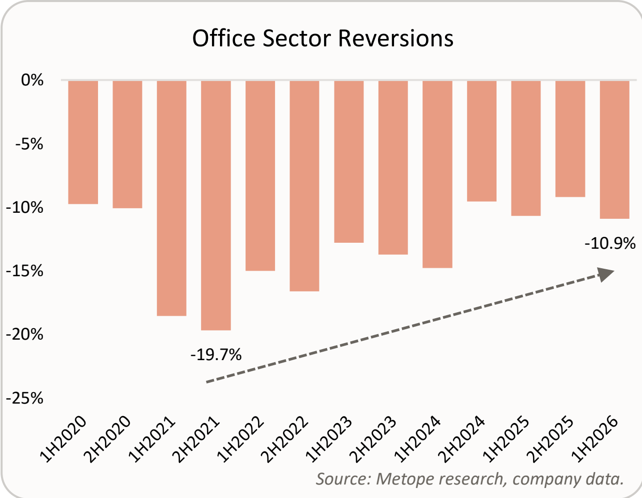


Source: Metope Research and Company data

The office sector remains under pressure, although early signs point to improving rental tension. Recent SAPOA data showed asking rental growth of 7.4%, significantly ahead of inflation, while national vacancies declined to 12.1%, the lowest level since 2020. Cape Town remains the strongest office market in the country and selected listed property companies have continued to increase exposure to this market

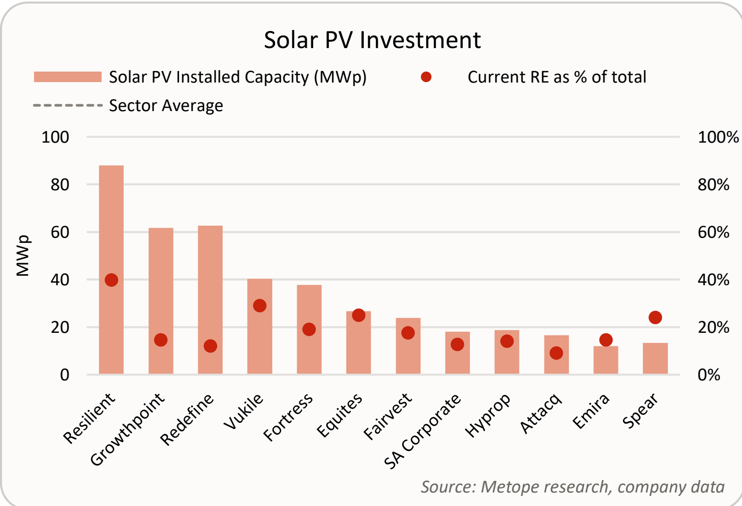




Renewable Energy: Earnings Support Continues to Build

Renewable energy remained a key theme through H1, with companies continuing to increase installed capacity and lift the contribution of renewables to total energy use. The objective across the sector remains consistent: reduce grid reliance, contain operating costs and improve earnings resilience.

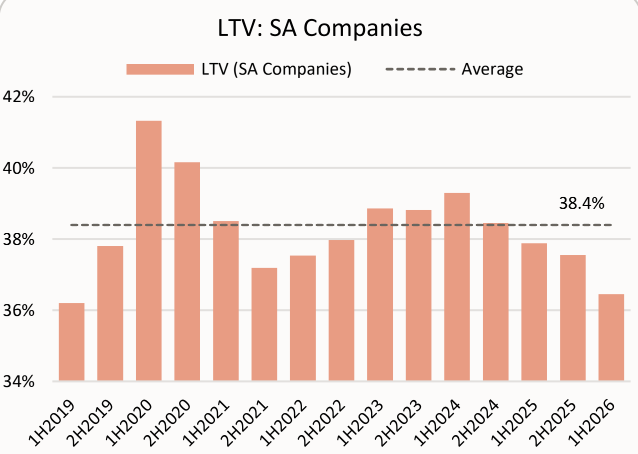
Resilient remains a clear sector leader, with solar generation capacity expected to increase from 88MW to 94MW by year-end and its battery storage capacity has increased from 20.7MW to 30.7MW. Its renewable contribution is targeted to reach 43% of energy use by year-end, up from 40% at the end of 2025 and significantly ahead of the sector average of approximately 20%. Several other retail-focused peers have also announced increased renewable capacity and energy-mix targets during the period.



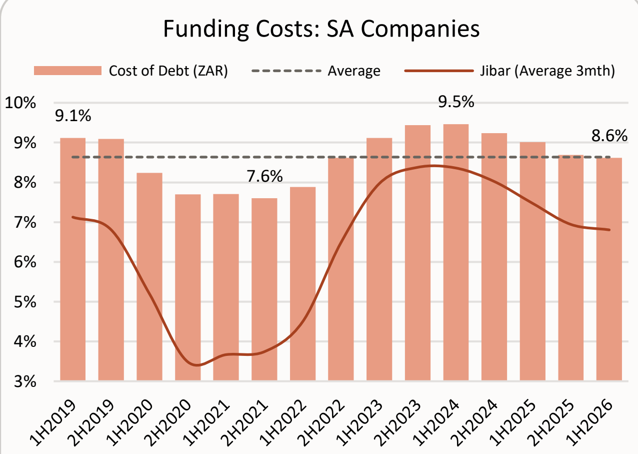
Balance Sheets, Growth Capital and Funding

Balance sheets continued to strengthen, supported by rising property valuations and improving fundamentals. SA-focused listed property loan-to-value ratios declined to approximately 36.4%, a five-year low, providing companies with increased flexibility to pursue selective growth opportunities.

The sector remains well hedged against near-term interest-rate changes, with the majority of companies hedged >70%. Average interest costs stood at approximately 8.6% at the end of the half. While some companies should still benefit from refinancing, a more meaningful funding-cost tailwind would depend on the timing and pace of future rate cuts. We therefore expect average interest costs to remain broadly stable over the medium term, with upside should the rate-cut cycle resume.



Source: Metope research, company data



Source: Metope research, company data

Investor confidence was reflected with in SA focused companies raising more than R6bn during the first half. Notable raises included Vukile (R2.8bn), Fortress (R1.3bn) and Spear (R1bn). The additional capital should support further earnings growth and provide balance-sheet flexibility, but capital allocation discipline remains important given the more uncertain macro backdrop.

Offshore Exposure: Fundamentals Robust, Sentiment Still Constrained

Fundamentals remain positive across Iberia and Central Eastern Europe (CEE), although near-term sentiment remains constrained by geopolitical risk and a more uncertain inflation and interest-rate backdrop.

Companies with Iberian exposure continued to report robust operating performance, supported by resilient consumer demand, strong tenant sales and a more favourable energy backdrop relative to many other European markets. We remain constructive on the region's medium-term prospects.

In CEE, operational performance has also remained strong, supported by high occupancy, inflation-linked rental growth and healthy tenant demand. However, limited progress in the Ukraine conflict since our initial outlook continues to cap the near-term re-rating opportunity. As a result, we continue to see a disconnect between regional fundamentals and the valuation support being reflected in share prices.

Looking Ahead: H2 2026 Outlook

Looking ahead, the macro backdrop has become more uncertain. The move in the SA 10-year bond yield from below 8% to approximately 9% over the past six months has contributed to increased share-price volatility. Given listed property's sensitivity to bond yields, near-term re-rating potential is likely to remain limited unless yields stabilise or decline.

There is, however, cause for optimism on the operational side. Several companies have either upgraded full-year guidance or tightened guidance toward the upper end of their ranges, while recent pre-close updates have reaffirmed the strength of underlying operations into June.

We remain positive on SA-focused counters, particularly retail names, where operational momentum, positive reversions, improving vacancies and renewable energy benefits remain supportive. Internationally, we continue to favour quality exposure to Iberia and CEE, where fundamentals remain attractive, although CEE sentiment is likely to remain constrained by geopolitical risk in the near term.

We continue to expect earnings growth to remain the primary driver of total returns, with re-rating likely to remain limited unless bond yields stabilise or decline — a scenario our base case does not assume. The sector currently trades on a forward dividend yield of approximately 7.1%, with expected dividend growth of 6–8%, supporting a medium-term total return outlook of around 12–14%. This is modestly lower than our initial 13–15% outlook, reflecting the higher bond-yield environment now in place rather than any deterioration in property fundamentals. Should bond yields stabilise or move lower, there would be upside to our return outlook.