

# Grindrod Global Property Fund tops the rest

Global Real Estate Investment Trusts (REITs) appear to have bottomed and a recent strong bounce suggests that a recovery is in the offing by the year's end. Investors in the Grindrod Global Property Income Fund have benefitted from this recovery and the fund is well positioned to profit from a market where landlords will gain ascendancy over the tenant again.

Since its official launch in May 2009, the Fund has achieved a total return in excess of 45%. The fund manager, Greg Rawlins, attributes the Fund's performance to a logical and simple methodology that includes a high level of objectivity yet allows for a suitable amount of business intuition.

The Fund is a South African domiciled, rand denominated Collective Investment Scheme, which invests in REITs and property-related securities located largely in developed markets. Developing countries, where a compelling investment case exists, are also given consideration as potential investment targets.

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As it is a rand-dominated fund, investors are not subject to the R4 million foreign investment restrictions on offshore investments. Another benefit is that REITs are tax conduits, which means that the distributions are taxed in the hands of the investor, and are not subject to a chain of taxes prior to disbursement.

The primary purpose of the fund is high current distributions with capital appreciation being a secondary but important objective. "Of course investors are exposed to the benefits of capital appreciation which is an inherent characteristic of real estate assets," says Rawlins. Currency exchange and asset swap requirements are all taken care of with monthly distributions being paid out in rands.

In addition, the fund administrators attend to the bothersome task of recording the withholding taxes deducted from the distributions en route to SA. The result is that an amount

is accumulated which the investor can use to offset against the taxes incurred on the income due here in SA.

The majority of the securities invested in are located in the US (with approximately 40% of total investment), Canada (approximately 28% of total investment) and Europe (approximately 9%). However, this mix is not predetermined and will fluctuate in line with where the

best opportunities present themselves.

Rawlins highlights the potential of a 'scarcity factor' occurring in developed countries over the next three years: "Portfolio occupancy levels are hovering around 90% and banks still don't seem to be enthusiastic about lending to commercial property developers". There are simply no construction cranes on the

horizon in most first world economies and even mild growth in these respective economies is likely to lead to demand placing pressure on supply over the next 3 years."

He says that well capitalised REITs in the US are becoming active acquirers of properties from distressed sellers at yield enhancing prices. Further, the UK market appears to have reached a bottom with good value

starting to appear. In addition, the rand is relatively strong against the sterling which is creating a good buying opportunity.

The Canadian REIT market has rebounded significantly on the back of an economy that is exposed to a resurgent resources and commodities sector, coupled with a stabilising banking system. Rawlins says that good value still exists in Canada.

With a unit-price increase of R1.00 to R1.40 over the last nine months, the Fund seems to be making an impact on the market and with most market commentators anticipating the rand to weaken against developed market currencies after the Soccer World Cup, investors in the fund can expect further capital appreciation in the second half of the year and into 2011.

