LISTED PROPERTY— ROOM FOR GROWTH

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Listed property isn't the easiest asset class to like. It is sensitive to interest rates, relies on access to debt and in South Africa is also entangled with weak growth, broken infrastructure and patchy investor sentiment. However, investment analyst DYLAN GRIFFITHS writes that with interest rates turning and regional dynamics improving, the property sector may offer room for growth.

Listed property sits somewhere between bonds and equities. Rental income provides predictability, usually inflation linked. Capital values rise when rental demand outpaces supply or when falling rates lift what investors are willing to pay for those same cash flows. This latter point matters now because interest rates — the biggest headwind to the property sector in recent years — are finally trending lower, both locally and abroad.

In South Africa, inflation has cooled and the South African Reserve Bank has begun to ease monetary policy. Interest rates are no longer as restrictive as they recently were. This makes the cost of capital more manageable and improves the outlook for dividends, valuations and investor sentiment across the property sector. But not all property companies are created equal: some are still grappling with excessive debt or uninspiring property portfolios. Selection, as always, matters.

Foord's judicious exposure to the listed property sector reflects this subtlety. We invest only where the risk–reward profile is attractive and the fundamentals support long-term investment. Some of our holdings provide exposure to South African property markets, while others give us access to property portfolios outside the country — adding geographic diversification and valuable rand hedge characteristics to the mix.

Regionally, the Western Cape stands apart. Better governance, working infrastructure and inward migration have created real demand for commercial and industrial space. With new supply constrained, this has translated into low vacancies, rising rentals and more resilient asset values. Our investment in Spear REIT — a Western Cape-focused listed property REIT (see Did You Know?) — gives us targeted exposure to this investment thesis.

Listed property is not without risk. Prices can swing on sentiment, the sector is sensitive to borrowing costs and economic growth, and owning the wrong names can be costly. But when selected carefully and sized appropriately, listed property can add meaningful diversification and return potential to a portfolio.

As always, we have no fixed allocation to the sector within our investment portfolios. Listed property must compete for its place alongside cash, bonds, equities, gold and offshore assets. There are times in the cycle when the investment case is compelling. We can hold — and have held — listed property in high weights. For now, our exposure remains selective and deliberate, but property remains on our investment radar.

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