Bigger and better: The US is by far the largest and most developed Reit market in the world

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PROPERTY

Going global with the JSE

Investors keen to cash in on undervalued offshore Reit markets should take a fresh look at the JSE's growing pool of index tracker funds

Joan Muller

The JSE's tally of tracker funds continues to swell, with last month's listing of a new offshore property play bringing the bourse's index investment offering to 257.

That's up from 209 a year ago and includes global and South Africa-focused ETFs, exchange traded notes and actively managed certificates, figures from etfSA.co.za show.

The newest addition to the JSE's ETF universe is aimed at income-dependent investors looking for a high-yielding, hard currency dividend stream — with payouts every quarter.

The fund, known as Reitway Global Property Income Prescient ETF (JSE code: RWINC), brings the number of property-based tracker funds — local and offshore — to 10. This is the fifth offshore property ETF jointly listed on the JSE by Reitway Global and Prescient since 2023.

But what differentiates their latest offering? Reitway Global CEO Greg Rawlins says: "This is our first foray into the higher-income arena, whereas our other funds come with a total return mandate."

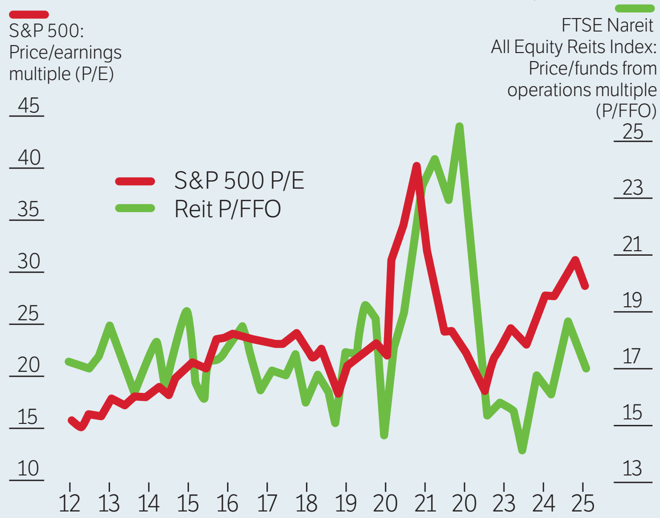
About 80% of the index tracked by RWINC constitutes high-yielding and oversold real estate investment trusts (Reits). The remaining 20% includes property ETFs that are lower-yielding total return vehicles.

Rawlins says these mitigate risk and volatility. About 60% of the stocks included in the index are based in the US, by far the largest and most developed Reit market in the world.

However, the index aims to have at least 30%-40% non-US exposure to

Greg Rawlins: US Reits offer an array of specialist listings

US REITS CHEAP VS GENERAL EQUITIES



Source: Hoya Capital

provide adequate geographic, property sector and currency diversification.

The top 10 holdings as at March 31 include two New York Stock-Exchange-listed communications and infrastructure (cellular towers and fibre networks) Reits, Crown Castle and HA Sustainable Infrastructure Capital; Nasdaq-listed casino owner Gaming and Leisure Properties; hospital landlord Omega Healthcare Investors; and Hong Kong-listed developer Kerry Properties.

The index, which Reitway Global and Prescient have customised and developed with Amsterdam-based Global Property Research (GPR), trades at a dollar-based dividend yield of 7.11%.

That's well ahead of the 4.33% offered by the benchmark GPR 250 R, a total return Reit-based index tracked by most global property ETFs.

Why a hard currency income ETF, and why now? Rawlins says global Reits, of which US-based counters make up 70%-80% of the total universe, are still relatively cheap as they have underperformed general equities for the past three years.

Data from US investment adviser Hoya Capital Real Estate shows that US Reits, as tracked by the FTSE Nareit all equity Reits index, has underperformed the S&P 500 index of general equities by about 40% since US interest rates were first hiked in late 2021.

In late March, the S&P 500 was trading at a p:e of about 28, while Reits's price-to-funds-from-operations ratio, the equivalent measure used to value property stocks, stood at 17 (see graph).

Of course, historically, when rates go up, Reit share prices go down. So the view is now that global Reits are undervalued and poised for a rebound as inflation and interest rates stabilise.

Year to date (to March 25), the Nareit index has already outperformed the S&P 500 with a total return of 2.63% against -1.75%, according to Hoya.

Rawlins says the case for being overweight in offshore vs domestic Reits is further supported by the South African economy still labouring under high interest rates and inflation, with no indication of when that will change.

Rising fears that the GNU may unravel, coupled with the 30% tariffs imposed on South Africa by US President Donald Trump last week, will likely put pressure on GDP growth forecasts, which also doesn't bode well for domestic Reit returns.

Besides, Rawlins notes that most South Africa-focused Reits own diversified portfolios with a mix of retail, industrial and offices.

By contrast, US Reits offer an array of specialist listings that invest in nontraditional subsectors not available on the JSE — including data centres, cellular towers and other wireless communication infrastructure; boat and recreational vehicle storage facilities; lab space; mental health clinics; and retirement homes.

Rawlins says: "I am personally loath to expose investors to diversified domestic Reits where there are too many subsectors and jurisdictions under one management team. There are just too many moving parts."

Kanyane Matlou, senior portfolio manager for listed property at Terebinth Capital, part of the PPS Defensive Fund investment team, agrees that now is a good time for South African investors to increase their weighting to offshore Reits.

He says there's plenty of value to be had relative to South Africa-centric property stocks, which had a strong rally last year and are now mostly in fair value territory.

"In addition to diversification benefits, the breadth of the offshore Reit market allows South African investors exposure to opportunities in submarkets where the earnings growth and rerating potential look compelling relative to the domestic sector, given its solid post-GNU rally."

Matlou favours European and UK Reit markets, where many stocks are trading at historically high discounts to NAV.

One factor likely to support a recovery in these markets over the next few years is the turn in the global monetary policy cycle from mid-2024, which has already underpinned a recovery in direct property valuations after an extended period of writedowns.

In addition, more potential interest rate cuts will further support a valuation rebound. Matlou says transactional market volumes are also on the up, a good sign for a closing of the discounts to NAV at which most UK and European Reits are trading.

He singles out three submarkets that he believes will deliver above-market returns over the next 12 to 24 months: self-storage (UK and Europe), student accommodation (UK) and logistics (Europe and UK). Terebinth's top global property holdings include logistics plays Tritax Big Box (listed in London) and Mapletree Logistics (listed in Singapore); student accommodation developer Unite Students (listed in London); and self-storage owners Safestore (listed in London) and Public Storage (listed in New York). ■

HOW TOP JSE-LISTED ETFs STACK UP

Total returns for year to Feb 28

Local Main Index Equity Trackers

10X Wealth Top 20 ETF: **25.40%**

Satrix Capped INDI ETF: **24.28%**

Satrix 40 ETF: **23.20%**

Satrix FINI 15 ETF: **23.84%**

Satrix SA Property ETF: **22.95%**

Foreign Main Index Equity Trackers

Sygnia Itrix MSCI China Feeder ETF: **33.83%**

Sygnia Itrix Emerging Markets 50 ETF: **22.33%**

1nvest S&P 500 Feeder: **15.00%**

Reitway Global Property ETF: **13.54%**

Satrix Nasdaq100: **12.89%**

Source: etfSA.co.za