

Investment Focus: SA listed property: Resilient and poised for long-term growth

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South African listed property was one of the top-performing asset classes for 2024 with an impressive annual return of nearly 30%. This strong performance is partly due to the performance of South African bonds but also highlights the sector's return potential as the economy recovers, with more stable rental income streams and improving property fundamentals. Further to this, better-than-expected financial results from some property companies and positive developments such as the reduction in loadshedding and lower interest rates all bode well for the sector.

The South African retail sector is seeing declining vacancy rates, improving reversions, and a positive outlook for its tenants given the tailwinds provided by the "two-pot" system and lower interest rates. On the other hand, office properties continue to face challenges, particularly due to excess supply in the inland market and escalating utility costs. Industrial properties remain a bright spot, benefiting from low vacancies and rising construction costs, which support pricing power and rental income potential. Failing municipalities add to the burden on property companies, who need to make up the shortfall in service delivery themselves, resulting in steady cost creep over a number of years.

The M&G Property Fund delivered top quartile performance over all periods and 2% alpha for its clients, over and above the beta in the market, for the three-year period to 31 December 2024, showcasing the efficacy of its investment strategy and stock selection process.

As a reflection of its strong, consistent performance, the M&G Property Fund won Best SA Real Estate Fund at the 2025 Raging Bull Awards for straight performance over three years to 31 December 2024, and the 2024 Raging Bull Awards certificate for straight performance over the three years to 31 December 2023.

The fund's positioning attempts to reflect a dynamic response to evolving market conditions and is often contrarian in nature. Following the rally in the SA listed property sector, the fund reassessed its positioning, taking into account that valuations across the sector had become more expensive and less dispersed. Within the South African-centric names, the fund has anchored its portfolio around higher-yielding, mid-cap companies and the retail-exposed companies. These stocks are favoured for their relatively stable rental income streams, alongside minimal exposure to overrented office properties in oversupplied nodes, which have seen a more muted performance.

Additionally, the fund has continued to target high-growth property sectors outside South Africa, such as retail property in Eastern Europe and Spain, which provides valuable diversification.

Looking ahead, the outlook for SA listed property remains positive. With improving property fundamentals, a positive dividend outlook, and declining interest rates, the sector is poised for sustainable growth. We anticipate a total shareholder return of approximately 13% for the SA listed property sector in 2025, which would consist of an 8% dividend yield and 5% growth. SA listed property continues to exhibit resilience and long-term growth potential.

The M&G Property Fund remains well-positioned to continue delivering value to its clients. By adhering to a robust investment process and maintaining stringent risk controls, the fund aims to invest in high-quality stocks capable of generating sustainable, market-beating returns.

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