

'Limited downside risk' seen in foreign portfolio, writes Thabang Mokopanele

Offshore property offers rand hedge

THE listing of Redefine International on the JSE at the end of next month is expected to provide a rand hedge opportunity for South African investors without them having to use their foreign allowance.

South Africans will have an opportunity to own properties in Germany and the UK by buying shares in Redefine International, which is expected to have an initial market capitalisation of R2,5bn.

UK property yields of about 8%-9% are similar to SA, but historically these yields have been about three percentage points lower than in SA.

This is where Redefine International sees the opportunity for greater capital growth.

Redefine International is a Jersey-registered property investment company with a portfolio of 93 properties across the UK, Germany, the Channel Islands and Switzerland, valued at £420m. The group invests in commercial real estate and also in listed securities, primarily in the UK, Europe and Australia.

The group owns strategic stakes in the London Stock Exchange-listed Wichford (21,7%) and Australian-listed Cromwell Group (12,97%) and is managed by Redefine International Fund Managers.

A nonexecutive director of Rede-

fine International who is described as the driver of the group's expansion strategy, Marc Wainer, says the group remains "unashamedly opportunistic" in spotting likely property deals in the UK, Europe and Australia. "Institutions are likely to follow us, as we are poised for growth. Banks are also starting to treat us with respect because of our growing balance sheet," Mr Wainer says.

Redefine International CEO Mike Watters says the properties generate strong cash and rental growth. He says that the properties have longer leases than is usual with South African properties, and 90% of the group's income is from national and regional tenants. These properties also have a low vacancy factor, with a 97% occupancy rate.

Redefine Properties was granted approval by the Reserve Bank last month for the company to hold its interest in UK-based Cifef directly through a wholly owned South African subsidiary, Redefine International, which would be listed on the JSE. Redefine Properties, which is the second-largest listed property company with a market capitalisation of R21,1bn, had increased its holding in Cifef — a property investment company listed on the London Stock Exchange's smaller-capitalisation AIM market — to 61% in a series of



Marc Wainer

transactions using the cash transfer capacity of South African institutions, commonly known as asset swaps.

The increased investment in Cifef was in line with Redefine's stated objective of channelling international property investments through Cifef.

Mr Watters says the UK economy continues to show signs of recovery, although these are tentative.

He says capital values have risen since July last year, with growth

driven by improvements in yields despite continued negative rental growth. "All sectors are trending upwards. There is evidence of pricing improvements in all markets, not just prime assets," Mr Watters says.

He says a significant number of institutional, real-estate investment trusts are looking for secure, income-yielding assets.

Grindrod Bank fund manager Greg Rawlins, who went with Redefine to view the group's properties in the UK and Germany last week, says there is mounting evidence that the UK and European property stocks have bottomed out, while this is not the position in SA as there are still doubts about the growth prospects for the next year.

"I must qualify this position by noting that I am not suggesting that the foreign stocks are set for a growth spurt, but rather that there is limited downside risk from here on," Mr Rawlins says.

Macquarie analyst Leon Allison, who also went to view the group's properties, says the UK and European long leases provide stability and security for investors. "Redefine International seems to have a decent management team in place, understanding their core markets of UK and Germany," Mr Allison says.

mokopanele@bdfm.co.za