QUARTERLY COMMENTARY

The third quarter saw uncertainty and volatility return as geopolitical tensions escalated in the Middle East, while the Russia-Ukraine conflict continued. This drove a sharp rise in energy prices, with Brent crude increasing from approximately $73 per barrel at the start of the quarter to around $108 per barrel in September, before closing the quarter just below $100.

Higher energy prices renewed concerns that inflation could remain elevated for longer as second round effects take hold. Against this backdrop, the Fed, ECB and SARB each raised policy rates by 25 bps, while the Bank of England held rates unchanged at 3.75% but maintained a hawkish tone.

Global government bond yields also moved sharply higher during the quarter, reaching multi-year highs across several major markets. The US 10-year Treasury yield rose above 5%, while German 10-year Bund yields exceeded 3.5% and UK 10-year gilt yields moved above 5%. South African 10-year yields increased more moderately.

Geopolitical and inflation risks remain elevated heading into the final quarter. Further volatility is likely while energy markets remain exposed to supply disruptions, although any de-escalation in the Middle East could support lower and more stable energy prices.

The South African listed property sector (ALPI) declined 1.47% during the quarter, due in part due to a moderate increase in bond yields from 8.45% to 8.96% by end-September 2026. This brought the sector's year-to-date total return to 3.1%. The top performers for the quarter were Lighthouse (+6.5%), Fortress (+3.7%) and Hyprop (+3.1%).

The quarter saw a number of financial results and company updates, providing further insight into sector fundamentals and management expectations for the remainder of the year and into next. Overall, underlying fundamentals continued to strengthen, although certain segments, particularly Gauteng offices, remain challenging. Cash generation remains robust, rental reversions are positive across retail and industrial portfolios, debt metrics continue to improve, and property valuations are stabilising and trending positively. Momentum in renewable energy investment also continued, with companies expanding generation and battery storage capacity and targeting higher renewable energy penetration.

Balance sheets have strengthened considerably over the past two years. Average LTV has improved by almost 300 bps since H1 2024 to 36.4% at end-September 2026, well below the Covid-era peak of 41%. Interest coverage ratios are approaching 3 times and, despite the SARB raising rates during the quarter, most companies remain well hedged in the near term.

Growthpoint's full-year results for the year ended 30 June 2026 showed distributable income per share (DIPS) increasing 4.3% to 152.6 cents, while dividends per share increased 7.4% to 133.5 cents, representing an 87.5% payout ratio. South African operations were supported by like-for-like net property income growth of 4.4%, while vacancy improved from 8.2% to 7.2%. Dividends received from Growthpoint Properties Australia declined from R1.011 billion to R946 million. Group LTV improved from 40.1% in June 2025 to 38.7% at June 2026, while the interest coverage ratio increased from 2.38 times to 2.63 times. Management guided to FY2027 DIPS growth of 1%–3%, with the dividend payout ratio maintained at 87.5%.

Resilient reported interim results for the six months ended 30 June 2026, with distributable income and dividends per share increasing 11.7% to 274.38 cents, representing a 100% payout ratio. Earnings were supported by strong like-for-like NOI growth of 6.0%, while vacancy remained low at 1.9%. Growth was also supported by its investment in Iberian-focused retail fund Lighthouse, where dividends increased 9.7% in euro terms over the same period. The company added 6.4 MW of solar capacity and 10 MW of battery storage during H1, taking total solar capacity to 30.7 MW. Renewable energy is expected to account for approximately 43.2% of energy consumption by year-end, with the company targeting close to 50% over time. LTV improved from 37.8% in June 2025 to 36.1% at 30 June 2026. Management is guiding to FY2026 DIPS and DPS growth of at least 9.0%.

Fortress reported full-year results for the year ended 30 June 2026, with distributable income and dividends per share increasing 10.1% to 178.80 cents, representing a 100% payout ratio. Like-for-like net property income increased 6.8%, supported by growth of 7.8% in South African retail, 8.5% in South African logistics and 3.1% in CEE logistics. Portfolio vacancy improved from 2.8% to 2.5%. Dividends from its investment in CEE retail-focused NEPI Rockcastle increased by approximately 3.5%. LTV improved from 38.9% in June 2025 to 34.0% at June 2026. Management guided to FY2027 DIPS and DPS growth of approximately 7.5%. Management commentary through the pre-close period remained cautiously optimistic despite rising inflation and the SARB's recent rate hike. Many companies have met or exceeded their full-year guidance, while several have raised or tightened forward guidance ranges, with expectations increasingly towards the upper end of previous ranges. Where FY27 guidance has been provided, earnings growth is generally expected to remain ahead of inflation, in many cases comfortably so, despite higher interest rates increasingly being reflected in forecasts.

The sector trades on a forward dividend yield of approximately 7.5%, with expected growth of 6–7% and currently trade at 9% discount to tis NAV, based on the ALPI. Heading into the final quarter, stronger balance sheets and resilient operating metrics should continue to support earnings. However, the outlook remains sensitive to developments in the Middle East, oil prices and inflation expectations. Elevated inflation has already prompted the SARB to raise rates by 25 bps this quarter, placing increased focus on the next policy decision and the outlook for rates.

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