

Listed Property: A slight reprieve

Property has been a core asset of the Harvard House income philosophy but has endured an exceptionally difficult past five years. This is not to say all property has performed equally poorly, diversification within the sector has been of paramount importance to reduce country and currency risk. We take a look at our unit trust offering in this sector and how we have differentiated ourselves against the South African Listed Property Index (SAPY).



**Roy
Lamb**

It was with much relief that the property sector managed to claw back some of the losses incurred over 2020 in the months of November and December, with gains of +17.3% and +12.5% respectively for those two months. One would have thought that given the quantum of those gains a positive return for the year was more than probable. Unfortunately, 2020 began on a weak note with a decline of 3% in January, -15.6% in

February and then COVID-19 hit. The sector reeled with uncertainty which saw an unfathomable further decline of -37.5% in March. From there onwards, the sector moved in sync to the news flow as companies updated the market on rental relief and collection rates, coupled with changes to lockdown regulations.

There was also further clarity in terms of regulatory requirements that REITs (Real Estate Investment Trusts) are required to pay out 75% of their annual distributable earnings. This decision was somewhat in the air a few months prior, and with its conclusion, there was relief for income investors who had been left in the dark as to how much income they would receive from their investments. This helped add to the momentum in the sector over the past few months.

This was not the only reason for the bounce off the low levels. Anecdotal evidence started to reveal a recovery in several metrics in the retail sector from the lows seen in March and April. The foot count for recreational outlets (restaurants) started improving to levels almost matching those of essential spending (groceries, pharmacies). Trading densities (sales per square meter) have also started to recover, although these are still well down on pre-Covid-19 levels.

However, the office segment of the SA property market remains weak. Some researchers forecast that vacancies could double from the current 12% level over the next 12-months as the work-from-home trend gathers momentum, whilst local consumer and business confidence remains

SPEED READ

- Despite finishing 2020 with a strong December the SAPY still had its largest negative annual return on record (since 1976) of -34.5%.
- The combination of COVID-19, local macro headwinds, and company-specific circumstances have all weighed.
- The market is rewarding secure balance sheets and visibility of distributions.

weak. Having said this, the sector is trading at a deep historical discount to tangible net asset value, a reflection of the weak SA macroeconomic picture, oversupply concerns within the office and retail space, balance sheet issues in certain circumstances, and coupled with concerns over future dividend payout ratios. (Historically local REITs paid out 100% of their earnings, to retain REIT status a minimum of 75% needs to be returned to shareholders). The Harvard House BCI Property Fund was launched on 01 September 2015 and hence now has a 5-year track record.

Harvard House BCI Property Fund vs SAPY Index



The Fund has been a relative outperformer, especially since early 2018 when the Sector reeled in the wake of allegations against the Resilient Group of companies.

The chart below plots the performance of the Fund over its life versus that of the SAPY Index (its benchmark). The next table shows how the Fund has performed over various time frames versus its peers and the index respectively.

Performance since inception					
Period Ending Dec '20	Ranking	HH BCI Prop Fund	SAPY	HH Annualised Performance	SAPY Annualised Performance
1 year	1/40	-24%	-34%		
2 years	2/39	-18%	-33%	-9%	-18%
3 years	2/38	-28%	-50%	-10%	-21%
4 years	3/33	-21%	-42%	-6%	-13%
5 years	1/33	-13%	-36%	-3%	-8%

Source: Moneymate

Calendar year performance since inception:

High (best 12 month return)	9.53%
Low (worst 12 month return)	-23.55%

Source: Morningstar; actual annual return figures available on request

Annualised returns are calculated as the equivalent annual return an investor receives over a given period.

So, what are the major differences between our Fund and the SAPY Index constituents? The table below shows the top ten holdings in the Fund, relative to the ten-largest positions in the Index. It is immediately clear that there is no benchmark-hugging in our Fund. We are not afraid to show conviction in our choices.

The first observation is the weightings we hold in Growthpoint and Nepi Rockcastle versus the Index, less than half in each instance. The second are those counters in

Top 10 Holdings as at 19 Jan 2021			
Harvard House BCI Property Fund	% Weight	SAPY Index	% Weight
NEPI Rockcastle	9.7%	Growthpoint	20.3%
Stor-Age	8.0%	NEPI Rockcastle	19.6%
Redefine	7.9%	Redefine	9.2%
Irongate (Investec Aus)	7.7%	Fortress	9.1%
Fairvest	7.4%	Resilient	6.5%
Sirius	7.3%	Equites	4.6%
MAS	7.2%	Hyprop	3.7%
Growthpoint	6.6%	Vukile	3.4%
Fortress	6.4%	Sirius	3.0%
Arrowhead-B	5.7%	MAS	2.5%
Total	73.9%		81.9%

our Top Ten which are far smaller constituents of the Index, specifically Stor-age, Irongate (previously Investec

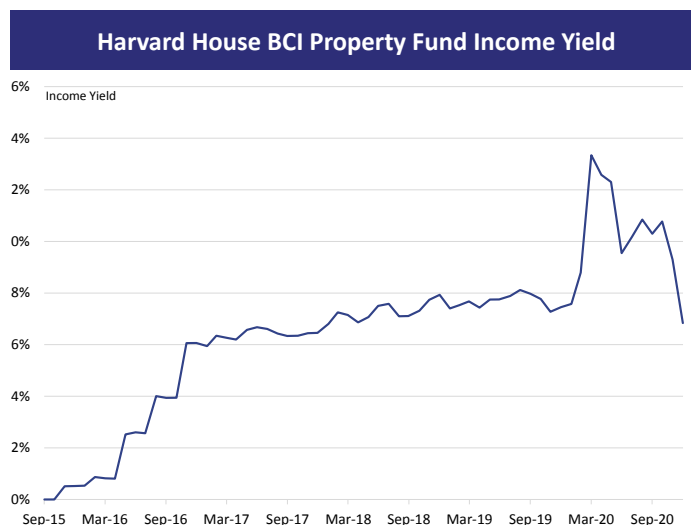
Australia), Fairvest, and Arrowhead-B (which has recently risen to be included in the Top Ten after we added to our holding.)

What is the rationale behind these differences? We have spoken much about country and currency diversification, not merely for the sake of diversification but rather to be invested in companies that are operating in growing and thriving economies and able to demonstrate growing distributions. Examples include Sirius – Germany, Irongate – Australia, and Nepi Rockcastle – Poland/Romania.

However, it is not only several foreign companies that have outperformed the Index but a few local companies too that operate in niche markets: Stor-

age - SA's leading self-storage brand, Fairvest – a retail-focused REIT but operating in the more defensive community and neighbourhood mall format rather than the super-regional malls which have been hit hardest by changing consumer habits in the wake of Covid-19.

Both these South African landlords have proven themselves to be nimble as market conditions have dictated but they also provided a strong flow of distributions in an environment that has shown many of their peers unable to do so for a multitude of reasons. This is manifested in the yield of the Fund, which was stable between 7% and 8% (after all costs) before the Covid-induced impact evident in 2020. Despite many companies opting to forgo dividends last year, the Fund is still yielding almost 7%.



The Fund has delivered a consistent income yield to unitholders, even taking the pandemic into account.

We continue to evaluate our holdings on an on-going basis as events and circumstances oscillate within the industry. Covid-19 has changed the landscape for almost all the property sub-sectors but investors cannot take a blanket approach to the sector due to the difference in jurisdictions,

management and areas of exposure for each company. Our checklist includes the discounts to NAV at which these companies are trading, and whether recent property sales justify these discounts, reversion rates for rental expiries, vacancies, debt and the health of balance sheets. Taken



Given the uncertainty over a second wave of Covid, we cannot predict with any certainty when we will be allowed to resume our seminars. Until we have clarity, we will continue with our online videos and presentations. Please ensure that you subscribe to our Facebook page and YouTube channel to be kept up to date.



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Topic: N/A

Natal Midlands

Date: N/A

Venue: Fernhill Hotel
Midmar / Tweedie Road
(almost opposite entrance to Midmar)

Morning Time: 10am for 10.30am

Evening Time: 5.30pm for 6pm

Johannesburg

Date: N/A

Venue: Rosebank Union Church, Cnr
William Nichol and St Andrews
Road, Hurlingham

Time: 7am for 7.30am

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Performance figures quoted for the portfolio is from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax.

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