

PROSPECTS FOR LISTED PROPERTY RELATIVE TO BONDS

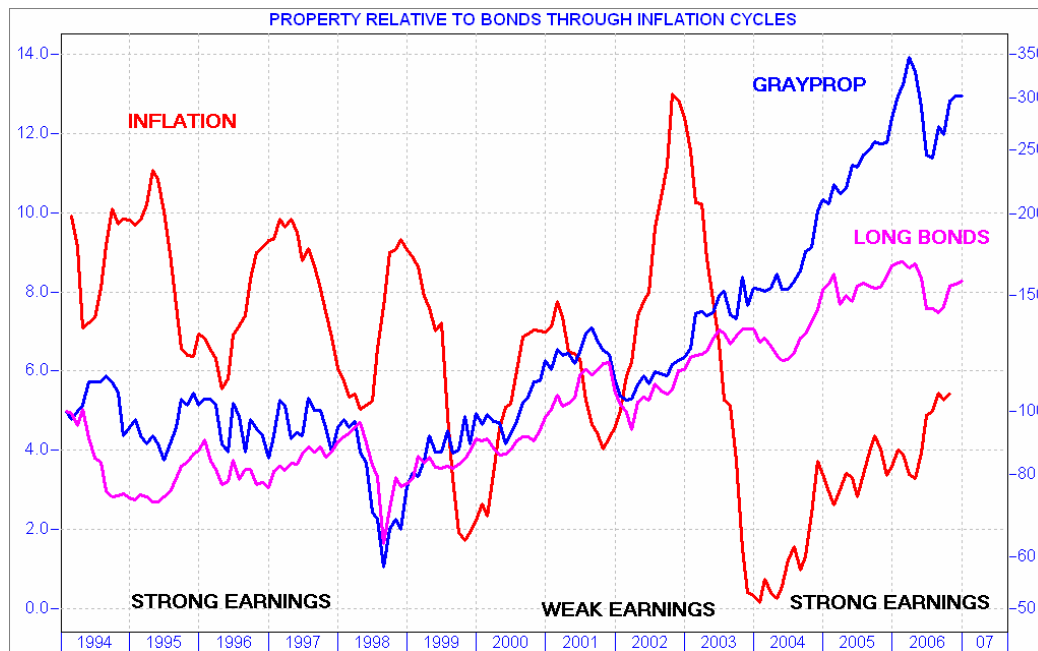
By: Mariette Warner - Head of Property Funds, STANLIB

Introduction

Given the changed interest rate and inflation environment, the focus of the analysis below is to consider how listed property performs relative to bonds during times of rising inflation. Also, given the strong recovery in the listed property market since the middle of this year, it is prudent to consider both the short and long term prospects.

Property Relative to Bonds through the Inflation Cycles

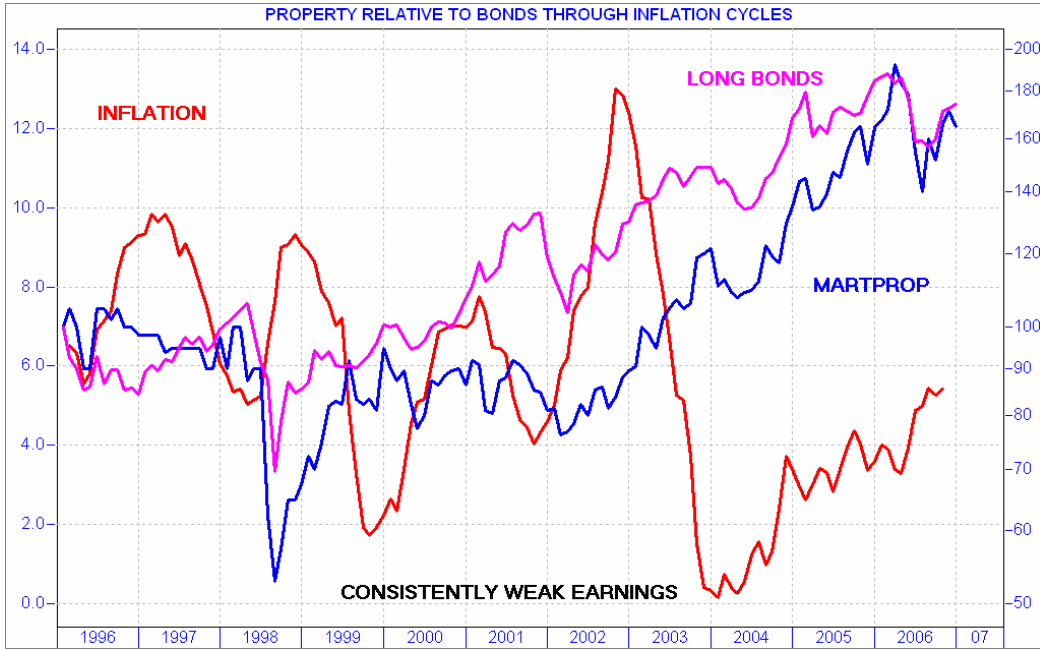
The chart below shows inflation (left axis) and price index of listed property and bonds (right axis) based to 100 from 1994.



Source: Inet

Listed property consistently outperforms long bonds no matter whether inflation is rising or falling nor whether earnings are weak or strong, except when there is an economic shock as in 1998 **AS LONG AS YOU PICK QUALITY.**

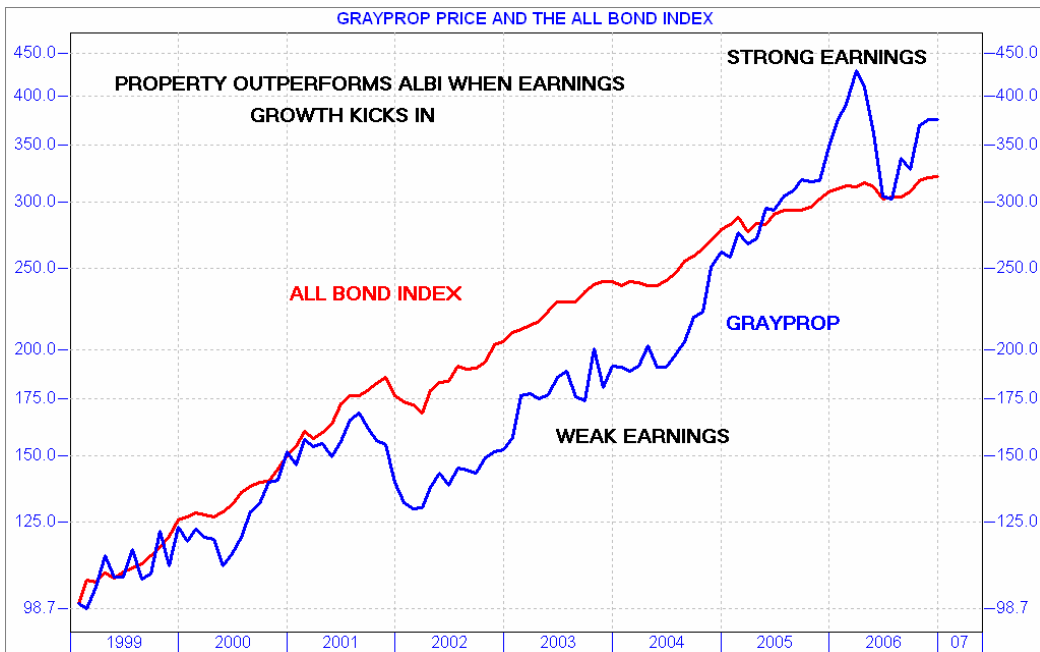
In the chart below, Martprop is substituted for Grayprop and the performance relative to bonds is very different. It is long term earnings growth that generates superior performance relative to bonds. This emphasises the importance of positioning a portfolio well ahead in anticipation of superior earnings growth in the future.



Source: Inet

Martprop's consistently weak earnings caused relative underperformance. The recent catch up is a result of it currently being over priced.

Clearly performance relative to shorter duration assets will be different. The following chart shows Grayprop relative to the All Bond Index.



Source: Inet

Property can only outperform shorter duration assets during times of good earnings growth.

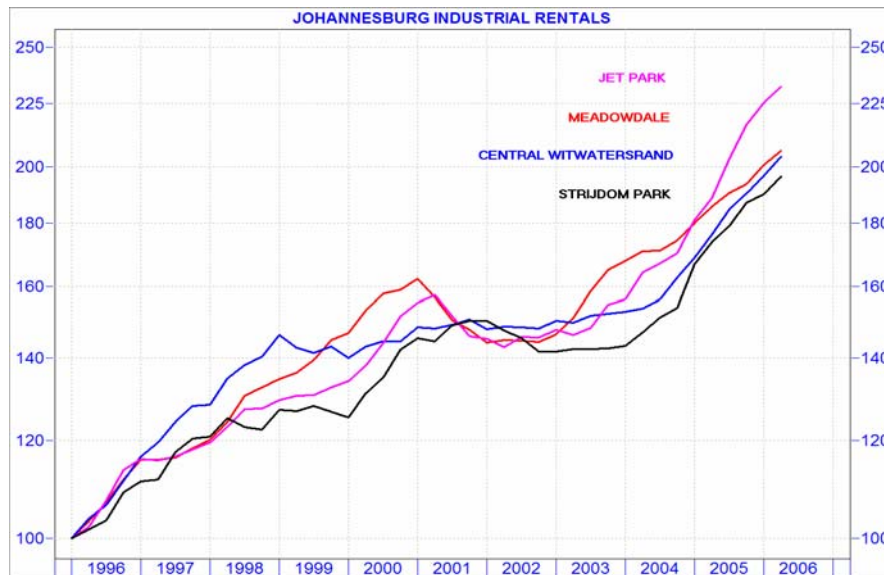
Earnings Growth Potential

The table below illustrates the distribution growth of listed property companies this year. This is the latest income distribution compared with 12 months ago.

| | | |
|-----------------------|---------------|------------|
| Octodec | R 932 | 35% |
| Premium | R1,136 | 22% |
| Redefine | R3,302 | 21% |
| iFour (normal) | R1,892 | 18% |
| Freestone | R1,131 | 17% |
| Resilient | R2,626 | 15% |
| Spearhead | R1,190 | 14% |
| Capital | R2,124 | 14% |
| Emira | R3,155 | 12% |
| Growthpoint | R9,291 | 10% |

Source: Company Results

This is because of very strong rental markets as illustrated below.

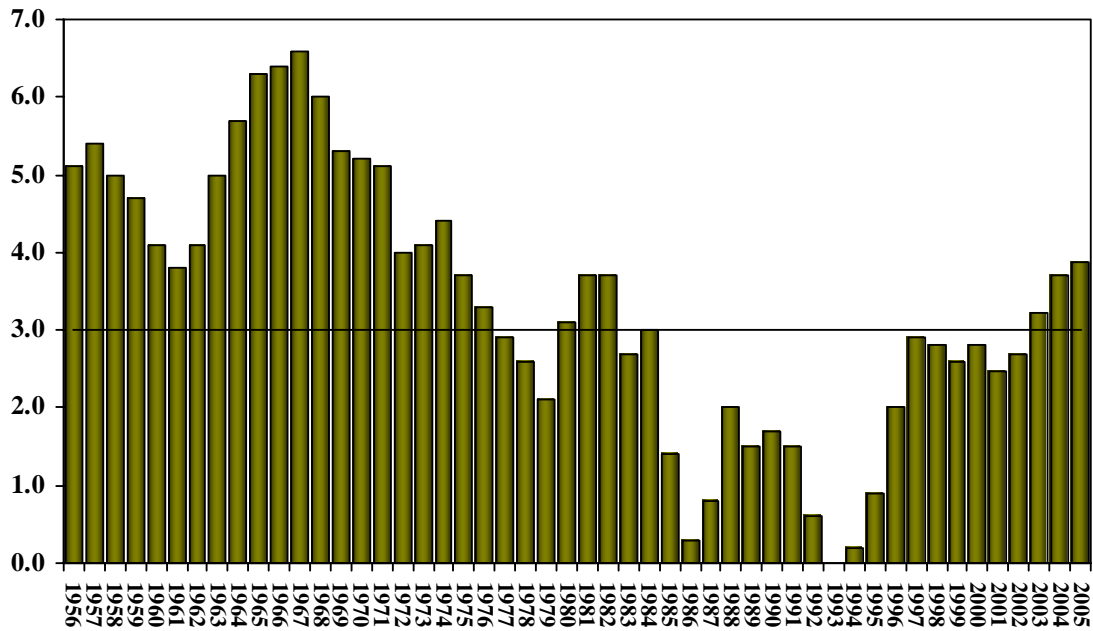


Source: Rode's Database and Inet

This strong growth in rentals pulls through to earnings growth of listed property companies over 3 to 5 years as leases expire and are renewed at the higher market levels.

The longer term prospects are illustrated with the following charts.

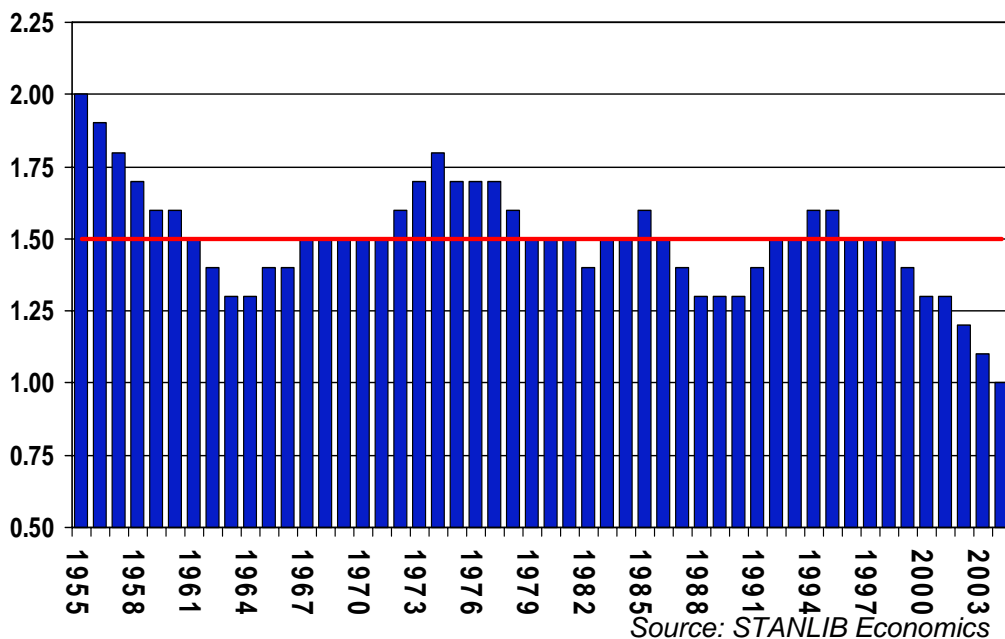
SA ECONOMIC GROWTH, 5 YEAR AVERAGE



Source: STANLIB Economics

- We are now at the same level as in the early 1980's

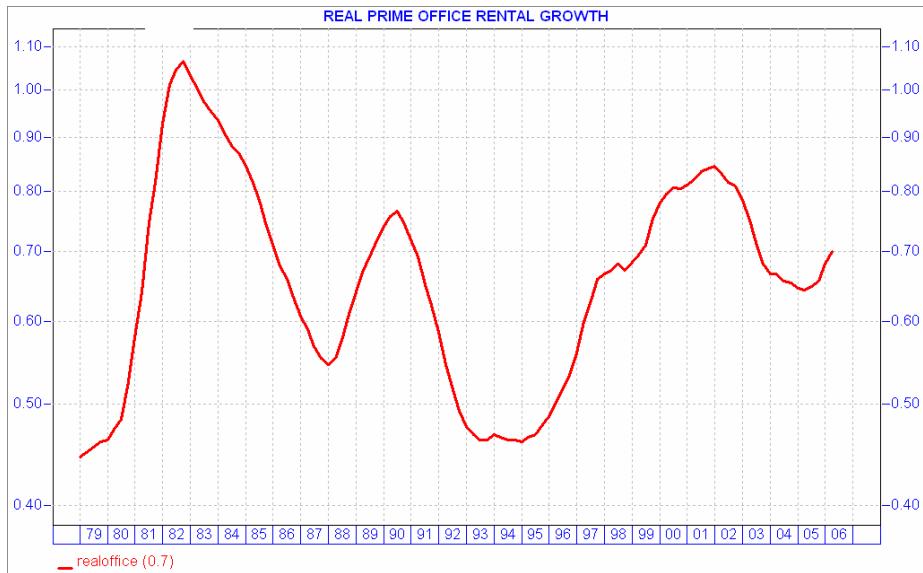
INVESTMENT INTO PRIVATE NON – RESIDENTIAL PROPERTY AS A % OF GDP, 5 YEAR AVERAGE



Source: STANLIB Economics

- We are at the lowest level since the second world war
- During the 10 years preceding the early 1980's there was a significant decline

REAL OFFICE RENTAL GROWTH – LEADING SA OFFICE MARKET



Source: Rode's Database and Inet

- If the facts extracted from the economic bar charts are superimposed on the real growth in rentals, it looks extremely likely that the SA non – residential property market is heading for similar REAL growth as in the early 1980's.
- Considering these 3 charts around the other real rental growth cycles lends further credibility to this hypothesis.
- Assuming 4% average GDP growth to 2014, investment into private, non – residential property will have to grow by a compound annual average rate of 8.7% real ONLY TO GET TO THE LONG TERM AVERAGE OF 1.5% OF GDP
- This is a solid underpin for the long term growth prospects of private non - residential property

Conclusion

- Property consistently outperforms long bonds
- Property outperforms the All Bond Index during times of earnings growth
- Earnings growth is now strong because of the upswing in the rental cycles
- Longer term earnings prospects are extremely encouraging

ISSUED ON BEHALF OF:
BY:
STANLIB CONTACT:

STANLIB
CLEAR DISTINCTION COMMUNICATIONS
MARIETTE WARNER

CONSULTANCY CONTACT:

TEL: (011) 448-5000
FAX: (011) 448 5555
CAROL DUNDAS
TEL: (011) 444-0650
CELL: 083 447 6648