FOR OR AGAINST INVESTMENT IN SOUTH AFRICAN LISTED PROPERTY?

CONSIDERATIONS OF CURRENT VALUATION LEVELS, MACRO BACKGROUND AND POLICY UNCERTAINTY

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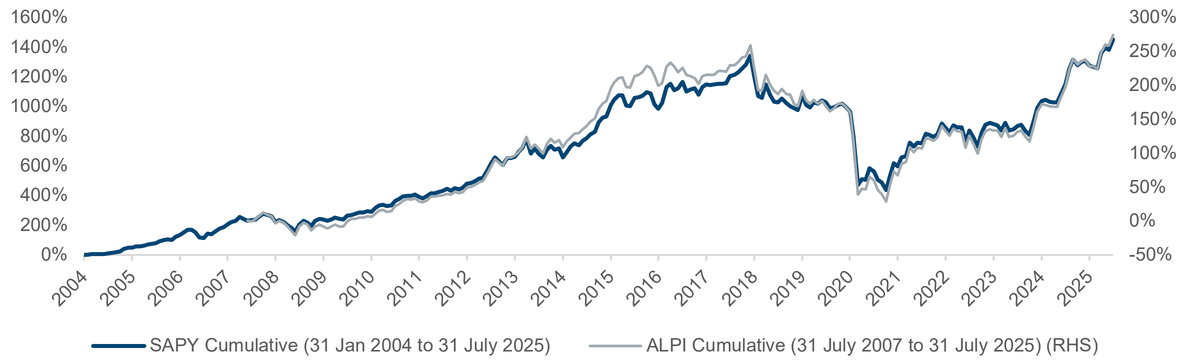
The investment industry is dominated by two asset classes, equities and bonds, with investors seeking equities to earn higher potential returns in a risky environment or turning to bonds for safety in a risk-off environment. In addition to these two, a third asset class, namely property, has emerged as an alternative investment with its ability to provide high potential returns and stable income through dividends, but at a higher volatility and sensitivity to interest rates.

With a focus on South African listed property, this asset class had been thriving prior to 2018 with performance driven by stable growth in dividends, the introduction of the Real Estate Investment Trusts (REITs) in 2013 and its ability to outperform equities and bonds. However, in 2018, investors witnessed a significant turnaround and decline in this sector fuelled by poor local economic growth and uncertainty regarding land reforms. Additionally, the decline was also driven by company specific concerns of high loan-to-value (LTV) ratios and financial engineering within the Resilient Group that lead to the high and unsustainable growth in dividends. Following 2018, persistent weak local economic growth, loadshedding and high inflation further hindered the property sector while the COVID-19 pandemic and increasing interest rates resulted in additional challenges, preventing its recovery back to the 2017 highs.

Figure 1: South African listed property performance



Source: Bloomberg

In recent times, South Arican listed property performance has benefitted from an improving macro narrative: the favourable election outcome which resulted in the formation of the Government of National Unity (GNU), the reduction of loadshedding and the interest rate cutting cycle signalled by the US Federal Reserve at the end of 2023 and subsequently began in 2024. These tailwinds led to a possible comeback of the property sector from previous lows experienced during the COVID-19 pandemic. Property emerged as the best-performing asset class for two consecutive years in 2023 and 2024 with the South African Listed Property index (SAPY) delivering 10.1% and 29.0% returns, respectively, while the All Property Index (ALPI) similarly delivered 10.7% in 2023 and 29.8% in 2024. These returns outperformed bond returns of 9.7% and 17.2%, respectively, and equity returns of 7.9% in 2023 and 13.4% in 2024.

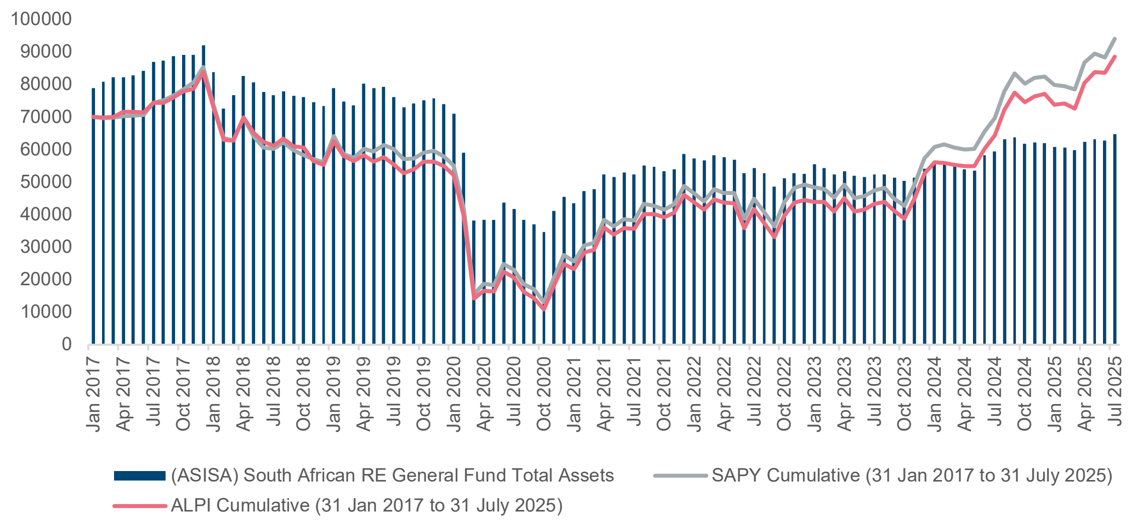
Figure 2: Property outperforming bonds and equity for two consecutive years

Source: Bloomberg

The positive performance within the South African property sector has prompted investors to take advantage of the rally and increase their asset allocation to this asset class as seen by the increase in property funds' total assets within the ASISA South African Real Estate General category. However, the significant boost in funds flowing to the property sector could be attributed to the increase in listed property investments by one of Africa's largest asset managers, namely the state-owned Public Investment Corporation (PIC). With approximately R3.05 trillion of assets under management as at 31 March 2025, this significant player within the asset management industry has 2.3% of its AUM allocated to listed property in 2025 from just 1.6% as at 31 March 2023 when its AUM was approximately R2.60 trillion.

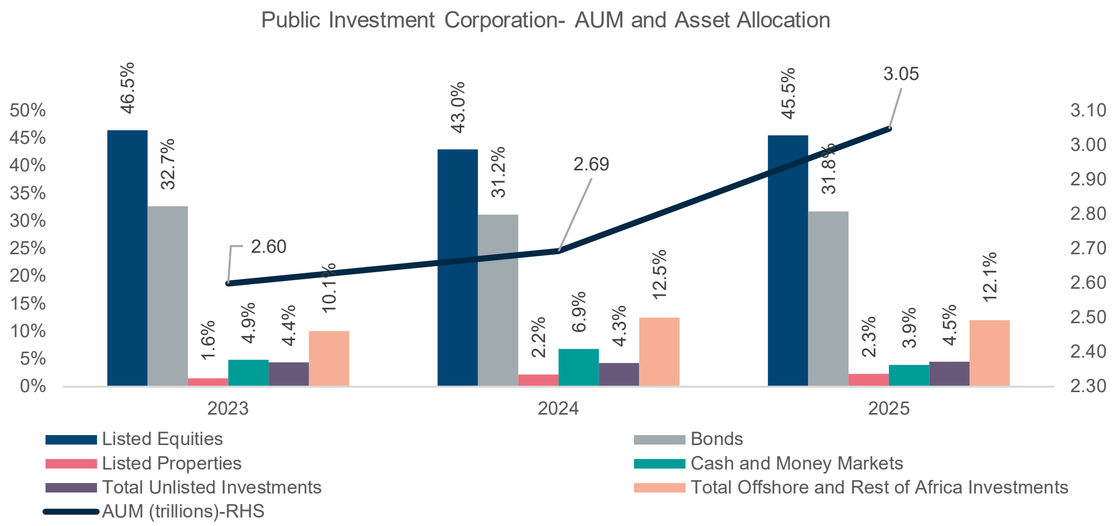
Given the recent positive performance of the property sector together with considerations of the increasing volatility surrounding geopolitical tensions and trade policy uncertainties, investors may question whether property can maintain its performance into the future, leading to the main question of whether they are for or against investment in South African listed property?

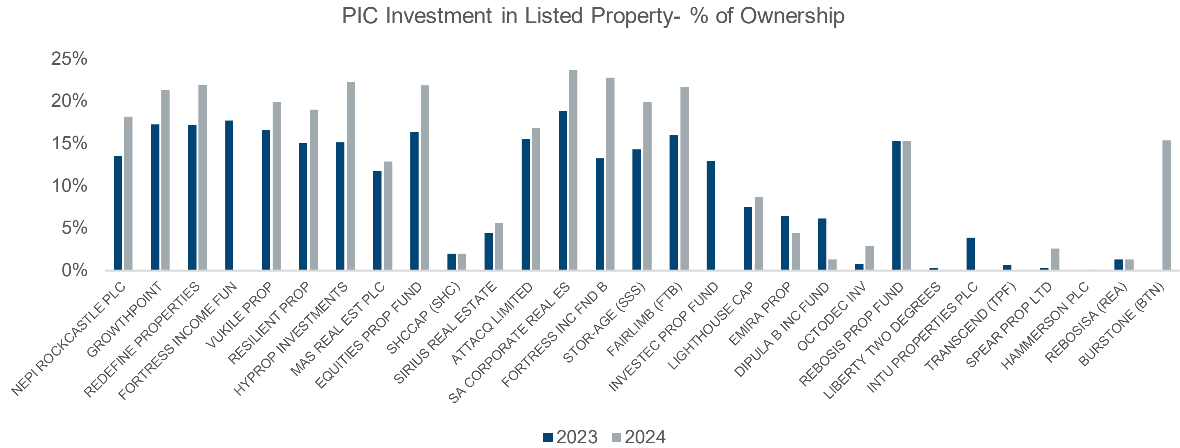
Figure 3: Increase in property funds' total assets with the ASISA South African Real Estate General category



Source: Bloomberg | Morningstar

Figure 4: Public Investment Corporation's (PIC) increased investment in the South African listed property sector



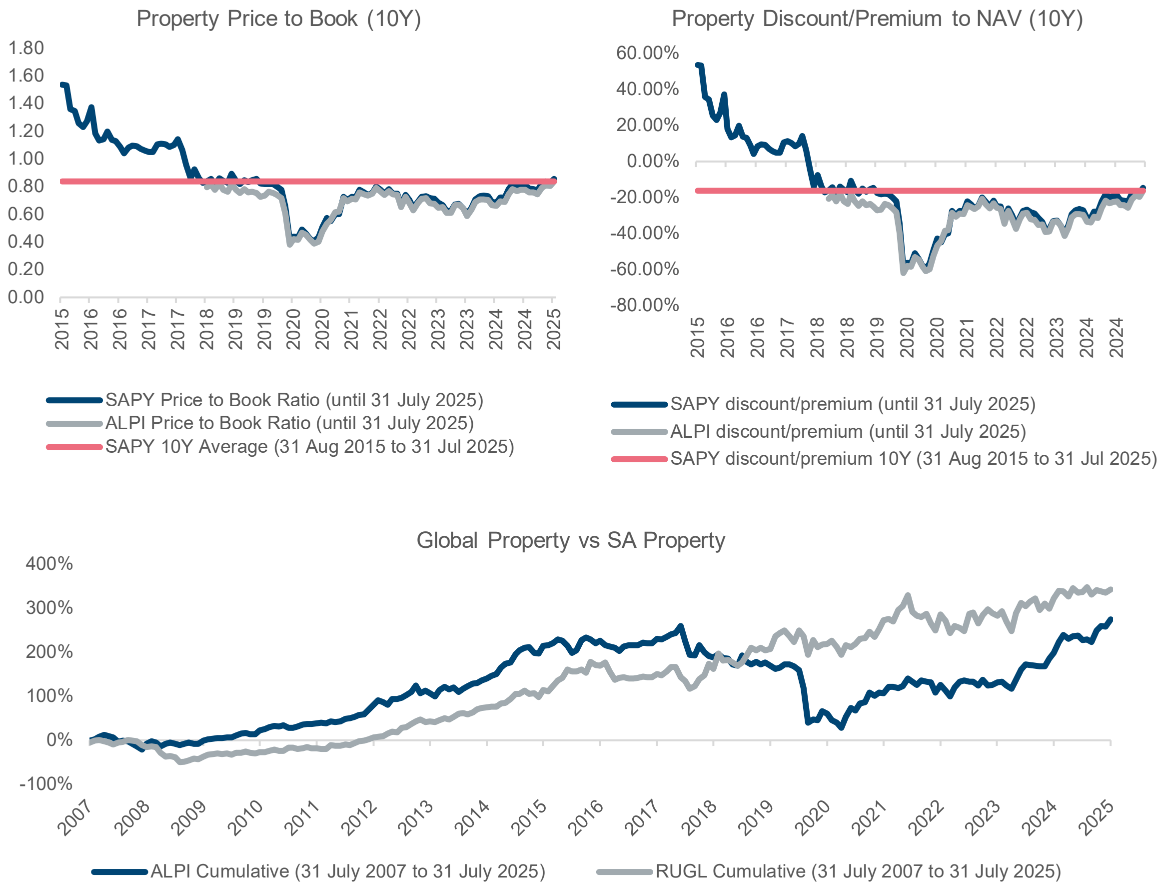


Source: Public Investment Corporation (PIC)

To assist investors in assessing their potential investment in South African listed property during the current turbulent economic environment riddled with high volatility associated with geopolitics and policy uncertainty, considerations of the current property valuation levels together with insights into the pros and cons of investment in South African listed property are provided.

At current valuation levels depicted in Figure 5 below, it can be seen that the property sector trades at a discount to net asset value (NAV) of 14.7% with its Price to Book ratio at 0.85 as at 31 July 2025. However, this is approximately in line with its 10-year average discount to NAV of 16.3% and 10 year average Price to Book ratio of 0.84, suggesting upside but limited. In addition, the performance gap between local and offshore property has also been closing up over the past few years.

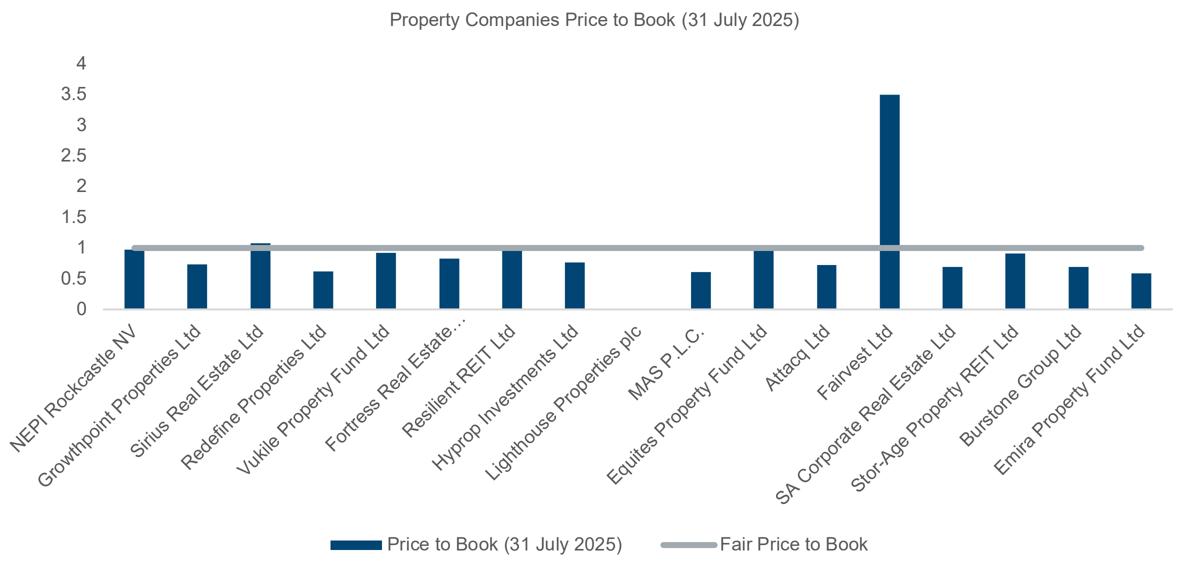
Figure 5: Property valuation metrics



Source: Bloomberg

Majority of the property companies included within the SAPY index also currently trade at discounts to NAV as seen below and while the property valuations may have significantly improved from the lows experienced during the COVID-19 pandemic, it still remains below the premiums it once traded at prior to 2018. This gap in valuation from individual property companies and the property indices provides a possible investment opportunity for investors to take advantage of the current discounts within the property sector in South Africa.

Figure 6: Individual property valuation metrics



Source: Bloomberg

Property valuations have also benefitted from declining South African 10-Year Government Bond yields, which have narrowed from 11.4% and 10.3% as at the end of 2023 and 2024, respectively, to around 9.7% as at 31 July 2025 with the SAPY index dividend yield around 7.4%. Additionally, valuations were boosted by the South African Reserve Bank's cut to its policy interest rate, which began in September 2024, from 8.25% to 7.25% as at 31 July 2025.

Figure 7: Property dividend yields together with declining SA 10-year government bond yields

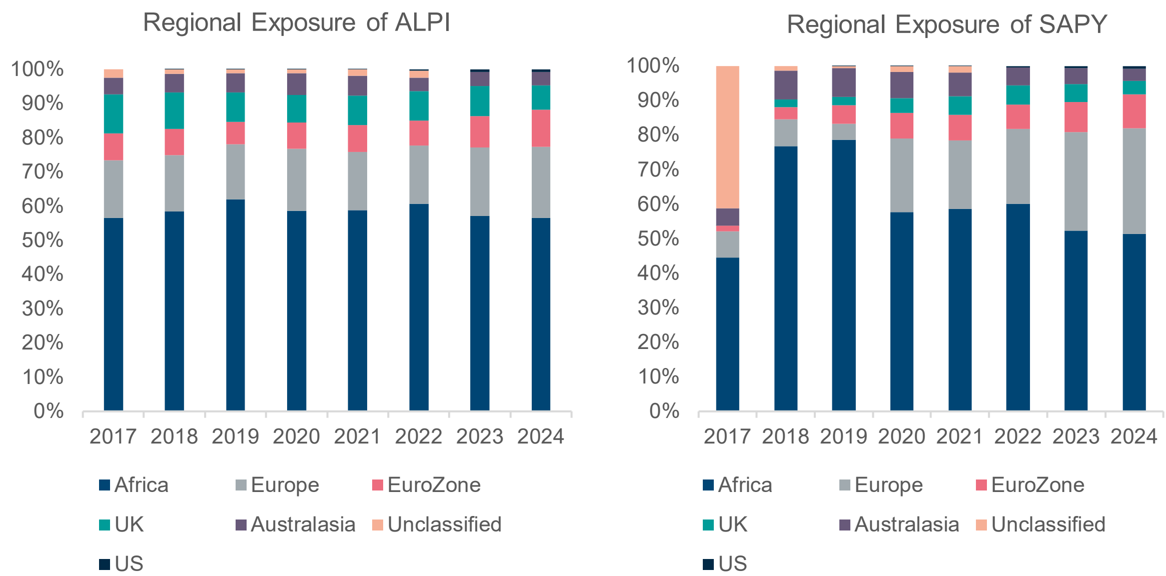
Source: Bloomberg

In addition to property valuations, the pros and cons of investment within the South African listed property sector needs to be analysed to determine the possible benefits and risks of such an investment. The declining interest rate environment and bond yield compressions have benefited the performance and valuation of the property sector by allowing property companies to strength their balance sheets and reduce their debt. Subsequentially, property companies were able to reduce their LTV ratios as indicated by the top 10 companies that account for 77.4% of the ALPI index, which were able to reduce their weighted average LTV ratio from around 38% in 2024 to approximately 37% as at 30 June 2025, according to Catalyst Fund Managers. With expectations of further interest rate cuts from both the US Fed and SARB, the property sector could continue to benefit in the latter half of the year. The potential benefits are driven by the reduction in financing costs which can stimulate investment and demand in the property sector, leading to increased developments, prices and valuations. Furthermore, increased consumer consumption and sentiment would boost retail property performance while innovations in online shopping raise the demand for storage and logistical properties.

Additionally, the continuous improvement of property fundamentals such as the sale of noncore and underperforming property together with lower dividend payout ratios at an average of 86% from the previous 100% level (continue to drive investments) and increasing earnings expectations among property companies will further boost this asset class, according to independent property analyst, Keillen Ndlovu. These improved fundamentals combined with increasing investment in sustainable water and electricity sources, will assist the property sector to remain resilient in times of increased volatility and uncertainty compared to 2017 or the COVID-19 pandemic when the sector had been highly leveraged and traded at premiums to NAV which impacted the sustainability of its earnings and performance.

Property performance is also likely to benefit from the increased global exposure as shown by the below charts, with companies in both the SAPY index and ALPI index having reduced their exposure within Africa and subsequently increased their exposure to regions such as Europe, Eurozone and the US. Companies such as Nepi Rockcastle, which has the largest weighting within the property index, has complete exposure external from South Africa. This mitigates the impact of domestic risks on the earnings of property companies that have global exposure while also allowing these companies to benefit from global economic environments.

Figure 8: Regional exposure of South African property indices



Source: Morningstar

Image 1: SA listed property improved fundamentals and global exposure

SA Listed Property Sector (excluding offshore stocks)	Weighted Average
Loan-To-Value Ratio	37,6%
Interest Cover Ratio	2,4 times
Discount to Net Asset Value (NAV)	19,1%
Payout Ratio	86%
2024 Earnings Growth (Actual)	-3% to -4%
2025 Earnings Growth Outlook	4% to 5%
Historic Dividend Yield	7,8%

REIT or Property Company	% of portfolio in CEE
NEPI Rockcastle	100%
MAS	100%*
GTC	80%
Fortress	40% (15% shareholding in NEPI)
Castleview	39% (including Emira exposure)
Redefine	34%
Hyprop	32%
Emira	20%
Growthpoint	10%
Burstone	3%

Source: Keillen Ndlovu Research (Independent property analyst)

In contrast to the drivers boosting property performance, factors such as instability within the GNU and high unemployment rates result in increased domestic volatility and decreased investor sentiment, adversely affecting property due to the perceived increased risks associated with South African investments. Additional factors such as the oversupply of offices and increasing operational costs associated high municipal charges and increased tariffs negatively impact property performance. Given the sensitivity of the property sector to changes in interest rates, further delays in the Fed interest rate cuts and possible increases in inflation from tariffs, these could dampen investor sentiment and lead to declines within the property sector. Performance of the property asset class is further hindered by the increased volatility associated with geopolitical tensions and policy uncertainty as investors seek stability in safe heaven and low risk assets such as bonds.

Therefore, given the current property valuation levels indicating discounts to NAV but at the long term average, potential benefits from the improved balanced sheets and earnings expectations as well as the risks associated with possible delays in interest rate cuts and lower investor sentiment, investors should remain cautious when making their investment decisions. The heightened volatility surrounding geopolitical tensions and policy uncertainty make it challenging to accurately determine whether investors should be for or against investment in South African listed property. However, compared to previous downturns experienced, the property sector is currently in a better position to maintain its performance through these turbulent economic environments due to its strengthened balance sheets and improved earnings expectations.

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