SESFIKILE CAPITAL
Property Investments

Where is the grass greener?

SA Listed Property

May 2024

Evan Jankelowitz

BUSINESS UPDATE –We tend the garden on both sides

2010
Founded

THREE
Founders

SINGULAR
Focus

15 YEARS
Average investment experience

TWO STRATEGIES
Local & global

R16 BILLION
AUM

TOP QUARTILE
Performance

Source: As at 31 March 2024

V & A Waterfront, Cape Town

SECTOR OVERVIEW

DIVERSIFIED EXPOSURE BY SECTOR AND GEOGRAPHY (LOOK-THROUGH)

South Africa overview

Retail : 64%

Office : 15%

Logistics : 14%

Residential : 3%

Storage : 4%

SA : 47%

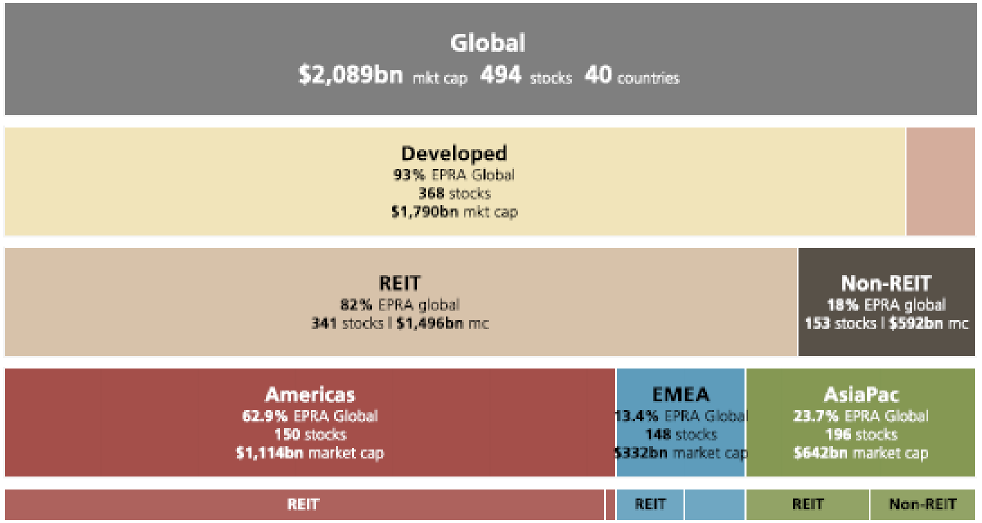
CEE : 28%

WE : 8%

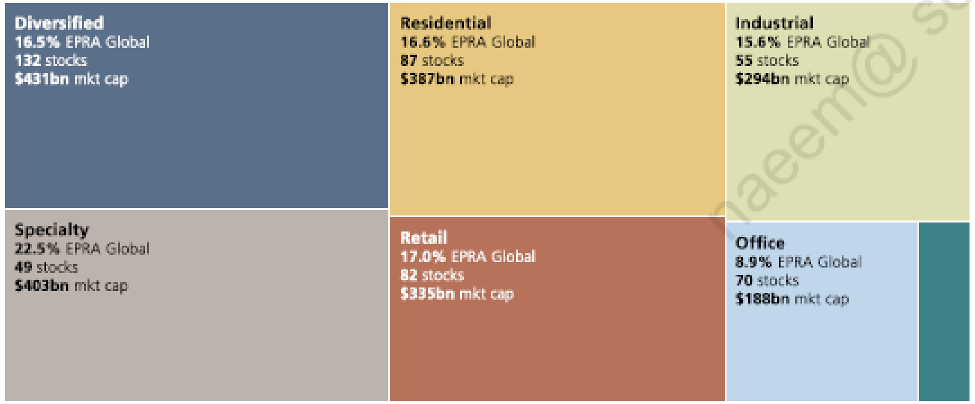
UK : 7%

AUS : 4%

Global overview



Global sector overview

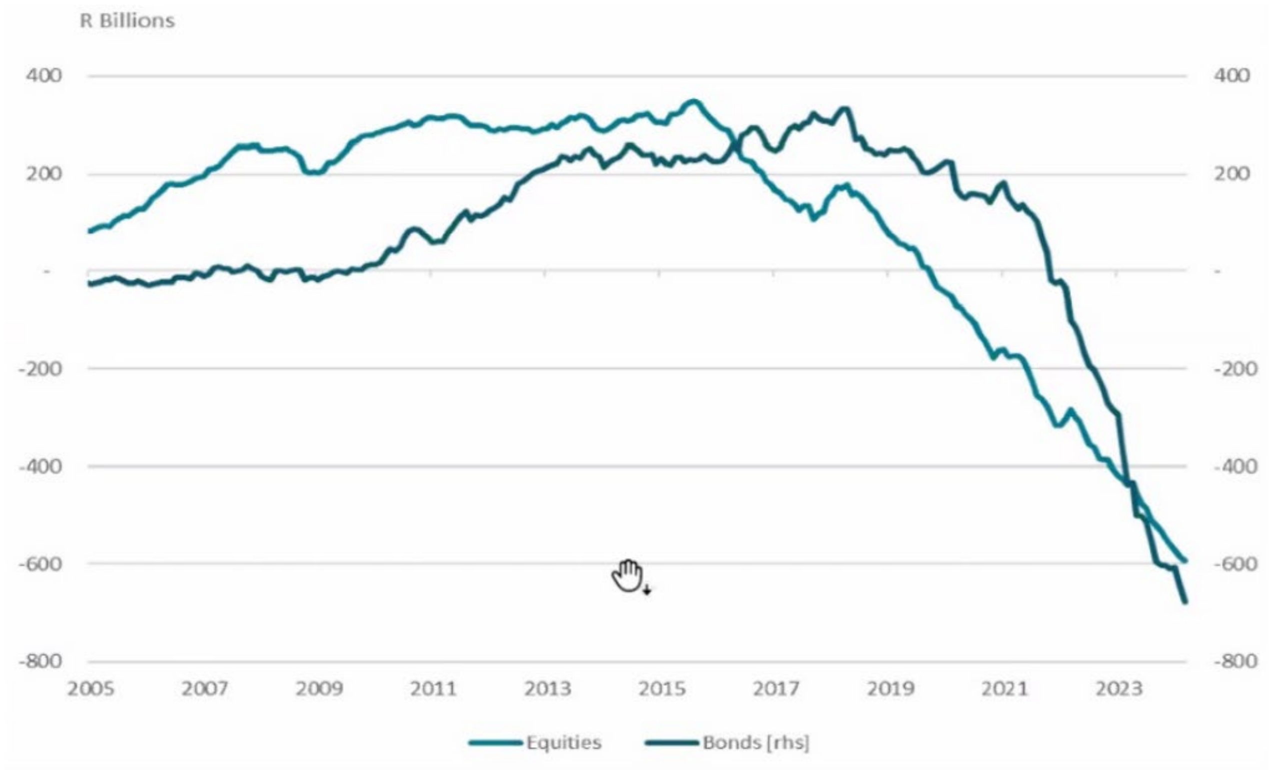


Source: Company data, UBS

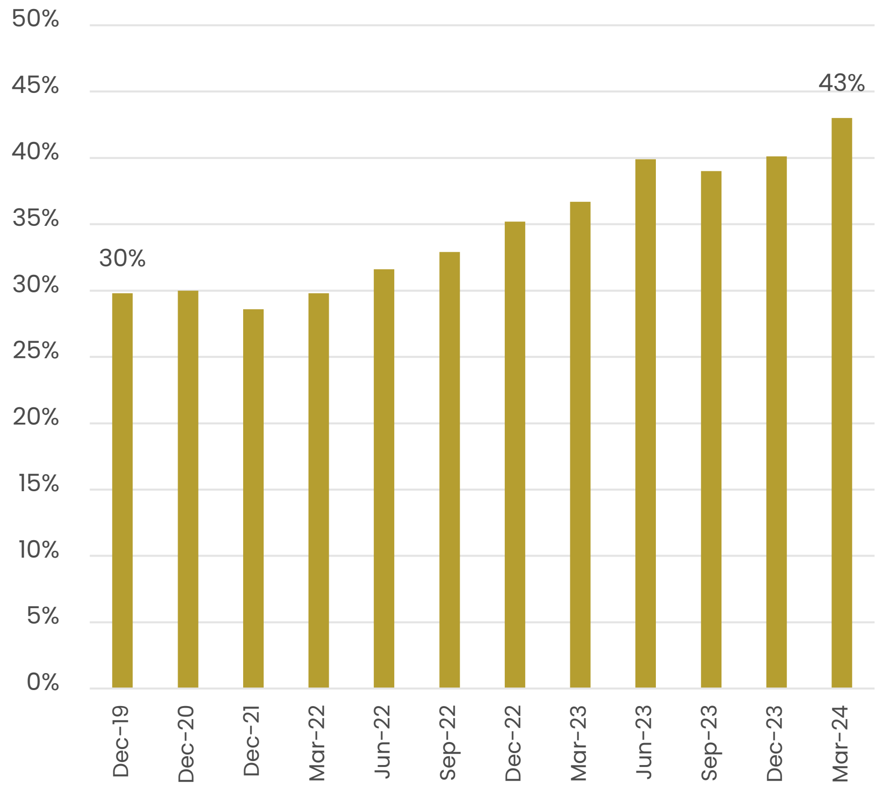
SETTING THE SCENE

LOCAL ASSETS HAVE BEEN UNDER PRESSURE FROM FOREIGN AND DOMESTIC SELLING

Foreigners net investment in SA



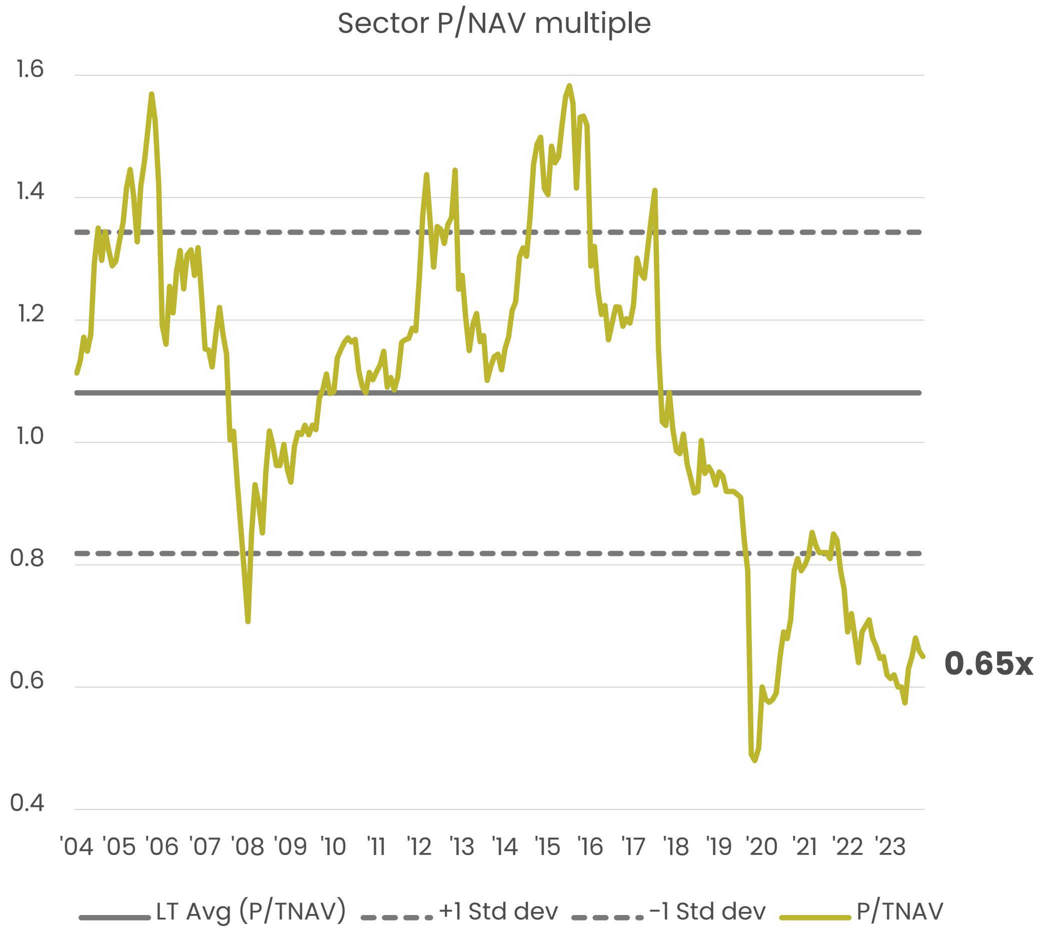
Offshore as a % of total

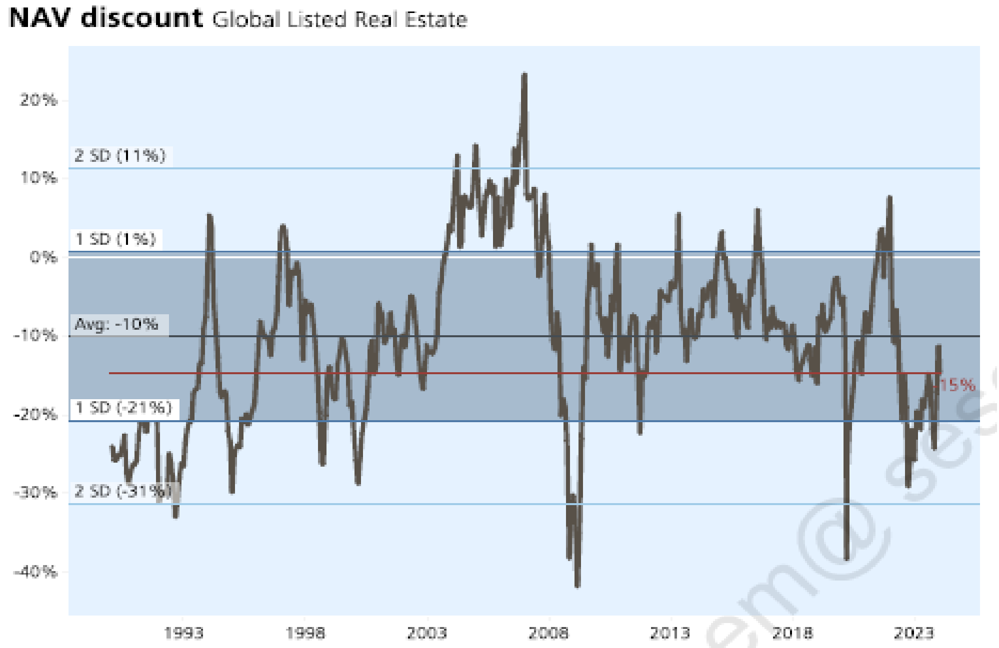


Source: Bloomberg

SECTOR VALUATION

VALUE IN BOTH ABSOLUTE AND RELATIVE TERMS





Source: UBS valuation metric database, Refinitiv, UBS. As at close on 18 Jan 2024.

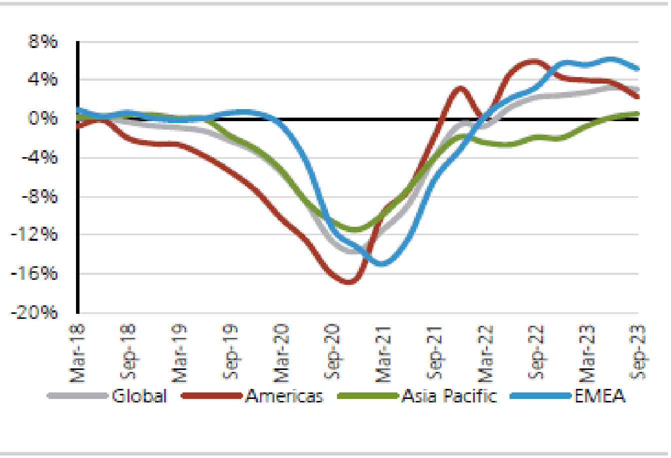
Source: Bloomberg, Sesfikile analysis, Data as at 31 March 2024

PROPERTY FUNDAMENTALS

STRONG PERFORMANCE IN RETAIL

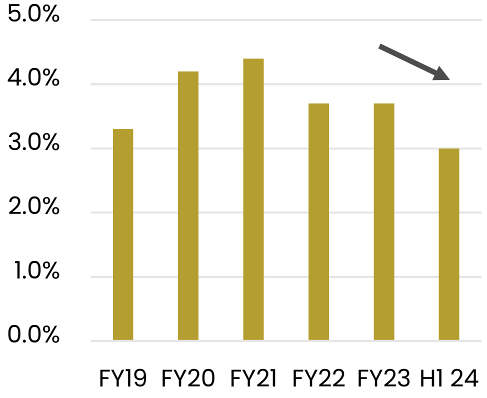
- **Low vacancies** across sub-sectors due to demand from national retailers and mid-market retailers.
- Rental **reversions trending upwards** after rebasing and **strong turnover growth**. Rent-to-sales ratios imply **healthy rental growth prospects.**
- Pick 'n Pay is **right-sizing** a **small number** of stores. **No rental concessions** requested. Boxer is performing well. **Total exposure** of **supermarkets** is c.1.75% of ALPI revenue.

Figure 57: Retail rental growth YoY



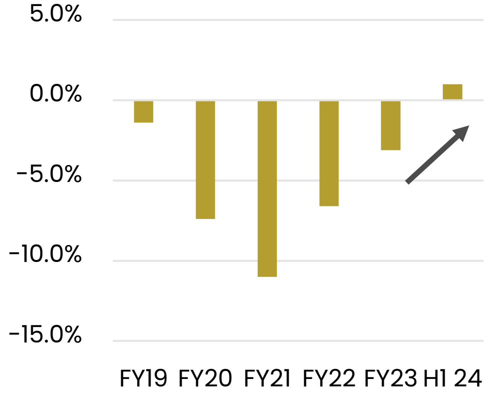
Source: CBRE, UBS

Vacancies

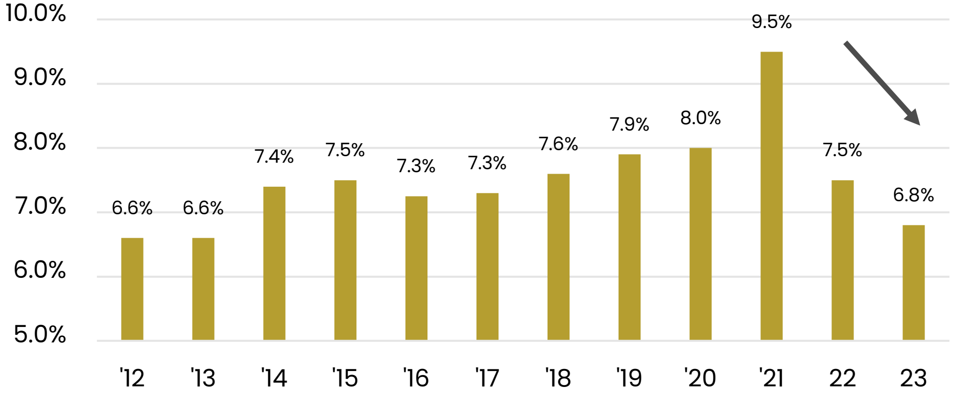


Retail vacancies	
US	4.0%
UK	15.3%
Europe	5.9%
Australia	5.8%

Reversions



Gross rent to sales ratio



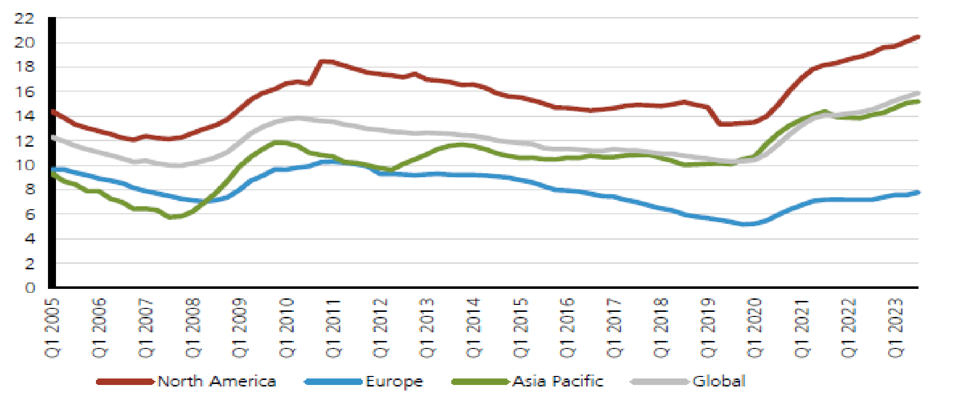
Source: Company data, MSCI Real Estate, SAPOA

PROPERTY FUNDAMENTALS

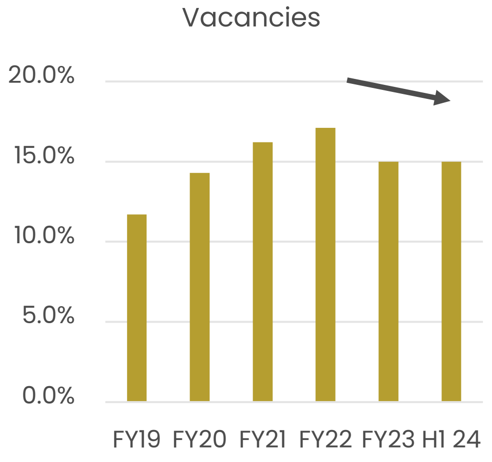
OFFICE UNDER PRESSURE, BUT VACANCIES CONTINUE TO COMPRESS

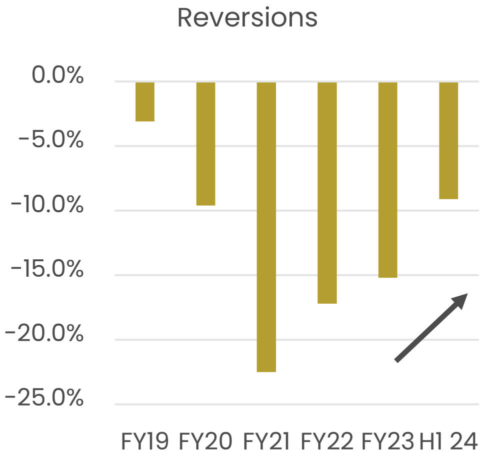
- "Death of the office" greatly exaggerated – 'evolution vs extinction'
- Office accounts for **15% of total asset value** in the ALPI.
- Vacancies **fell in 2023** - **return-to-office**, **ESG,** and the **BPO sector.**
- Rental growth is likely to **remain weak** - P-grade close to showing **growth.**
- Demand is strong in the **Western Cape, Rosebank, Waterfall** and **Umhlanga.**
- **Limited new supply** (only +0.7%) is supportive of a recovery.

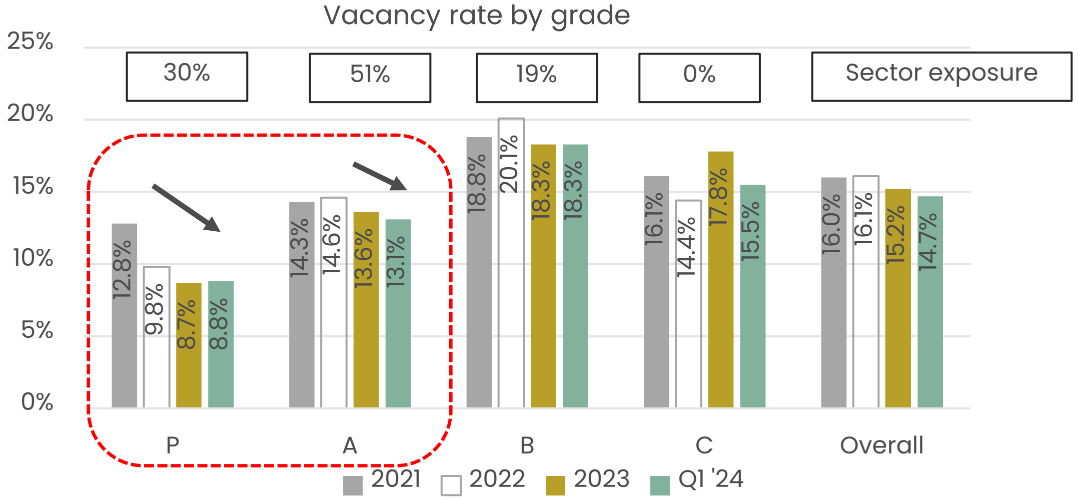
Figure 22: Office Vacancy Rates (%)



Source: JLL, UBS. As of 3Q 2023. 57 markets in the U.S. and Canada; 23 markets in Europe; 25 markets in Asia Pacific. Grade A space vacancy only for Asian markets.





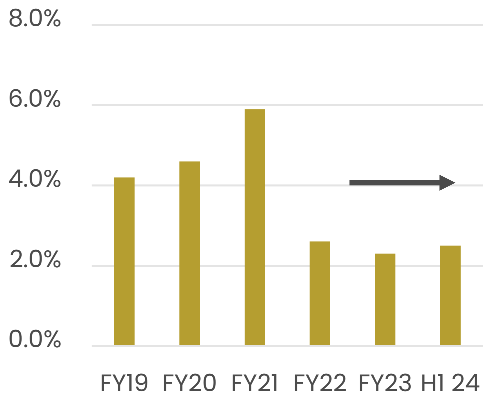


PROPERTY FUNDAMENTALS

INDUSTRIAL DEMAND DRIVEN BY SUPPLY-CHAIN MODERNISATION

- Demand driven by supply chain optimisation, e-commerce and on-shoring.
- Port-congestion is leading to **larger inventory requirements**.
- E-commerce accounts for 5% of retail sales (Brazil is above 10%).
- **Higher building costs** are translating into market rental growth.

Vacancies



Reversions

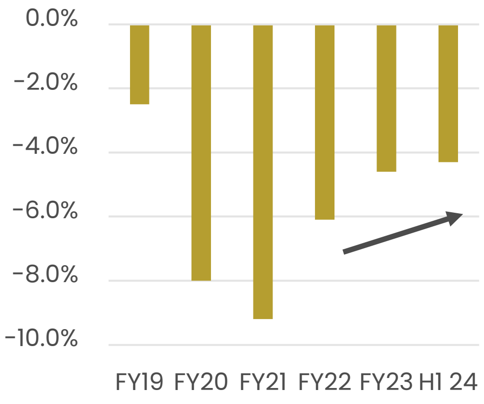
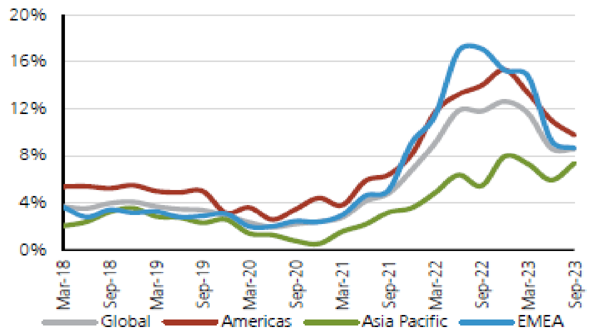
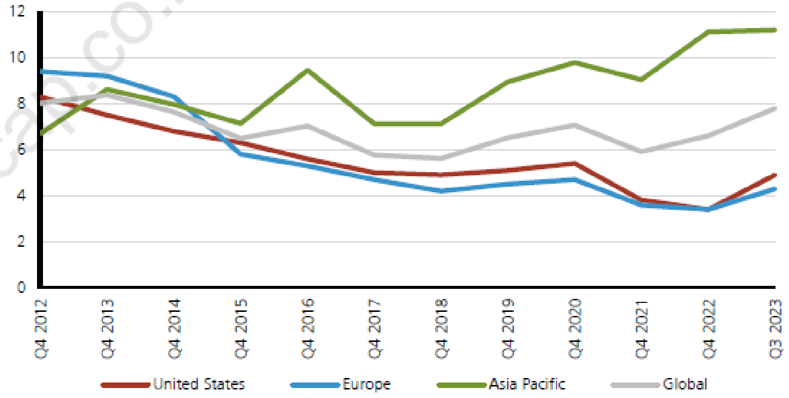


Figure 58: Industrial rental growth YoY



Source: CBRE, UBS

Figure 60: Logistics space, vacancy rates (%)



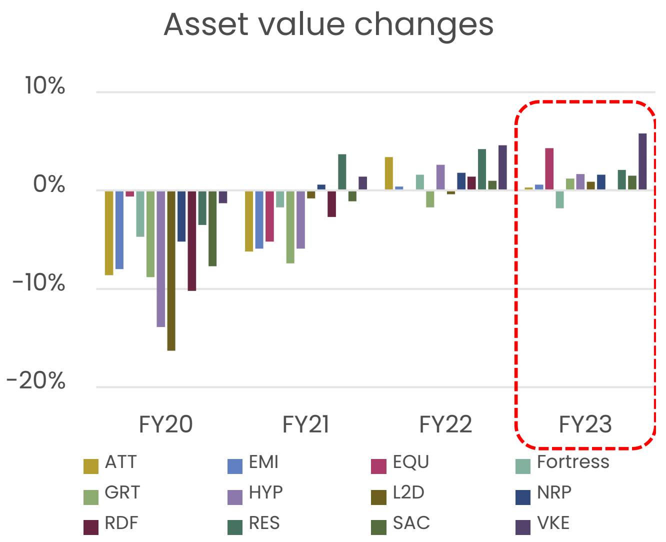
Source: JLL, UBS. As of 3Q 2023. U.S. based on 55 city markets; Europe based on 10 national markets; Asia Pacific based on 38 city markets. Global: weighted average according to region's share of Global GDP.

Source: Equites, Company analysis, Sesfikile analysis, MSCI

BALANCE SHEET

DISPOSALS HAVE STRENGTHENED BALANCE SHEETS

- **Assets values have stabilised** with only office seeing marginal valuation declines.
- Loan to value (LTV) ratios have retreated to **37% due to** R32bn of disposals over the past 3 years at a 0.2% premium to book value.
- Interest rates have **peaked,** and expectations are for rate **cuts later this year.**
- **Average local funding costs are at 9.4%, near to maximum** levels (c. 10.4%).
- About **20% of debt is at floating rates** and REITs will benefit immediately from rate cuts.



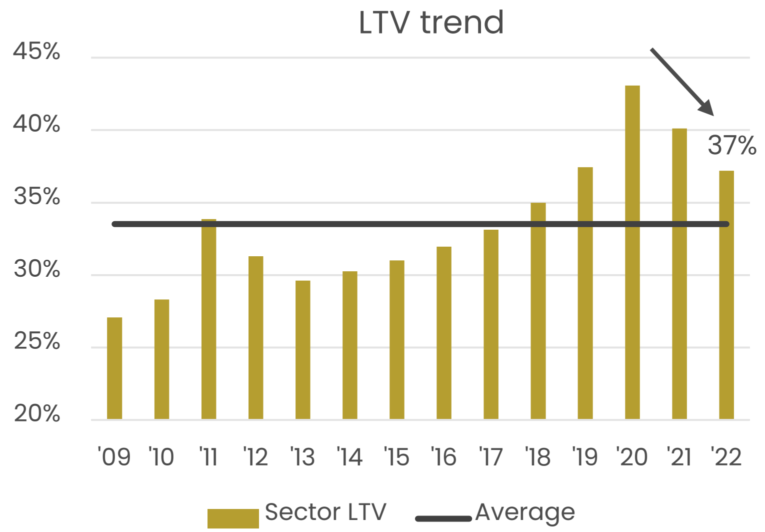
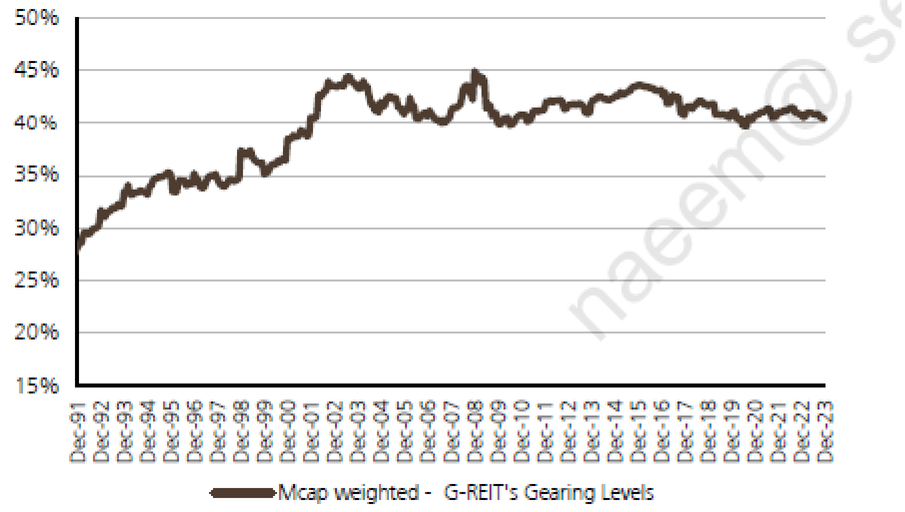


Figure 216: Leverage (debt to total assets) – listed global REITs only



Source: Datastream, UBS. Note: US REIT total assets are at historic cost and not revalued / marked-to-market and so Debt to Total Assets is higher than Debt to EV. The above includes the REITs only. Weighted average. As of 29 Dec 2023.

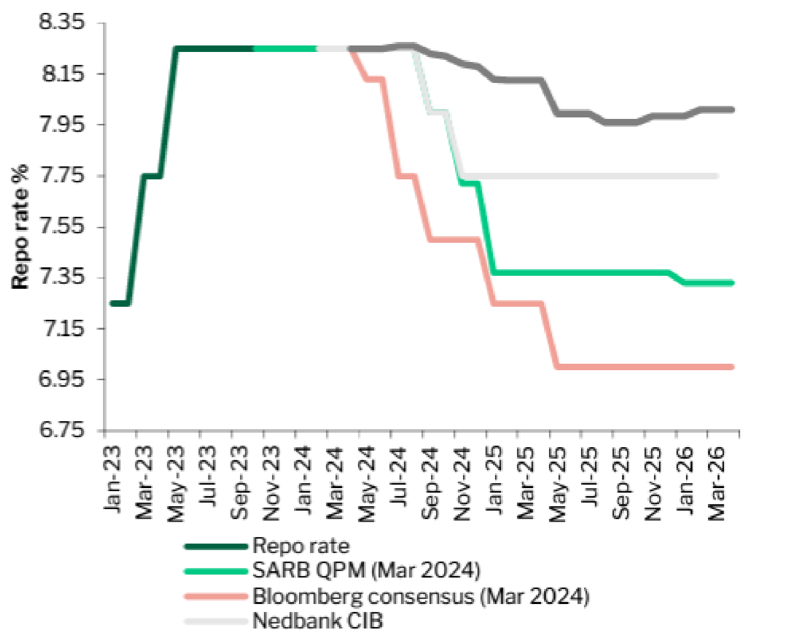
Source: Company data, Bloomberg, UBS

INTEREST RATES

HIGHER INTEREST RATES BEING ABSORBED; RATES EXPECTED TO TREND LOWER

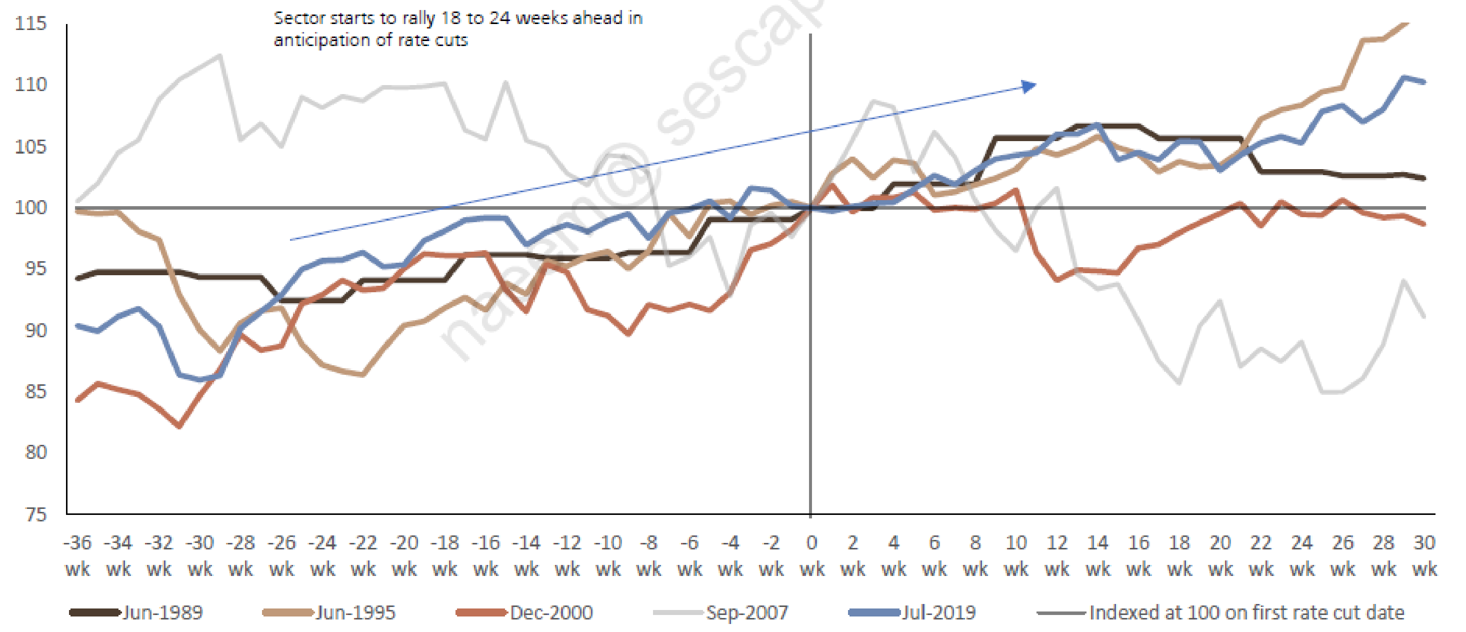
- Interest rates have **peaked,** and expectations are for rate **cuts later this year.**
- **Average local funding costs are at 9.4%, near to maximum** levels (c. 10.4%).
- About **20% of debt is at floating rates** and REITs will benefit immediately from rate cuts.

Exhibit 6: SARB is expected to start the cutting cycling in mid-2024



Source: SARB, Bloomberg, Nedbank CIB Markets Research

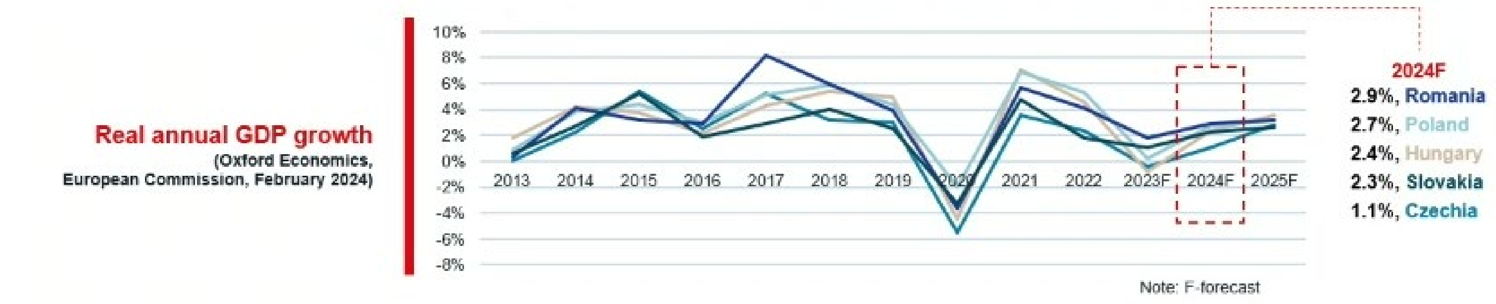
Figure 12: Global real estate performance weeks prior and after first US Fed rate cut

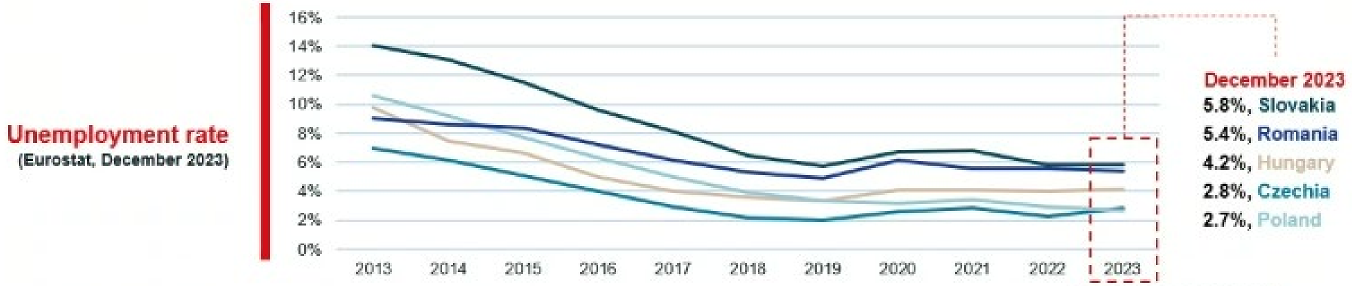


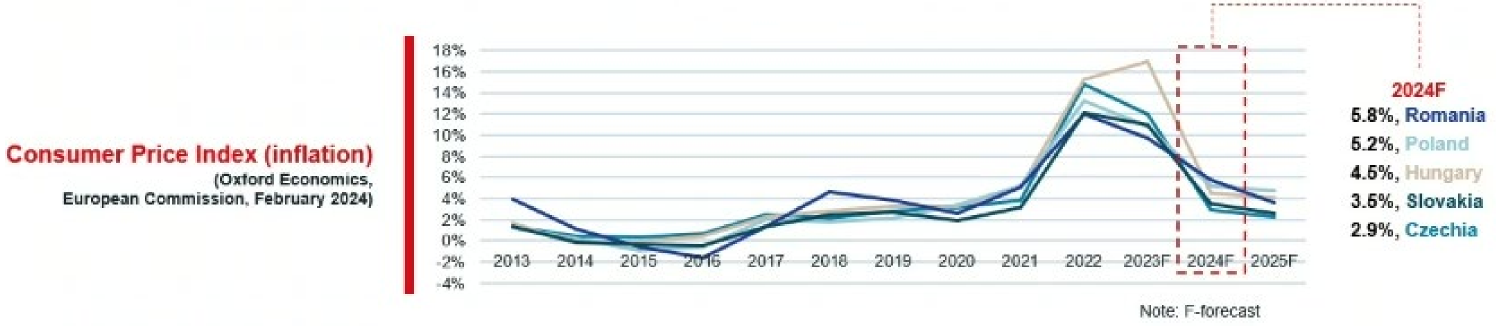
Source: Refinitiv, UBS.

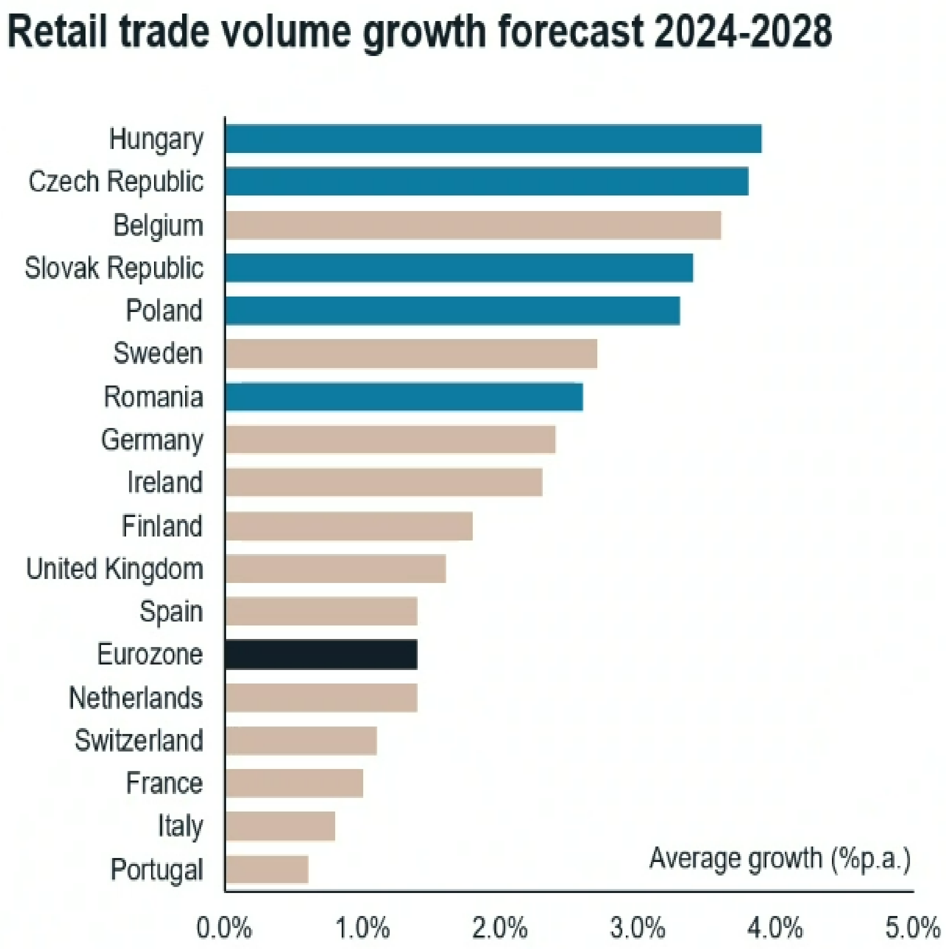
CENTRAL AND EASTERN EUROPE

STRONG ECONOMIC FUNDAMENTALS UNDERPIN SPENDING









CENTRAL AND EASTERN EUROPE

STRONG ECONOMIC FUNDAMENTALS UNDERPIN SPENDING

SA - 47%

CEE - 28%

WE - 8%

UK - 7%

EUR - 43%

DIRECT

MEGA MALL, BUCHAREST, RO

NEPI Rockcastle

- Dominant shopping centre portfolio across CEE.
- Retention of earnings and asset sales to mitigate **2024 refinancing.**
- Strong rental upside through **indexation** and **rental reversions.**

NOVA PARK, GORZOW, PL

MAS Real Estate

- Higher interest rates negatively affecting **residential development pipeline.**
- **Downgrade to sub-investment grade** affecting bond refinancing.
- **Suspension of dividend** for 3 years to fund refinancing.

INDIRECT

REDEFINE 15% of net assets | Retail	**HYPROP** 12% of net assets | Retail	**GROWTHPOINT** 5% of net assets | Office

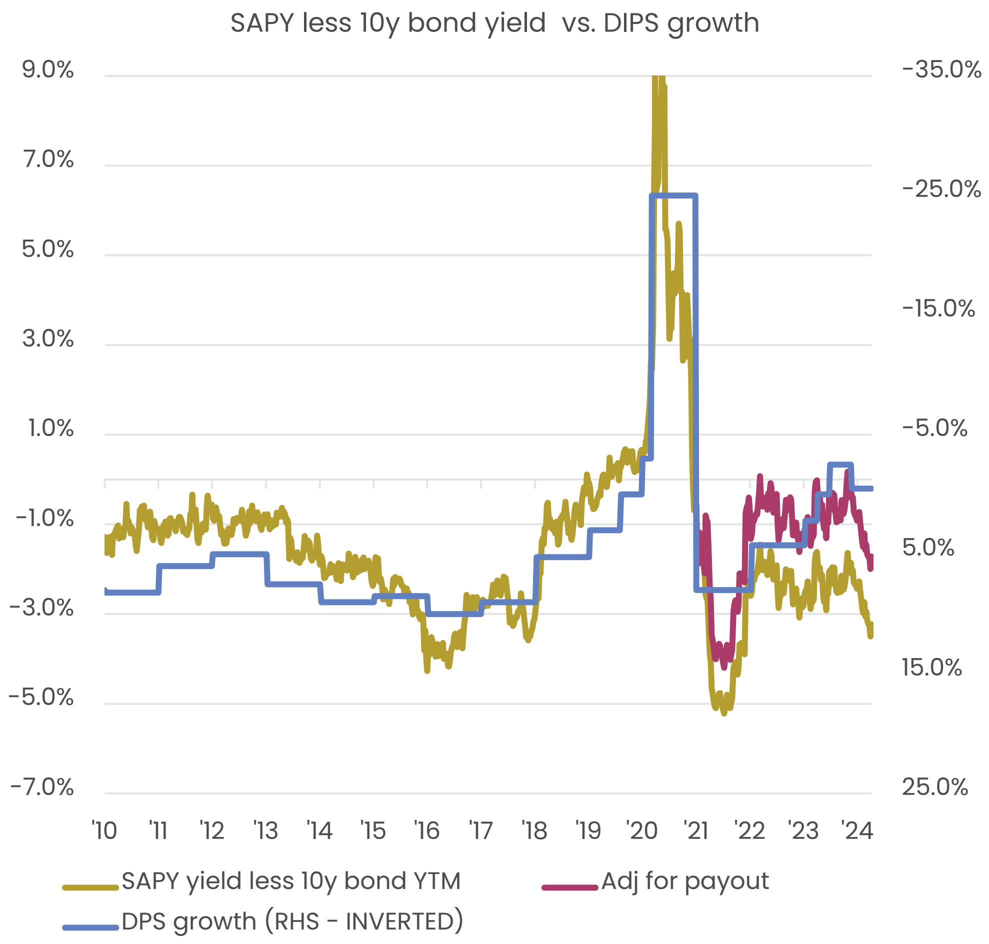
Source: Company data, Bloomberg

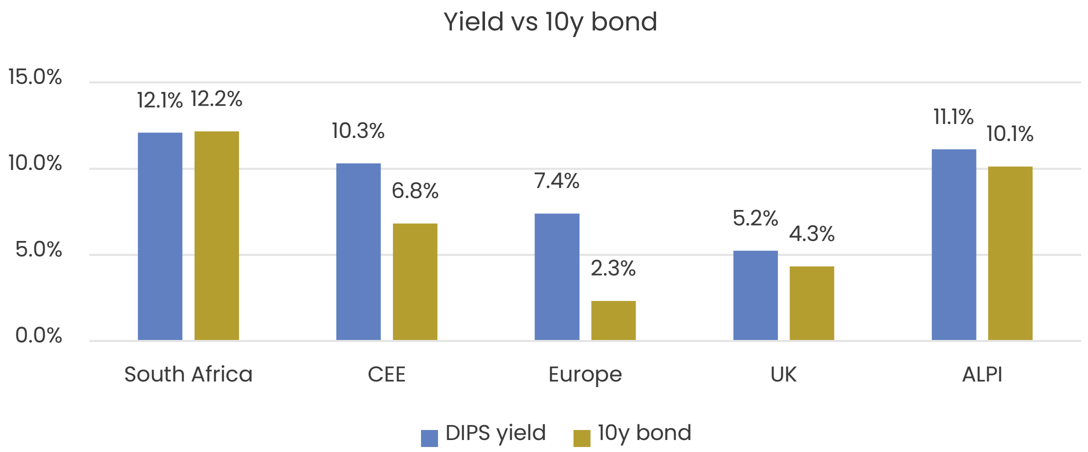
OUTLOOK

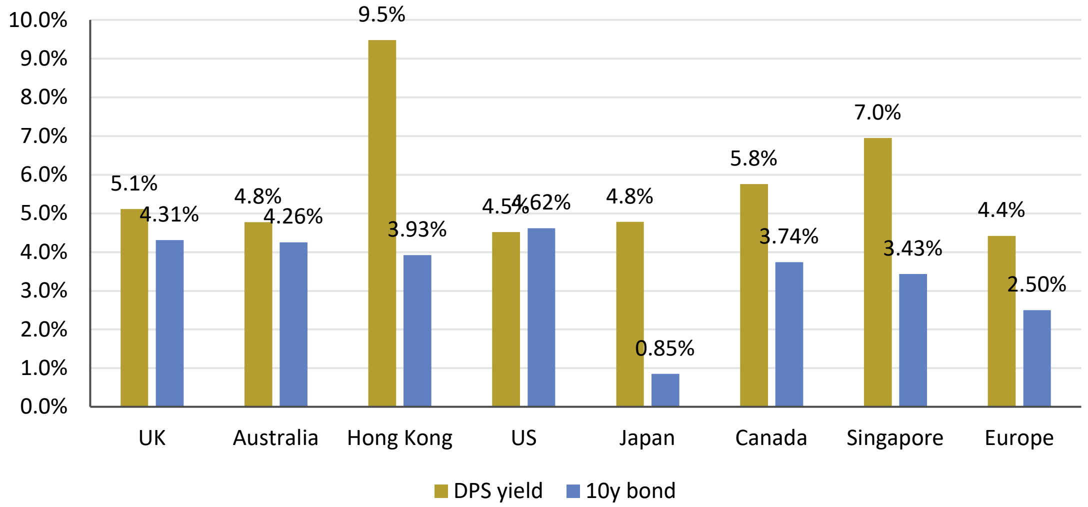
Johannesburg CBD, Gauteng

SECTOR VALUATION

VALUE IN BOTH ABSOLUTE AND RELATIVE TERMS







Source: Bloomberg, Sesfikile analysis, Data as at 25 April 2024

SECTOR VALUATION

Drivers are similar

- The world is waiting for the **first cut**
  - While inflation supports rentals it also dictates interest rates
- **Geopolitics** is a ‘known unknown’
  - Sometimes being out of sight out of mind helps
- **Politics** reigns supreme in 2024
  - Despite having our own watershed elections, part 2 of the Biden/Trump fiasco is sure to be entertaining
- **GDP** trajectory is the key differentiator
  - We coming off a low base, but do we have the will and ability to accelerate?

Source: Bloomberg, Sesfikile analysis, Data as at 31 March 2024

SECTOR VALUATION

Drivers are similar, but valuations create opportunity

- Obviously there are country specific drivers
- But stocks and sectors become overbought and over sold creating value….

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
SA 26.5%	SA -4.5%	Singapore 44.6%	Japan 35.4%	US 32.7%	Singapore 61.6%	UK 51.3%	US 40.6%	UK 40.1%	SA 10.2%	Singapore 27.1%	Japan 32.3%	UK 32.6%	Singapore 8.4%	US 53.4%	SA 0.5%	UK 26.2%
Singapore 8.0%	Japan -5.7%	SA 14.1%	SA 29.6%	Australia 20.7%	UK 43.4%	Europe 45.6%	Australia 28.0%	Europe 39.6%	Japan 1.7%	SA 17.2%	Singapore 12.7%	Europe 26.1%	US -0.4%	UK 39.3%	Singapore -3.8%	Europe 26.0%
Japan 7.0%	US -14.6%	Europe 9.6%	US 14.2%	UK 11.0%	Australia 41.3%	Japan 43.4%	UK 28.0%	US 37.9%	Australia 0.5%	Europe 11.2%	US 11.4%	US 25.0%	Japan -4.1%	SA 36.9%	Japan -11.5%	US 19.4%
Australia 0.7%	Europe -27.1%	Australia 4.6%	Singapore 12.6%	SA 8.9%	Europe 39.0%	US 27.6%	SA 26.6%	Australia 35.9%	US -3.7%	UK 10.9%	Australia 10.4%	Singapore 23.9%	Australia -4.5%	Europe 28.2%	Australia -11.0%	Singapore 16.5%
US -17.2%	Singapore -34.5%	US 0.3%	Australia 2.0%	Europe 6.7%	SA 35.9%	Australia 14.0%	Singapore 24.9%	Japan 26.7%	Singapore -4.3%	Australia 2.4%	UK -4.7%	Japan 22.7%	UK -9.0%	Australia 21.1%	US -19.7%	Australia 15.2%
Europe -24.4%	UK -43.4%	UK -3.0%	Europe -6.0%	Singapore 4.4%	Japan 28.2%	Singapore 13.7%	Japan 20.8%	Singapore 15.9%	Europe -21.8%	US -2.0%	Europe -7.2%	Australia 15.4%	Europe -13.0%	Japan 16.2%	Europe -29.0%	SA 10.1%
UK -27.6%	Australia -48.9%	Japan -27.0%	UK -7.0%	Japan -2.1%	US 25.7%	SA 8.4%	Europe 20.4%	SA 8.0%	UK -30.8%	Japan -14.9%	SA -25.3%	SA 1.9%	SA -34.5%	Singapore 8.7%	UK -35.3%	Japan -0.2%

Source: Bloomberg, Sesfikile analysis, Data as at 31 March 2024

SECTOR VALUATION

ATTRACTIVE LONG TERM RETURN OUTLOOK

	ANNUALISED INTERNAL RATE OF RETURN (IRR)				
	1 year	2 years	3 years	5 years	10 years
Income return/yield	9.3%	9.3%	9.3%	9.3%	9.3%
Capital return	5.8%	5.1%	5.0%	5.1%	5.2%
DPS growth (Y2)	2.9%	3.6%	4.1%	4.5%	4.9%
Re-rating	2.8%	1.4%	0.9%	0.6%	0.3%
IRR	**15.1%**	**14.4%**	**14.4%**	**14.4%**	**14.5%**

Assumptions:

- ALPI distributable earnings yield of 11.1% and dividend yield of 9.3%, derived through a bottom-up analysis of each company and pay-out ratios.
- Y2 growth driven by weak SA fundamentals but strong growth in SA specialised and offshore counters.
- Conservative **long-term growth of 4.9%.**
- SA long bond yield to exit at **11.3%** (currently 12.2%) but risk premium to narrow.
- Sector exit yield of **10.8%.**

Source: Bloomberg, Sesfikile analysis, Data as at 25 April 2024

SECTOR VALUATION

THE TOTAL RETURN IS SENSITIVE TO THE LONG BOND

	SENSITIVITY TABLE (1 YEAR TOTAL RETURN)		
	BEAR CASE	**BASE CASE**	**BULL CASE**
SA 10y Bond (currently 12.2%)	11.8%	11.3%	10.3%
Yield spread (currently -1.1%)	-0.5%	-0.5%	-0.5%
Income return/yield	9.3%	9.3%	9.3%
Capital return	1.3%	5.8%	11.1%
DPS growth (Y2)	2.9%	2.9%	2.9%
Re-rating	-1.6%	2.8%	8.0%
IRR	**10.6%**	**15.1%**	**20.5%**

- Bloomberg **consensus forecast of 11.0% by end of 2024** for the **SA 10y bond.**
- Yield spread driven by **risk and growth expectations.**

Source: Bloomberg, Sesfikile analysis, Data as at 25 April 2024.

CONCLUSION

WHY SESFIKILE?

SINGULAR FOCUS

OWNER MANAGED

EXPERIENCE AND DEPTH

COMMITMENT TO CAP

PROVEN PROCESS

SESFIKILE CAPITAL
Property Investments

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