

# Distribution centres reward some savvy property funds

By [Alistair Anderson](#)

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The development of distribution centres in SA has gained momentum in the past two years, but demand is yet to match the growing supply.



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Certain property funds including Equites Property Fund, Fortress Income Fund and Stor-Age Property real estate investment trust, are nevertheless achieving healthy distribution growth and capital appreciation through good management, offering high-quality products and clever deal-making.

"Globally, the industrial sector and specifically big-box distribution centres have been doing incredibly well on the back of increased demand and little or no new supply," said Grindrod Asset Management chief investment officer Ian Anderson.

He said the major driver of demand had been increased online retailing, with retailers now needing more warehousing.

"The situation is somewhat different in SA, where we have seen an increase in development activity and significantly less demand from online retailing.

"At the same time, global trade has deteriorated over the past two or three years, and despite the weak rand, SA's import and export volumes have shrunk, reducing the need for warehousing," he said.

But well-managed industrial property owners seem to be performing relatively strongly. For example, since listing in June 2014, Equites's share price has risen 26.51%.

Year to date, the price has climbed nearly 7%. Equites's prelisting target was to grow its property portfolio of distribution centres and offices in the Western Cape and Gauteng from R1.2bn to R4bn in five years. It achieved this within two years, with its properties valued at R4.1bn for the year to 29 February 2016. "The strong numbers registered by Equites are not a reflection of the state of the industrial market in SA, but rather reflect a competent, highly focused management team driving shareholder value through their existing properties, but more importantly, unlocking significant value by being able to develop big-box distribution assets in-house," Anderson said.

However, executive director of Meago Asset Management, Jay Padayatchi, said even though Equites had a strong team, it was not necessarily a buy currently.

"Their share price most certainly appears to be full. Further, given the relative illiquidity of the Equites share price and the high concentration of management's holding, one has to wonder how accurately it reflects the underlying value of the assets at current yields," he said.

Stor-Age Property Reit has gained 5.32% year to date.

In November 2015, Stor-Age became the first storage facility provider to list on the JSE, with a R1.3bn portfolio, as it looked to attract investors who were seeking specialised property funds. The company has started to expand into more of SA's six major cities. Its pipeline sits at more than R400m.

Fortress Income Fund, the best-performing property fund of 2015, grew its B-unit dividend 101.2% in the six months to December 2015 in a watershed period that saw it complete the takeover of Capital Property Fund, making it the largest listed industrial property owner in SA.

The company's logistics pipeline is worth about R4.5bn, according to CEO Mark Stevens, who said more international players were looking to rent high quality assets in SA.

Fortress's B shares have risen 6.47% so far in 2016.

*Source: Business Day*

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