MEDIA RELEASE FROM VUKILE PROPERTY FUND

30 January 2015

Listed property set to branch out during an opportunity filled year

SA's listed property sector will be looking at new asset classes and territories to drive outperformance, says Laurence Rapp, CEO of Vukile Property Fund.

"Residential property is emerging as the lead opportunity for assets in new sub-sectors, with listed property companies making - still relatively small - investments into student accommodation, upmarket apartments, urban residential units, and even housing estates in mining towns," reports Rapp.

Continued Rand weakness is resulting in an added advantage for funds with offshore investments in the present market. Plus, Rapp notes, there's a lot of talk that SA is running out of road for feasible new development, which is compounded by the country's electricity crisis.

"All this makes investing in international territories an appealing option for certain funds. There seems to be a wall of money available for local investors to get offshore property exposure through the JSE," says Rapp.

He adds: "Even as some listed property companies are exploring investment in other sub-Saharan African countries, the African story is still one of high risk and high potential. Rising political unease and dropping oil prices, all add to the risk premium on the continent."

One of the most exciting influences on the sector this year is the fact that, during 2014, listed property really established itself as an asset class in the minds of investors, both institutional and retail.

"Because people are still looking for yield at lower risk, it may well mean continued strong performance for REITS and the listed property sector," Rapp explains.

When it comes to the traditional commercial property assets, Rapp is confident retail will outperform other sub-sectors.

"Retail property is still likely to hold its favourable market position in 2015, even though consumer spending isn't buoyant. On the plus side, lower oil prices are driving down inflation and freeing up some money from people's transport budgets," notes Rapp. "Retail has proven the best and most defensive commercial property subsector through the cycle. It has a stability to it. With this defensive nature, it is still likely to come out best in 2015."

Of the other sectors, Rapp expects industrial property to hold its own and, with continued low economic growth and new office supply coming into nodes like Sandton, Waterfall and Rosebank, the office market is likely to remain under pressure, as was the case last year.

As a retail-focused REIT, Vukile's investors have benefited from the sector's outperformance and Rapp reports that Vukile will grow its investment in retail property in 2015. "We have a healthy pipeline of deals to close, including some new developments."

The best approach to listed property fund growth in this market is staying true to strategy, believes Rapp. "When it comes to acquisition and development, it is not a time for speculation, rather there's an opportunity for good long-term strategic investments to be made now."

Rapp points out that after a year that was dominated by consolidation for SA's listed property sector, there'll still be some corporate action in the sector this year. "The number of new transactions is likely to slow, with most activity coming from deals initiated in 2014. So, 2015 will be all about closing the deal," points out Rapp. This is exactly what Vukile intends to do with its Synergy Property Fund transaction.

While there are some exciting new opportunities and directions for the listed property sector in 2015, Rapp cautions there are also some big risks. He lists ongoing load shedding from Eskom as a major concern, and adds further periods of low growth in the economy and labour unrest as posing risks, damaging business and consumer confidence.

"The lower oil price has lessened the risk of inflation and perhaps interest rates will remain a little more stable, but South Africa, as an emerging market, still remains more vulnerable to exogenous factors around global markets than more established economies," comments Rapp.

On the other hand, 2015 will provide and important opportunity for listed property funds to organise and optimise their businesses. Rapp says: "It is a good time to focus on the basics. We're using the opportunity wisely and focusing on closing our strategic pipeline of deals, which will result in the meaningful growth of our portfolio."

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