

Local and Offshore Developed Markets Property Overview

October 2016

KEILLEN NDLOVU
HEAD OF LISTED PROPERTY FUNDS
STANLIB





**SA LISTED
PROPERTY**

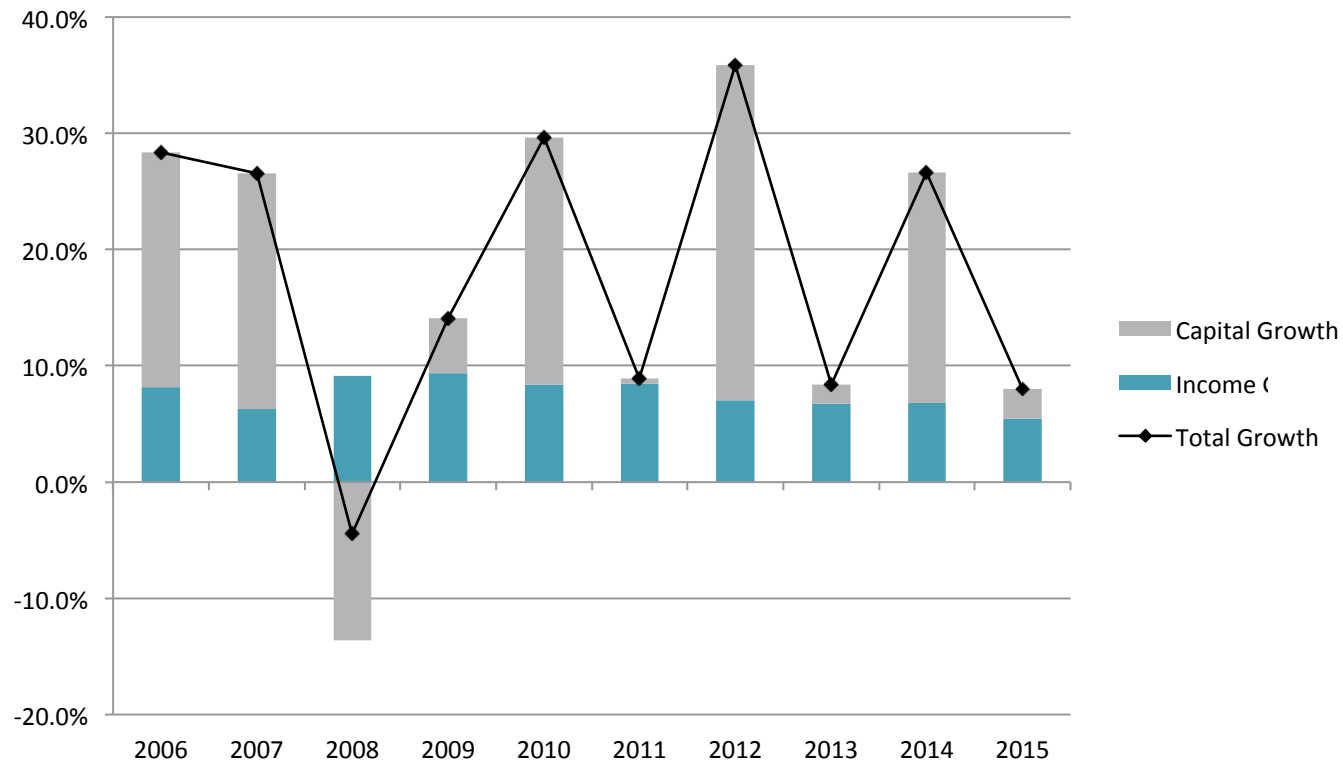
**LOCAL
PROPERTY**

Focused Investing

STANLIB

SA Listed Property Sector Total Returns

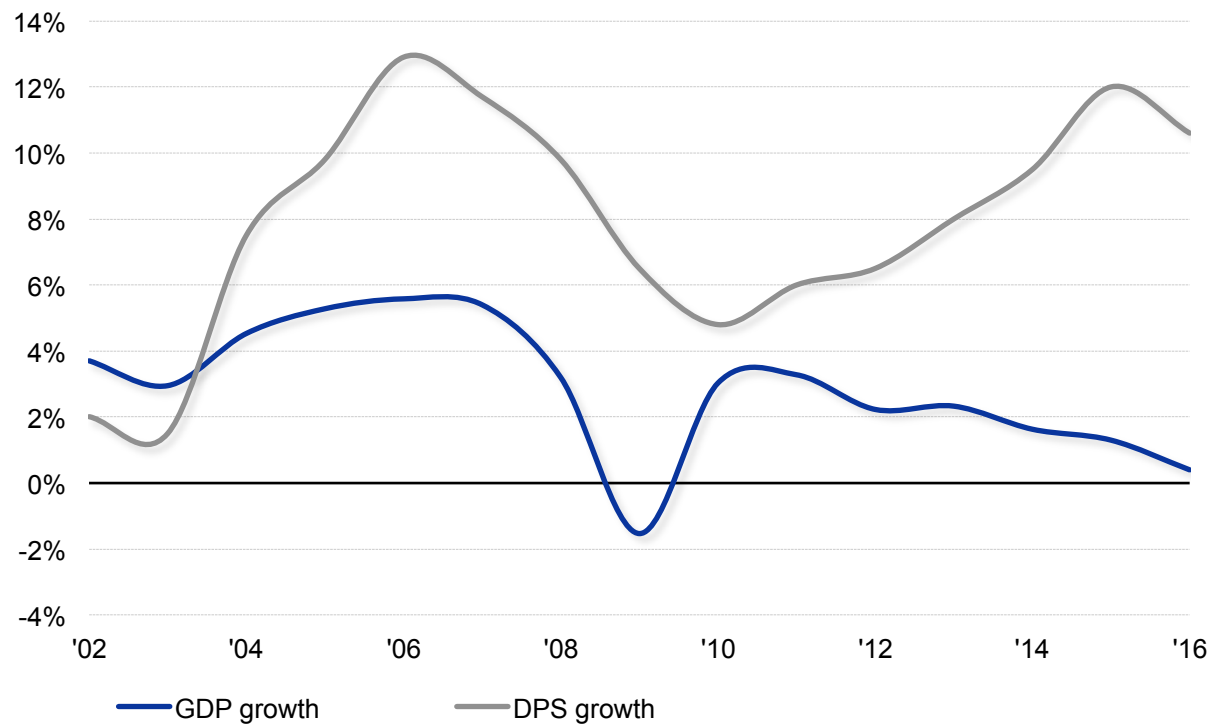
Income and Capital



Source: Bloomberg, STANLIB Research, September 2016



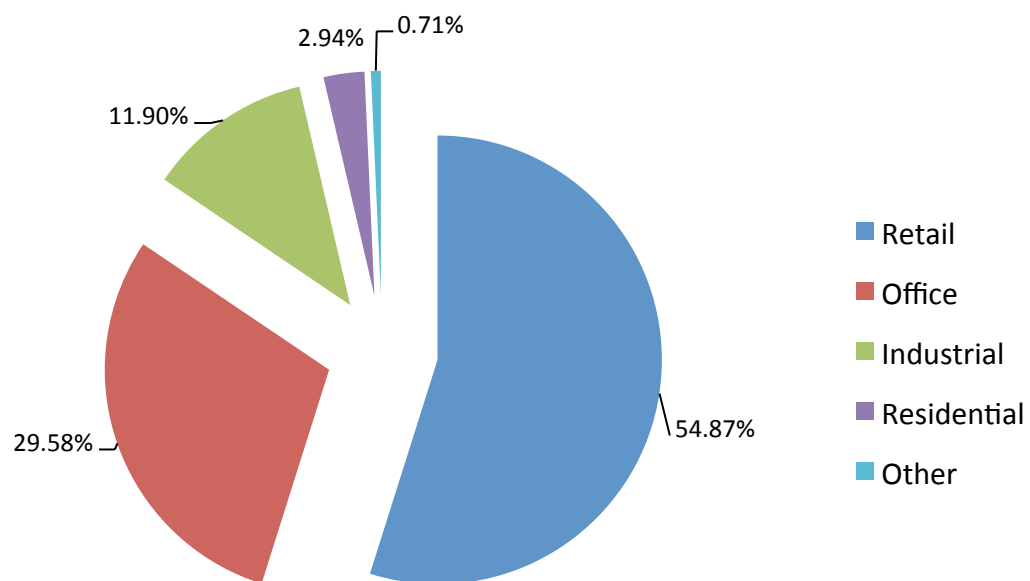
Strong Income Growth from the Listed Property Sector Despite slowing GDP growth



Source: Avior Research, September 2016

SA Listed Property Exposure

Sector exposure by value



Source: STANLIB Research, Company Data, September 2016

Tough and competitive office market



Source: STANLIB Research May, June & July 2016

Competitive retail environment and increasing supply



Source: Attacq Company Presentation, STANLIB Research, May and September 2016

Demand for retail space driven by international and local brands



Source: STANLIB Research, Google Images, September 2016

Strong appetite for listed property

New equity raised over the last few years

Year	Amount Raised
2011	R16bn
2012	R11bn
2013	R18bn
2014	R40bn
2015	R36bn
2016 so far	R26bn
TOTAL	R147bn

Recent Listings

Hammerson

EPP

GTC

Listings coming up

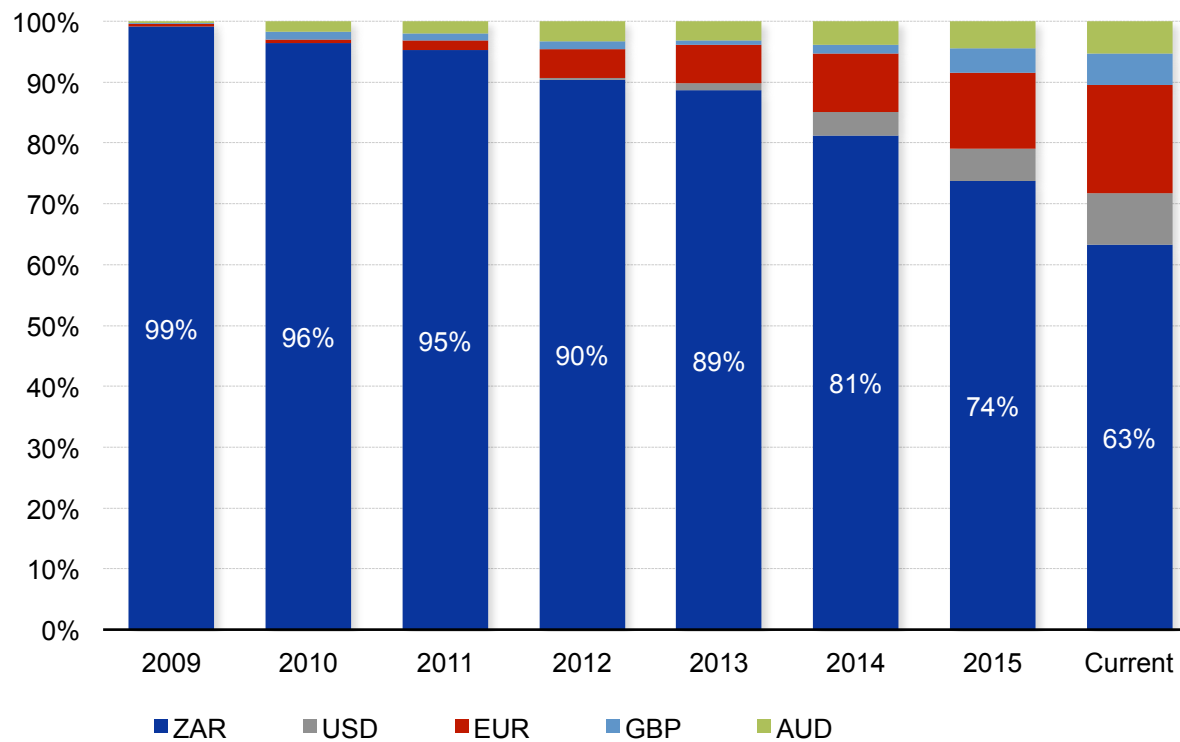
Liberty Two Degrees

Spear Properties

Student Housing?

Increased offshore exposure in the SA Listed Property Index

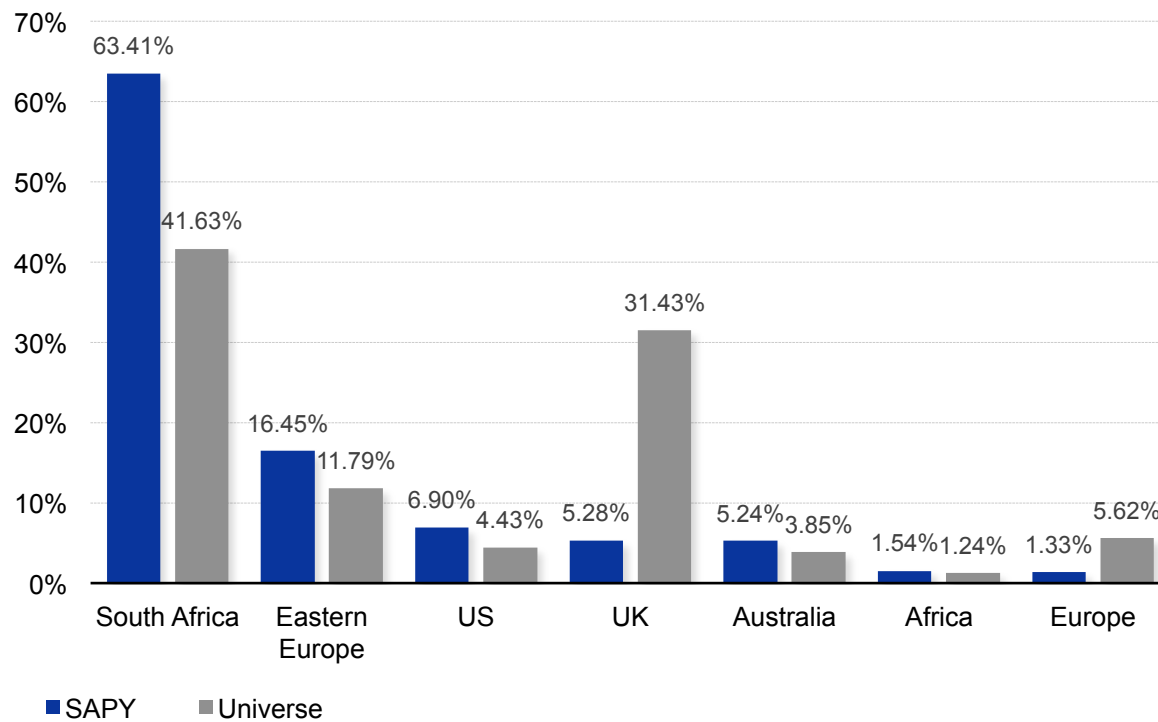
37% exposure to offshore properties



Source: Avior Research, September 2016

Offshore property exposure on the JSE

Most of the exposure is in the UK and Eastern Europe



Source: Avior Research, September 2016



Upside Risk

- Hard currencies which benefit when the ZAR weakens (i.e. USD, EUR, GBP, etc)
- Geographical diversification
- Strong initial kicker to growth due to spread between property yield and funding costs

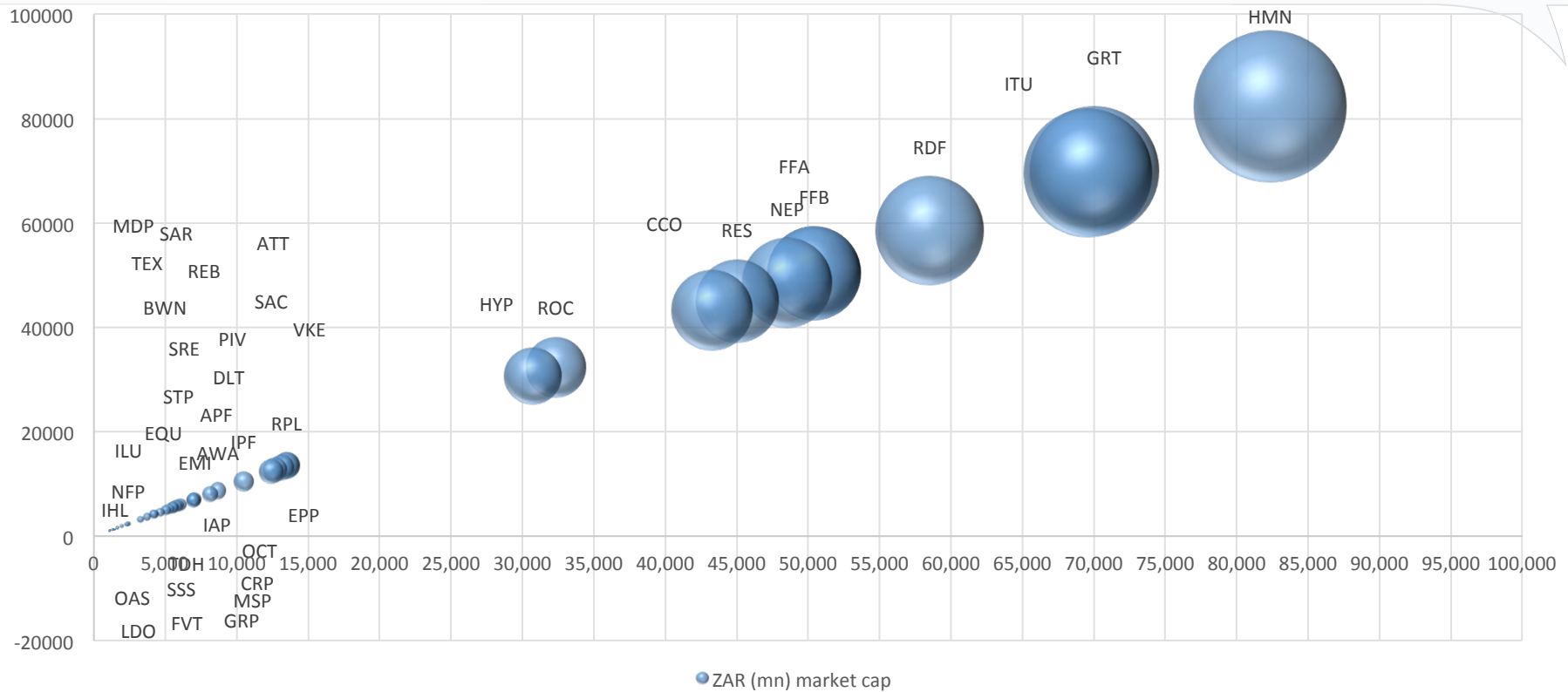
Downside Risk

- No inflation = no rental growth
- Unsustainable growth, i.e. need to continue acquiring to achieve growth
- Acquiring secondary properties
- Challenges around management experience
- Unforeseen global events, i.e. Brexit

Pros and Cons to Offshore Investing

Market capitalization has grown phenomenally

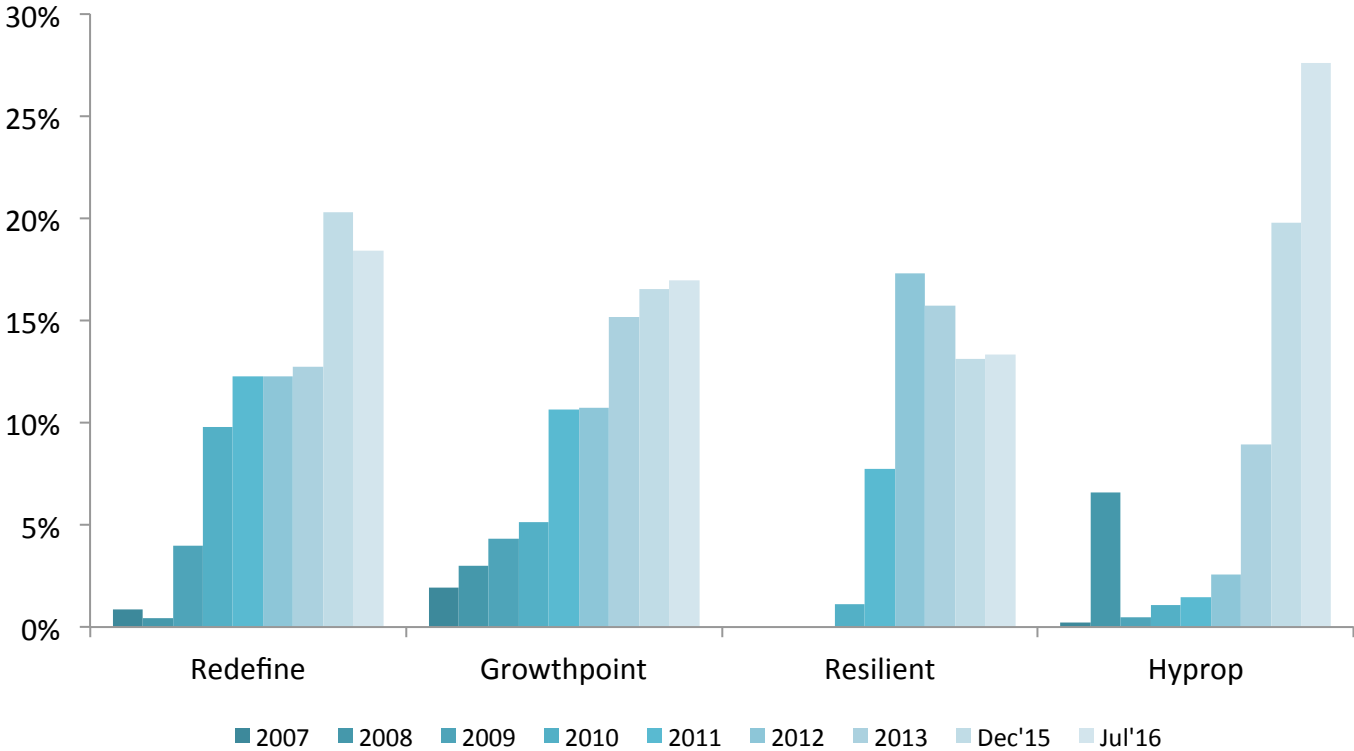
Now R770bn with Hammerson and EPP



Source: STANLIB Research, September 2016

Foreign ownership growing over time

Mostly from index trackers and inclusion in various global indices



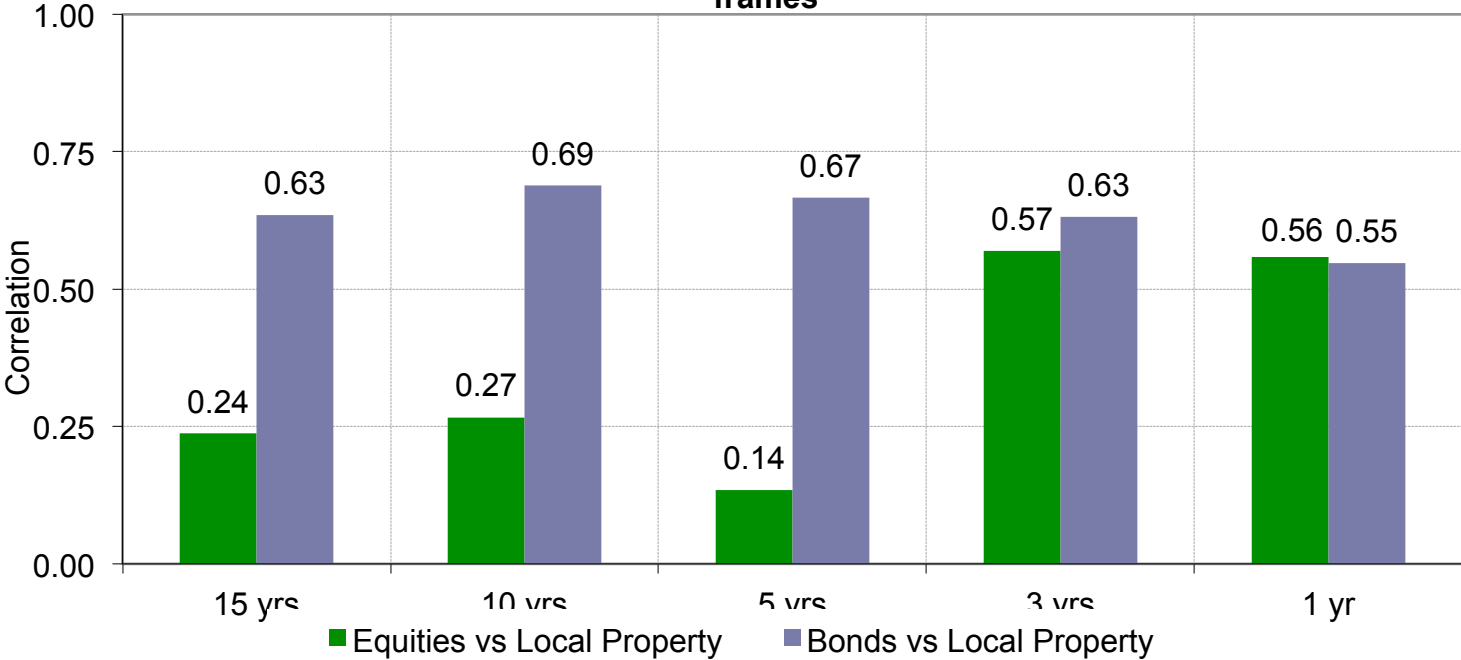
Source: Deutsche Bank Research July 2016



Listed property has a high correlation with bond yields

However, the correlation seems to be falling

Correlations between Listed Property and Equity and Bonds over various time frames

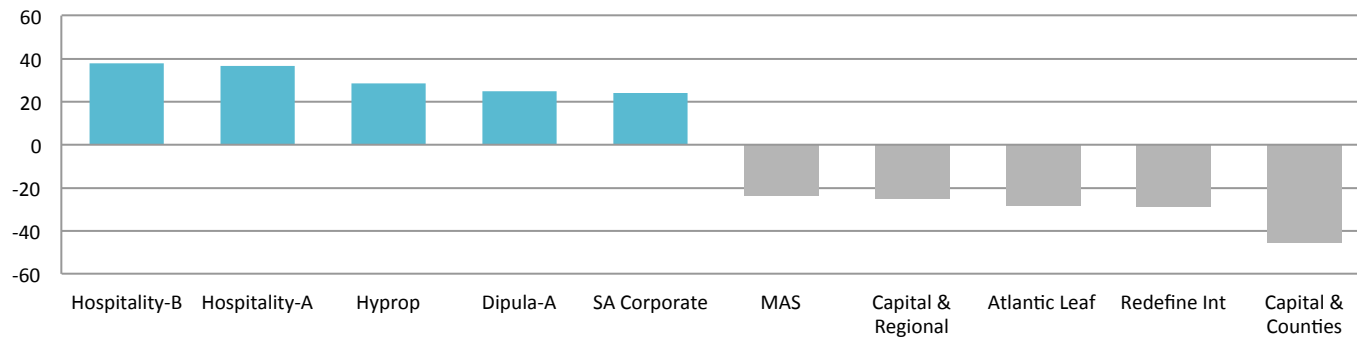


Source: BNP Cadiz, September 2016

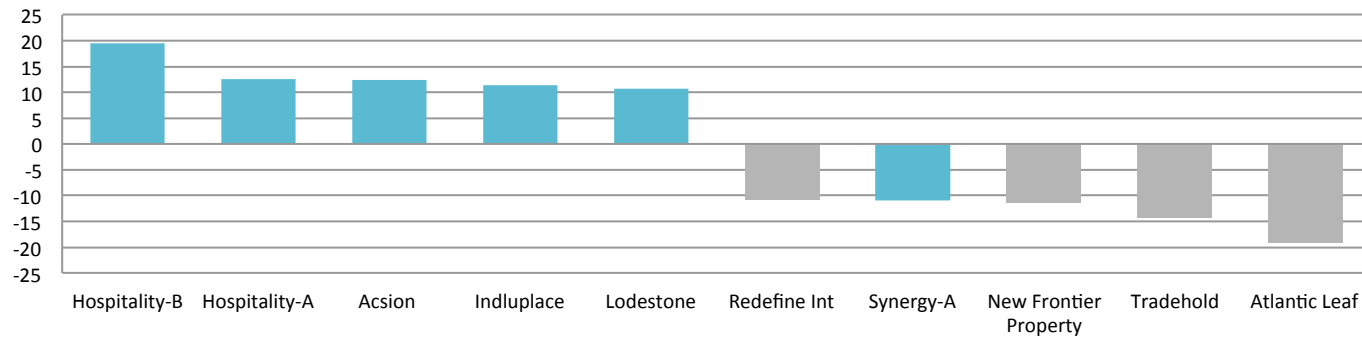
Local stocks outperforming offshore stocks

- Strong ZAR and Brexit

2016 YTD Returns



2016Q3 Returns

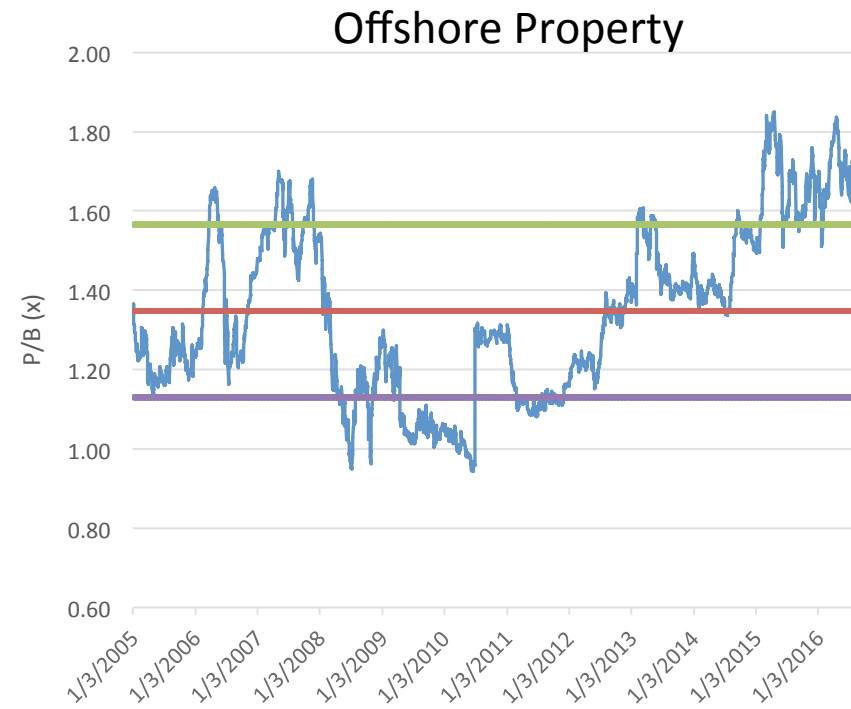
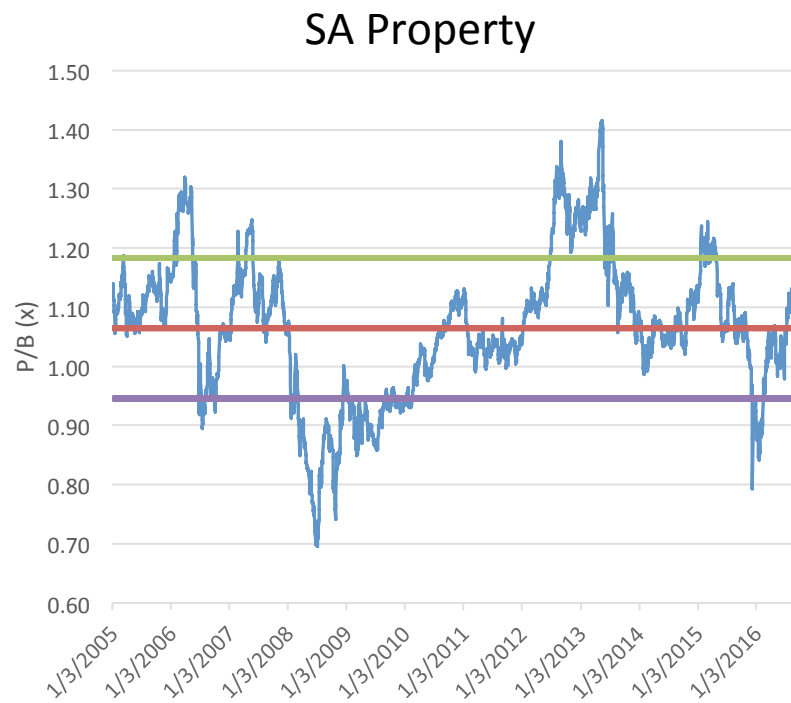


Source: STANLIB Research September 2016



Price to Book (P/B) Multiples

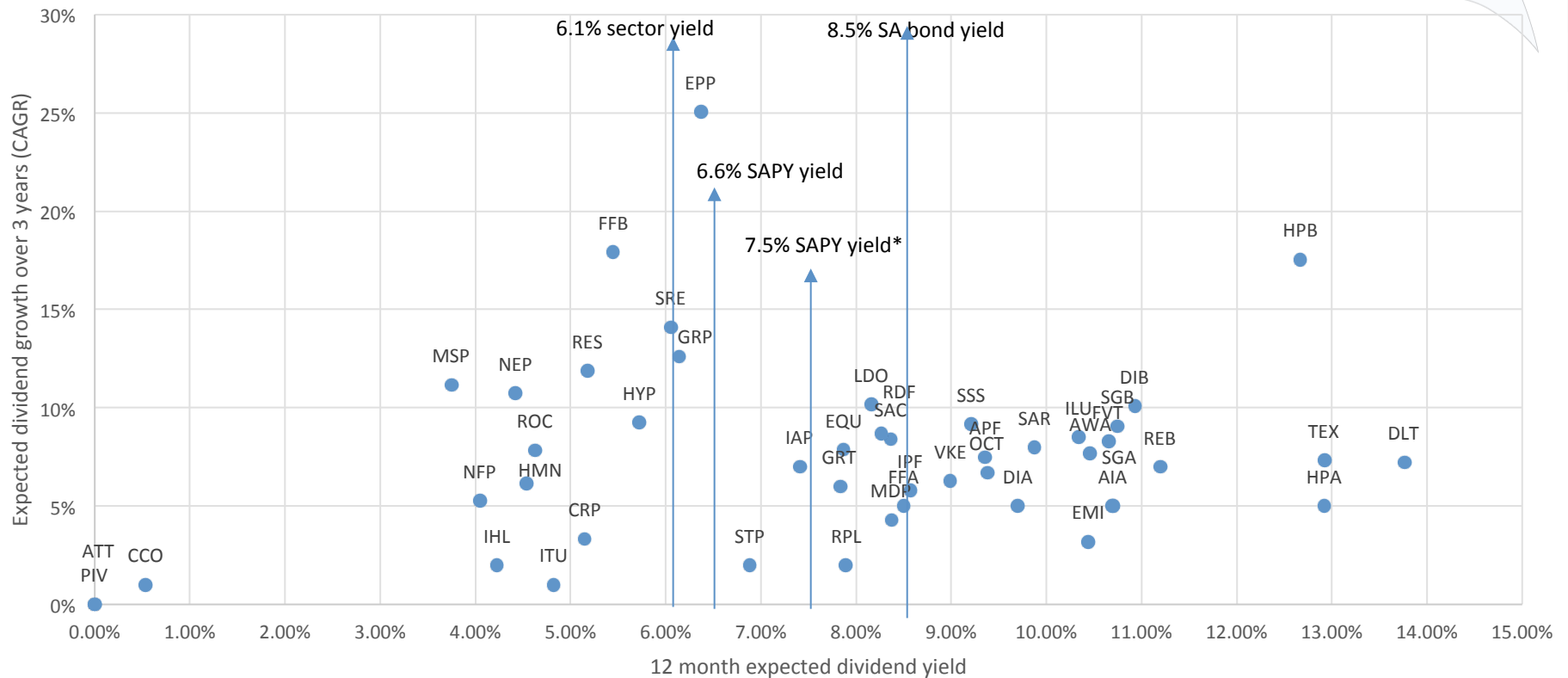
SA Property more attractive than offshore names on the JSE



Source: STANLIB Research, Bloomberg, September 2016

Does yield compensate you for dividend growth?

Overpaying for growth is a risk one should consider



* EXCLUDING RES, NEP, FFA, FFB, IPF, ROC, STP, MSP (THESE TOGETHER EQUATE TO 48% OF THE SAPY MARKET CAP)

Source: Stanlib Research September 2016

SA Listed Property Bond-Yield Ratio

SAPY Historic Dividend Yield divided by SA 10-year Bond Yield



Source: STANLIB Research, Bloomberg, 2016

SA listed property outlook

12 and 48 month total return forecast

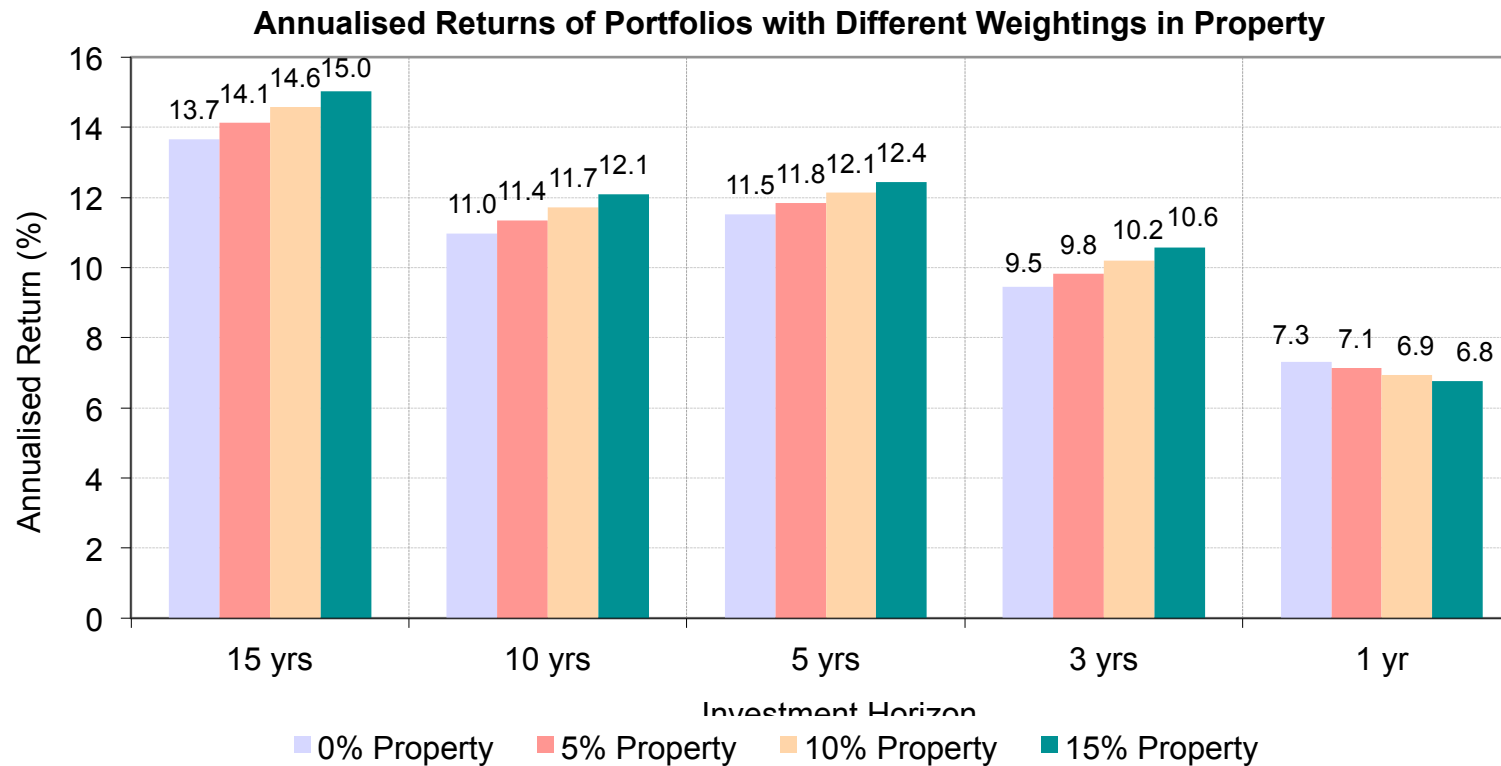
One Year	Bull Case	Base Case	Bear Case
Total Return (Income and Capital)	10.2%	4.4%	-0.8%
Assumption 1: Bond Yield Assumption	8.50%	9.00%	9.50%
Assumption 2: Property-Bond Yield Exit Ratio	0.68	0.68	0.68
Assumption 3: Income Growth	8.0%	8.0%	8.0%

Four Years	Bull Case	Base Case	Bear Case
Annualised Total Return	9.5%	8.1%	6.9%
Assumption 1: Bond Yield Assumption	8.50%	9.00%	9.50%
Assumption 2: Property-Bond Yield Exit Ratio	0.76	0.76	0.76
Assumption 3: Average Income Growth	7.1%	7.1%	7.1%

Source: STANLIB Research, September 2016

Adding listed property has helped to boost returns

For local balanced portfolios



Source: BNP Cadiz, September 2016

Asset Class Total Returns Since 2001

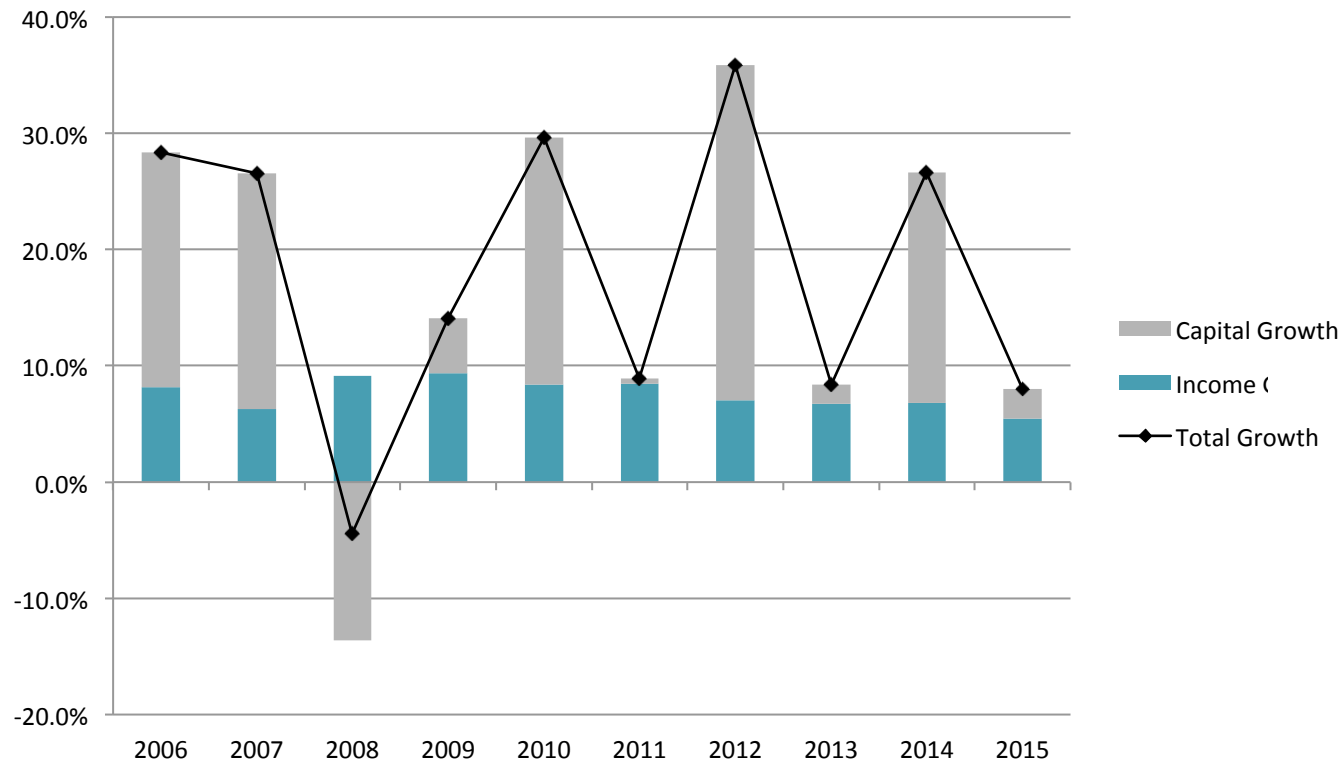
SA Listed Property has outperformed for 10 out of 16 years

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 YTD
Equity	32.61%	-8.31%	16.08%	25.44%	47.25%	41.23%	19.19%	-23.23%	32.13%	18.98%	2.57%	26.68%	21.43%	10.88%	5.13%	4.76%
Bonds	17.8%	16.0%	18.1%	15.2%	10.8%	5.5%	4.2%	17.0%	-1.0%	15.0%	8.8%	16.0%	0.6%	10.1%	-3.9%	15.6%
Balanced Portfolio	19.9%	8.5%	21.1%	22.9%	30.9%	22.9%	14.7%	-2.2%	15.1%	18.1%	6.2%	22.1%	10.1%	13.1%	3.2%	9.0%
Cash	10.2%	11.6%	12.3%	8.0%	7.1%	7.4%	9.3%	11.7%	9.1%	6.9%	5.7%	5.5%	5.2%	5.9%	6.5%	5.5%
Property	7.90%	24.50%	41.00%	41.26%	50.04%	28.37%	26.52%	-4.47%	14.07%	29.62%	8.93%	35.88%	8.39%	26.64%	7.99%	9.32%
Equity	1.00	5.00	4.00	2.00	2.00	1.00	2.00	5.00	1.00	2.00	5.00	2.00	1.00	3.00	3.00	5.00
Bonds	3.00	2.00	3.00	4.00	4.00	5.00	5.00	1.00	5.00	4.00	2.00	4.00	5.00	4.00	5.00	1.00
Balanced Portfolio	2.00	4.00	2.00	3.00	3.00	3.00	3.00	3.00	2.00	3.00	3.00	3.00	2.00	2.00	4.00	3.00
Cash	4.00	3.00	5.00	5.00	5.00	4.00	4.00	2.00	4.00	5.00	4.00	5.00	4.00	5.00	2.00	4.00
Property	5.00	1.00	1.00	1.00	1.00	2.00	1.00	4.00	3.00	1.00	1.00	1.00	3.00	1.00	1.00	2.00

Source: Bloomberg, STANLIB Research, September 2016

SA Listed Property Sector Total Returns

Income and Capital



Source: Bloomberg, STANLIB Research, September 2016



SA Listed Property Outlook

Dividend growth still reasonable

	0-12m DPS growth	12m-24m DPS growth	24m-36m DPS growth	3 Year CAGR
Dividend growth: Dividend paying companies	8.82%	7.27%	6.89%	7.66%
Dividend growth: Development companies	1.00%	1.00%	1.00%	1.00%
Dividend growth: JSAPY INDEX	9.07%	8.10%	7.92%	8.36%
Dividend growth: JSAPY INDEX (EX OFFSHORE)	7.53%	7.02%	7.09%	7.21%
Dividend growth: JSAPY INDEX (OFFSHORE)	12.11%	10.14%	9.45%	10.56%
Dividend growth: UNIVERSE	8.78%	7.23%	6.86%	7.62%

Source: Bloomberg, STANLIB Research, September 2016



SA Listed Property Conclusion

Upside Risk

- Demand for retail space in bigger shopping centres
- Increased offshore exposure, portfolio and currency diversification
- Corporate action – mergers and take-overs

Downside Risk

- Rising bond yields
- Global markets volatility
- Brexit and currency volatility
- Increasing office vacancies
- Competitive retail landscape
- Increasing operating costs
- Low economic growth



**GLOBAL LISTED
PROPERTY**

**DEVELOPED
MARKETS**

Focused Investing

STANLIB

STANLIB Foreign Property

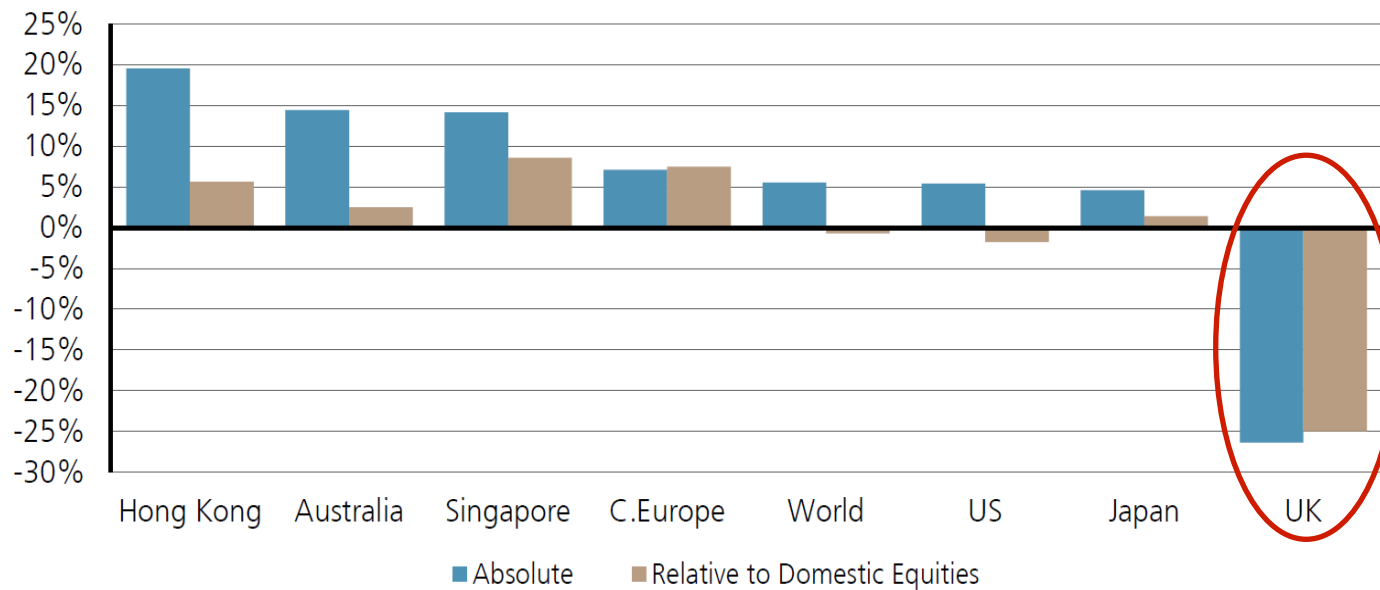
Management meetings, conferences and site visits

2012	2013	2014	2015	2016
Hong Kong	UK	China	China	Japan
UK	Romania	France	Philippines	Philippines
USA	Turkey	Thailand	Indonesia	Zambia
Romania	Philippines	Hong Kong	Nigeria	Kenya
Brazil	Indonesia	Taiwan	Mexico	Romania & Serbia
Nigeria	Hong Kong	UK	UK	Spain
Ghana	USA	USA	USA	UK
Tanzania	Germany	Australia	Romania	USA
	Singapore	Romania	Egypt	China
	Mexico	Slovakia	UAE	Australia
	Hungary	Singapore	Germany	Netherlands
	Slovakia	Kenya	Netherlands	Germany & Austria
	Germany	Botswana	Poland	Switzerland
	Brazil	Mozambique	Kenya	Poland & Croatia
	Zambia	Namibia	Croatia	Mozambique & Namibia
	Mauritius	Morocco	Namibia	Slovakia
		Swaziland		UAE

Developed Markets
Emerging Markets
Africa

Year-to-date Global Listed Property Total Returns (USD)

Property outperforming Equities in all markets except the UK and US

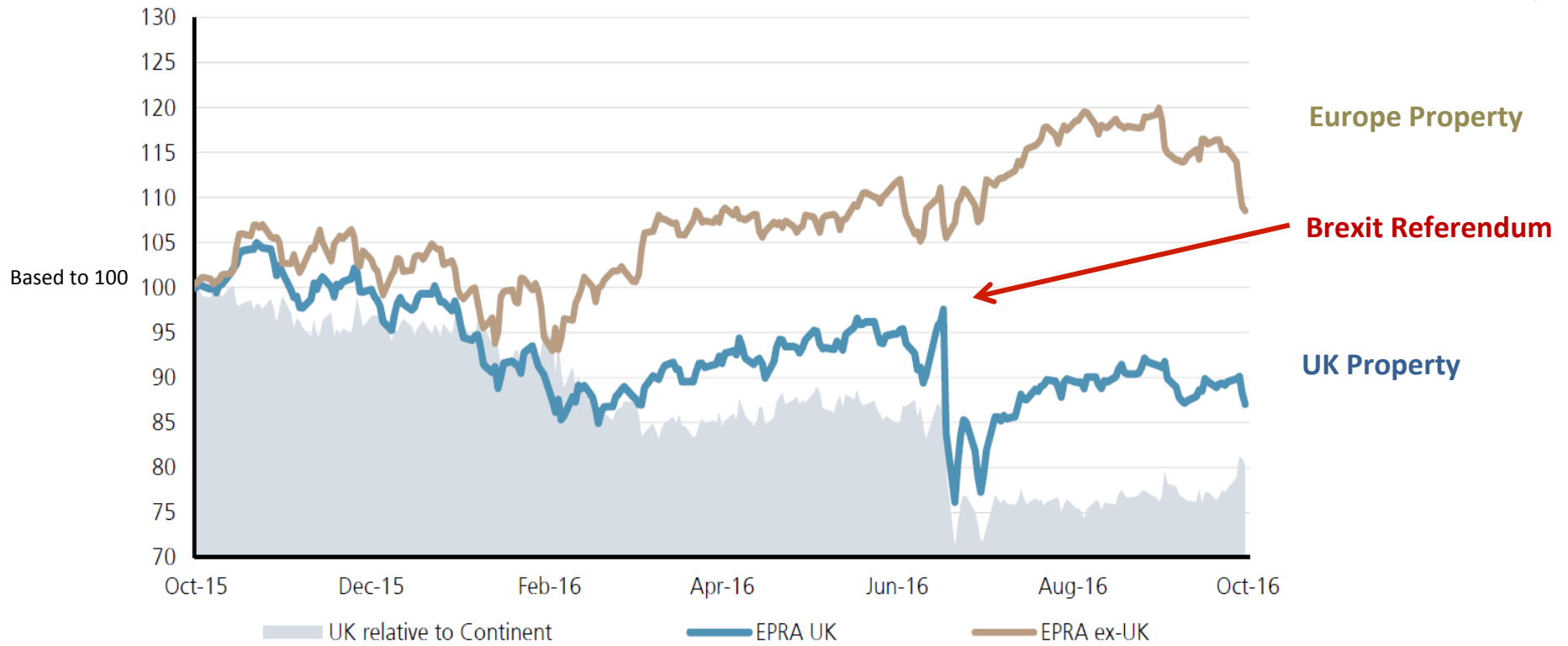


Brexit

Source: UBS, EPRA/NAREIT Index Total Returns to 10 October 2016



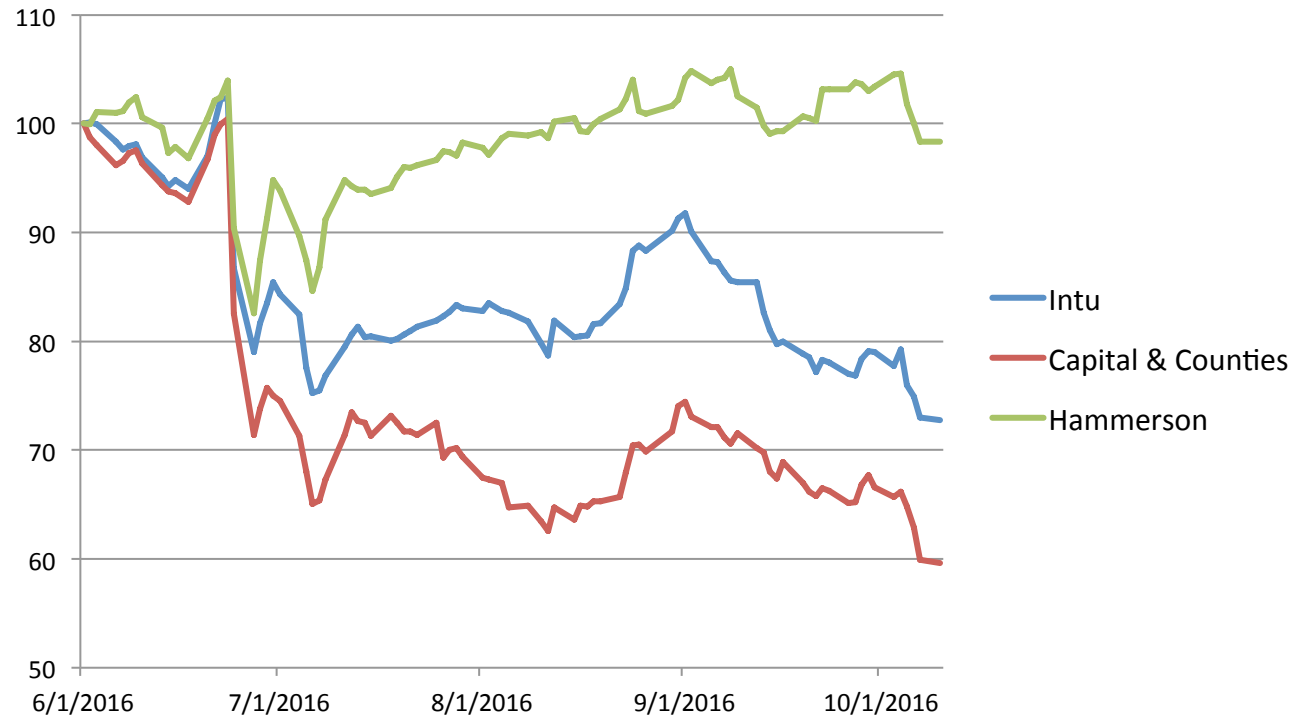
Brexit Impact – UK vs. Continental Europe Share Prices



Source: UBS Oct 2016

UK Property - Intu, Capital & Counties and Hammerson

Share price performance since the Brexit referendum



Source: Bloomberg, STANLIB Research October 2016

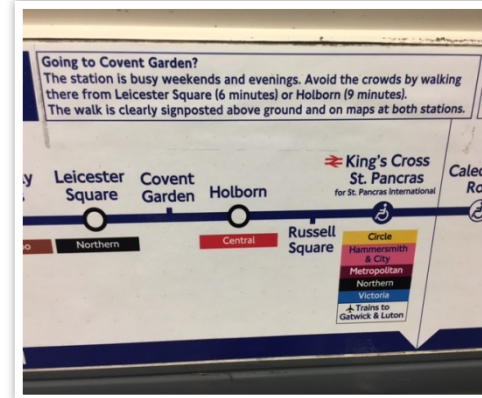


Intu's retail properties in the UK and Spain



Source: STANLIB Research June 2016

Capital & Counties: Covent Garden & Earls Court, London, UK



Source: STANLIB Research June 2016

STANLIB Global Property Fund Exposure

	Portfolio	Benchmark	Difference
Europe	11.1%	6.2%	4.9%
Oceania	7.0%	8.0%	-0.9%
Hong Kong	2.1%	1.8%	0.4%
Singapore	2.1%	2.8%	-0.7%
Middle East	0.0%	0.0%	0.0%
UK	8.0%	4.9%	3.1%
Japan	8.1%	9.0%	-0.9%
Cash	2.8%	0.0%	2.8%
North America	58.7%	67.3%	-8.6%
Total	100.00%	100.00%	0.00%

Source: STANLIB, Bloomberg October 2016



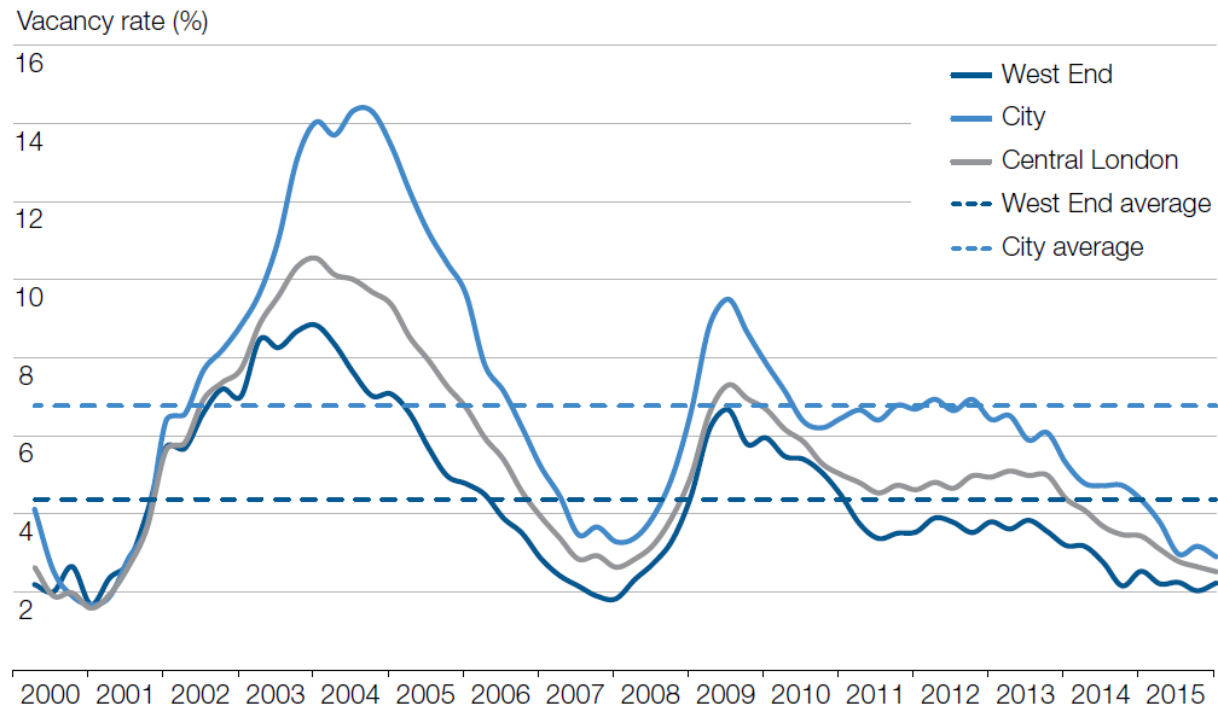
STANLIB Global Property Fund Top Holdings

%	Portfolio	Benchmark	Difference	Region	Sector	
1.	Simon Property Group	7.41	5.59	1.82	USA	Retail
2.	Public Storage	4.73	3.01	1.72	USA	Self Storage
3.	Prologis	3.90	2.19	1.71	USA	Industrial
4.	Unibail-Rodamco	2.98	2.05	0.93	Europe	Retail
6.	Avalonbay Communities	2.75	2.04	0.71	USA	Residential
7.	Boston Properties	2.74	1.69	1.02	USA	Offices
8.	Extra Space Storage	2.41	0.94	1.47	USA	Self Storage
5.	Equity Residential	2.40	2.06	0.34	USA	Residential
9.	Vornado Realty Trust	2.32	1.44	0.88	USA	Offices
10.	SL Green Realty REIT	2.27	0.89	1.38	USA	Offices

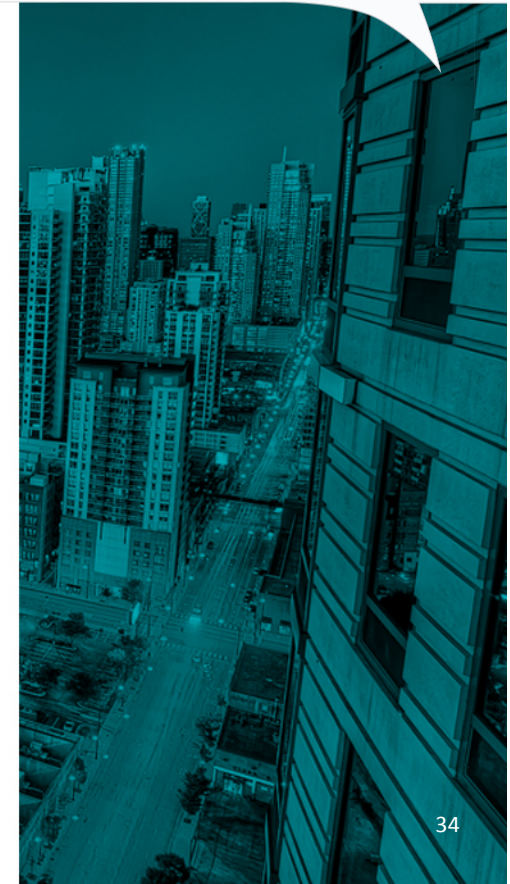
Source: STANLIB, Bloomberg July 2016



Central London (UK) office vacancies at almost record lows

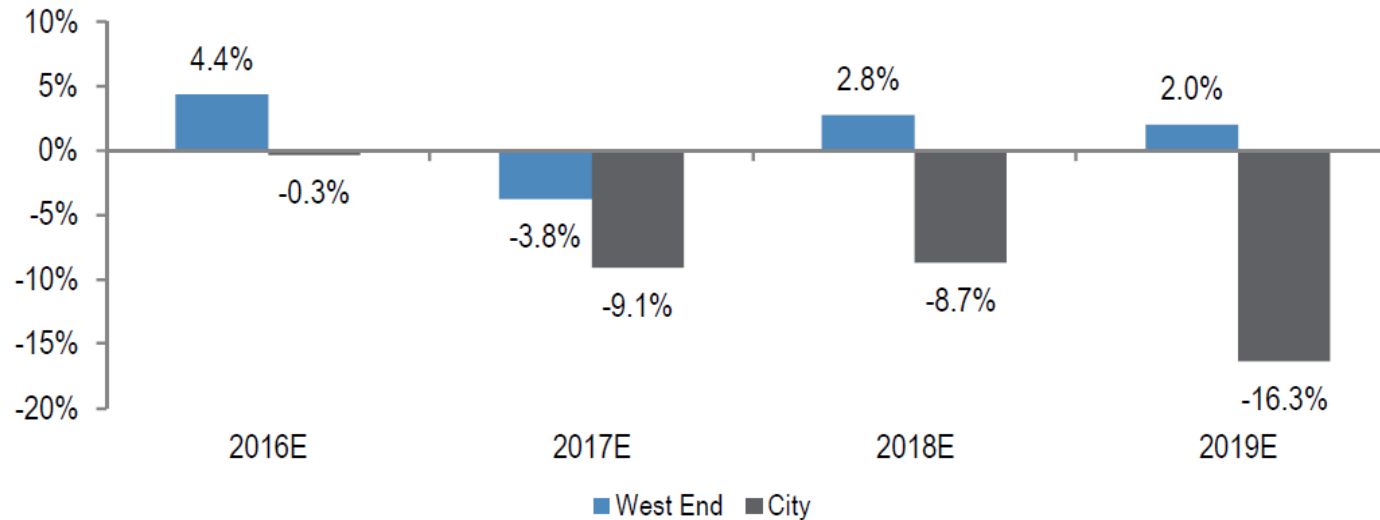


Source: Derwent London plc 2016

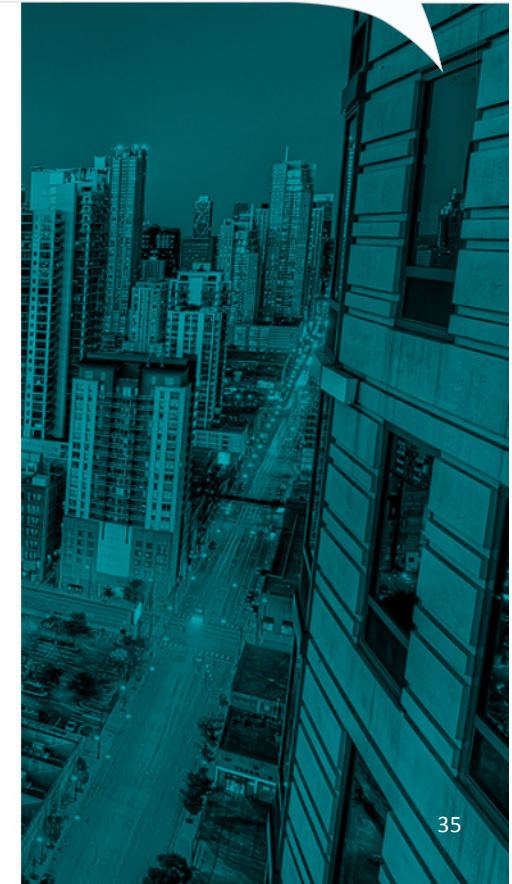


London (UK) office rental growth forecasts

Rents to decline in 2017 but West End looks more defensive



Source: JP Morgan Estimates September 2016



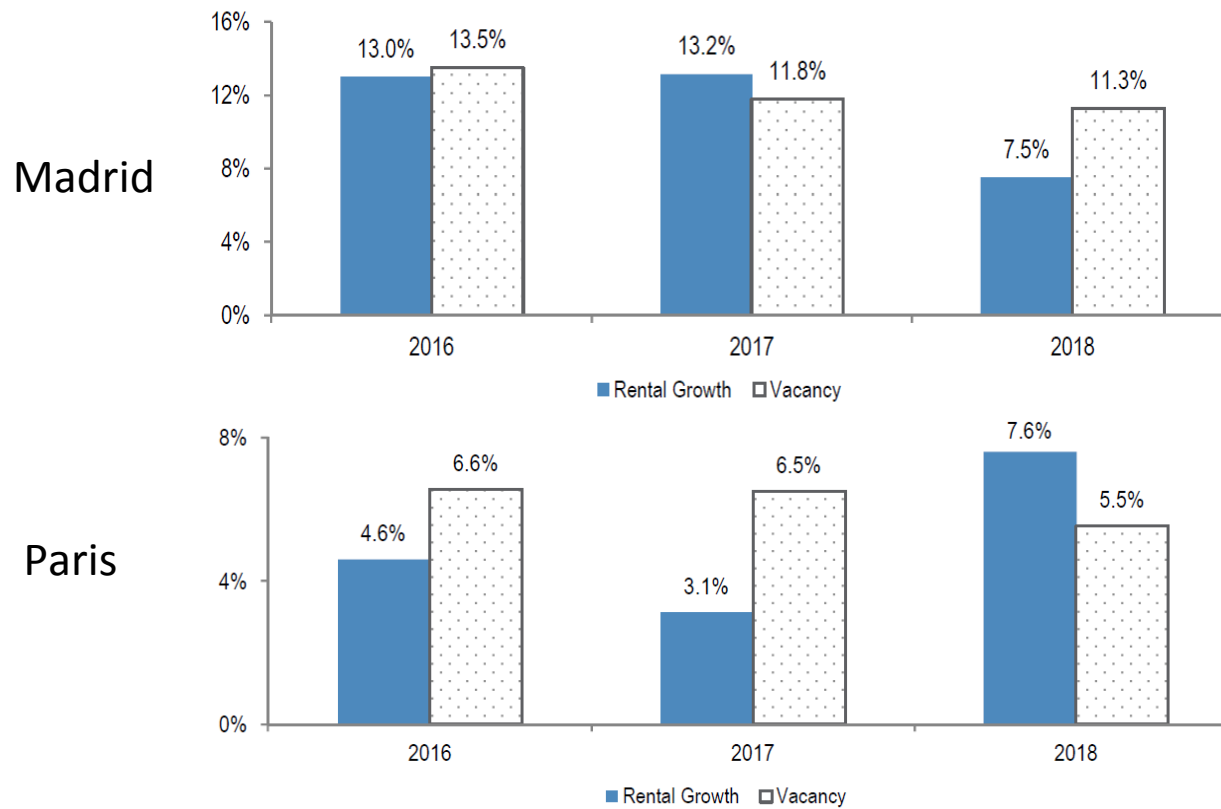
La Defense Offices, Paris, France (Unibail-Rodamco)



Source: STANLIB Research April 2016

Europe - Paris and Madrid offices recovering

Rental growth and vacancy rates

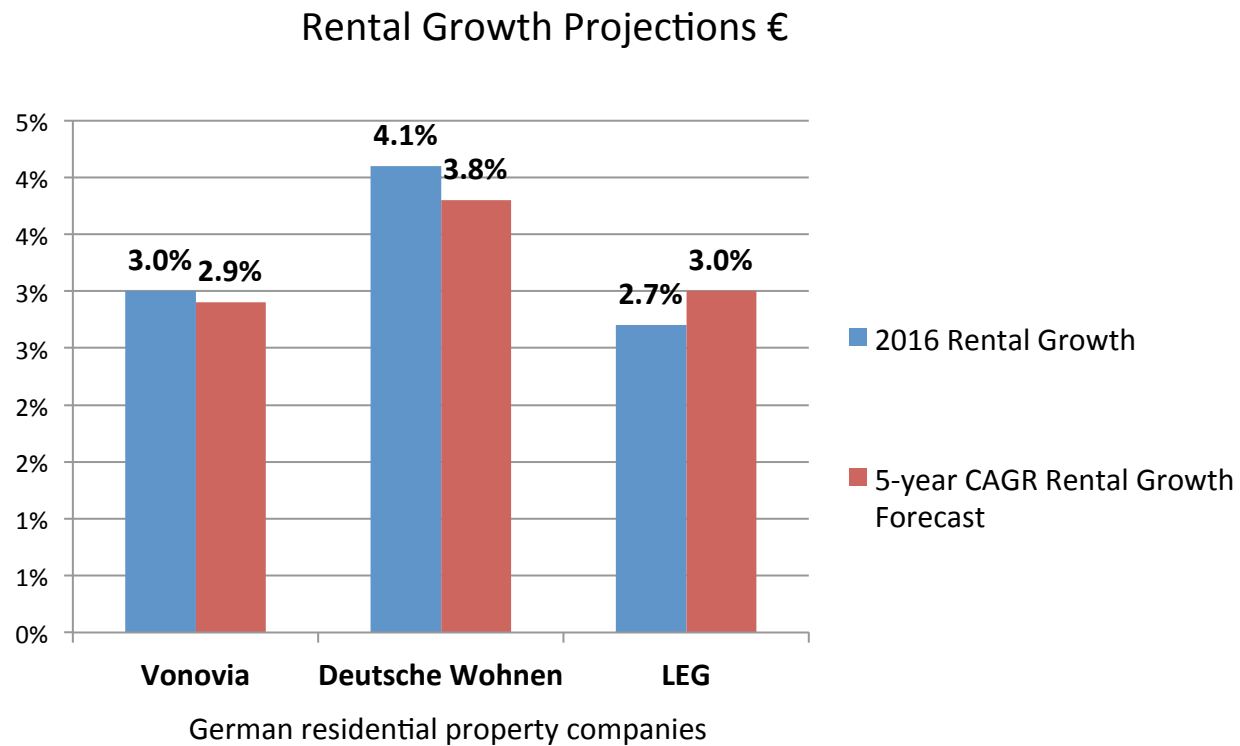


Source: JP Morgan Estimates, Bloomberg July 2016



German residential continues to be a strong performer

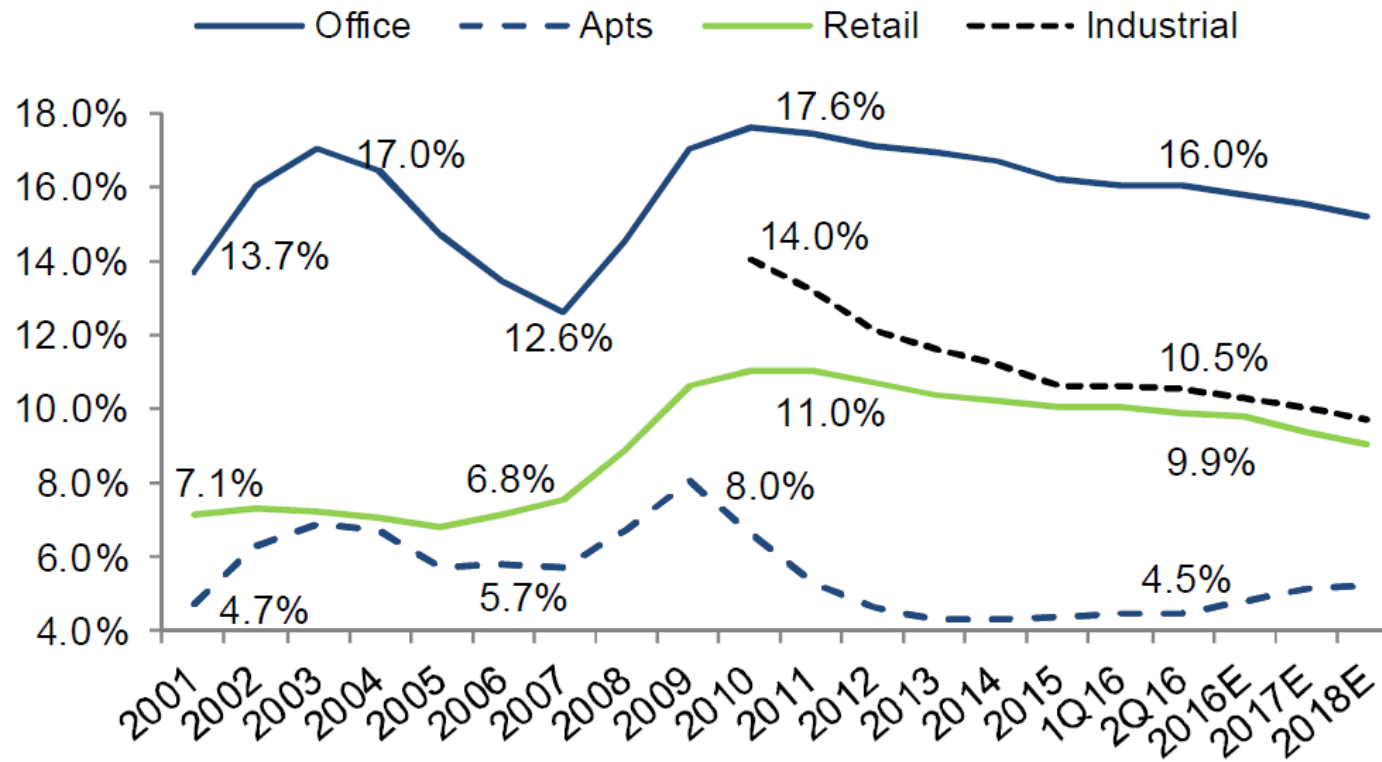
Driven by immigration, including refugees



Source: JP Morgan Estimates, Bloomberg July 2016

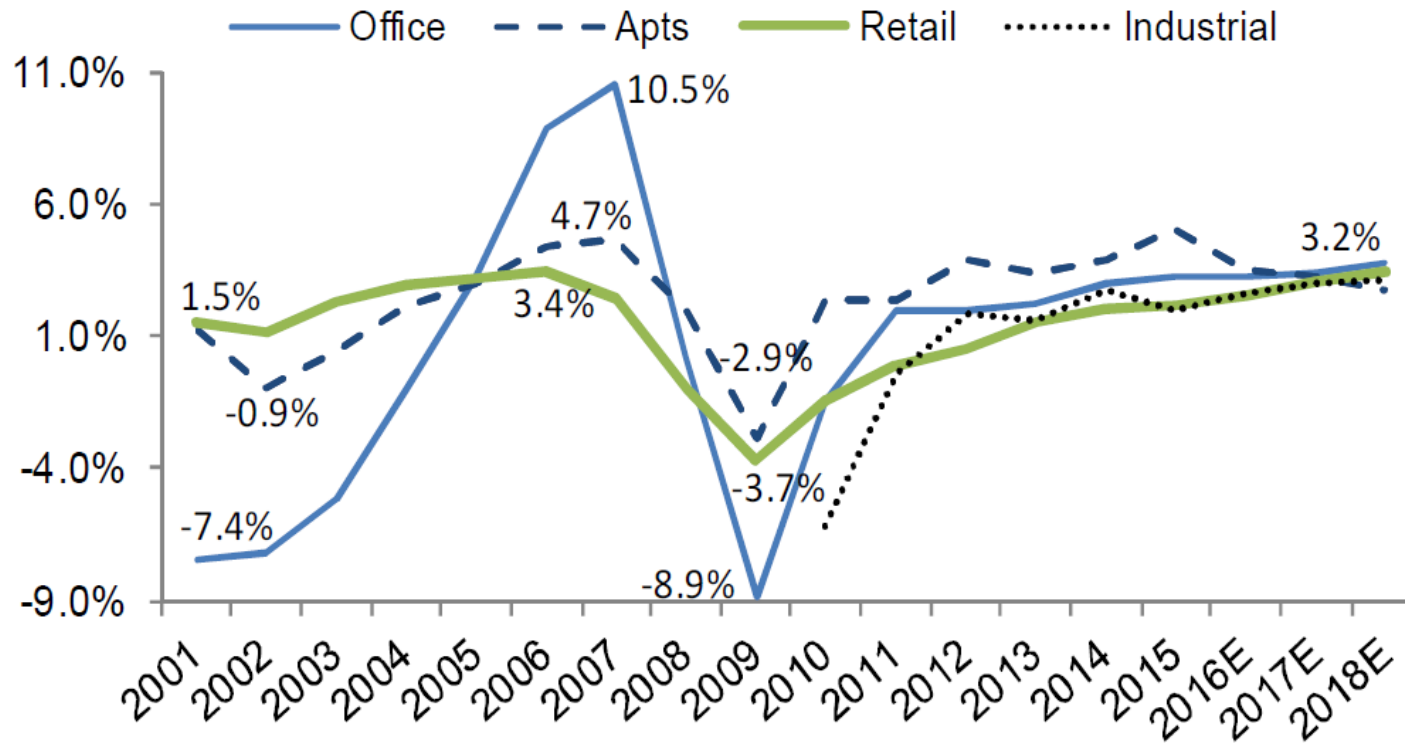


USA Property Market – Vacancies are falling



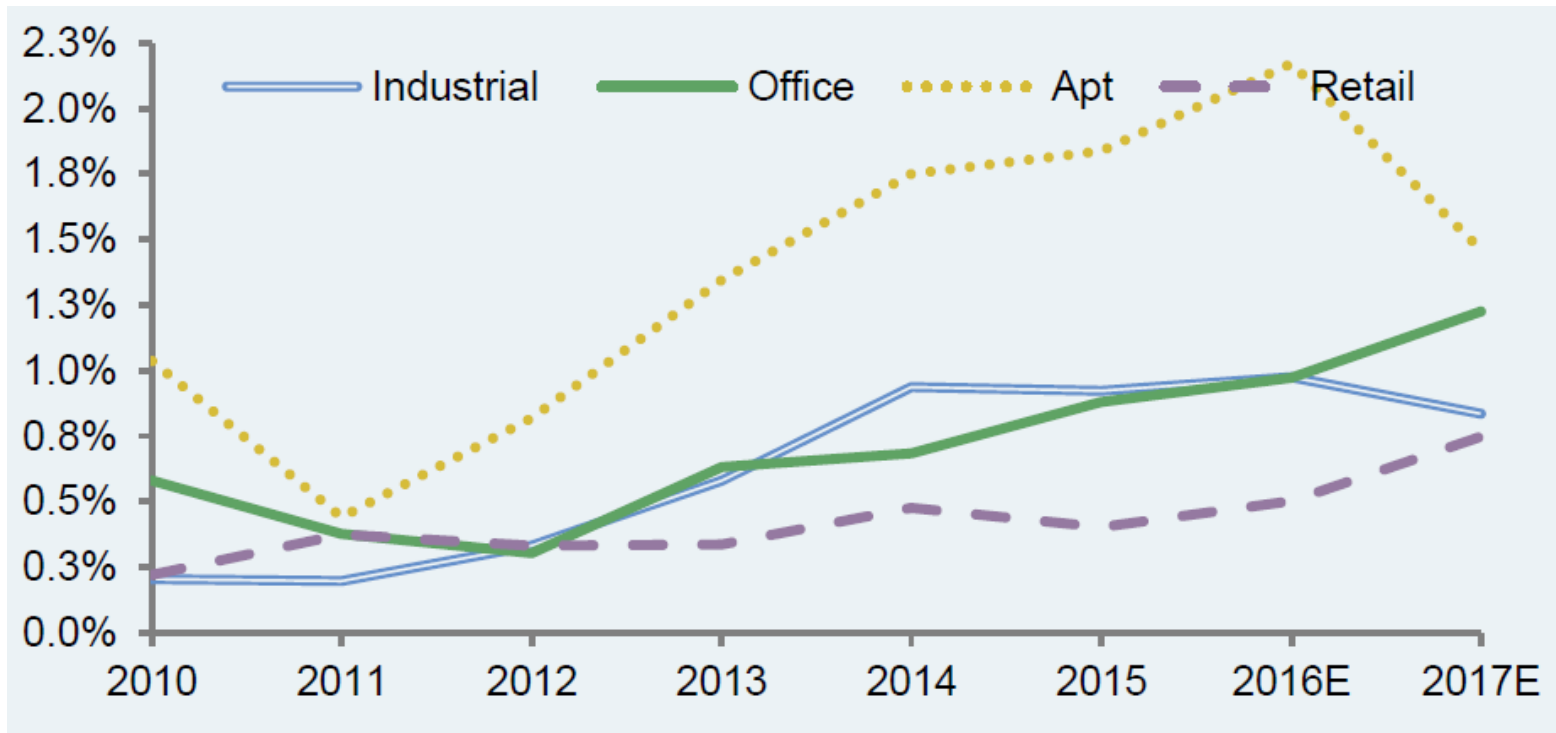
Source: REIS Analytics and JP Morgan September 2016

USA Property Market – Rents are going up



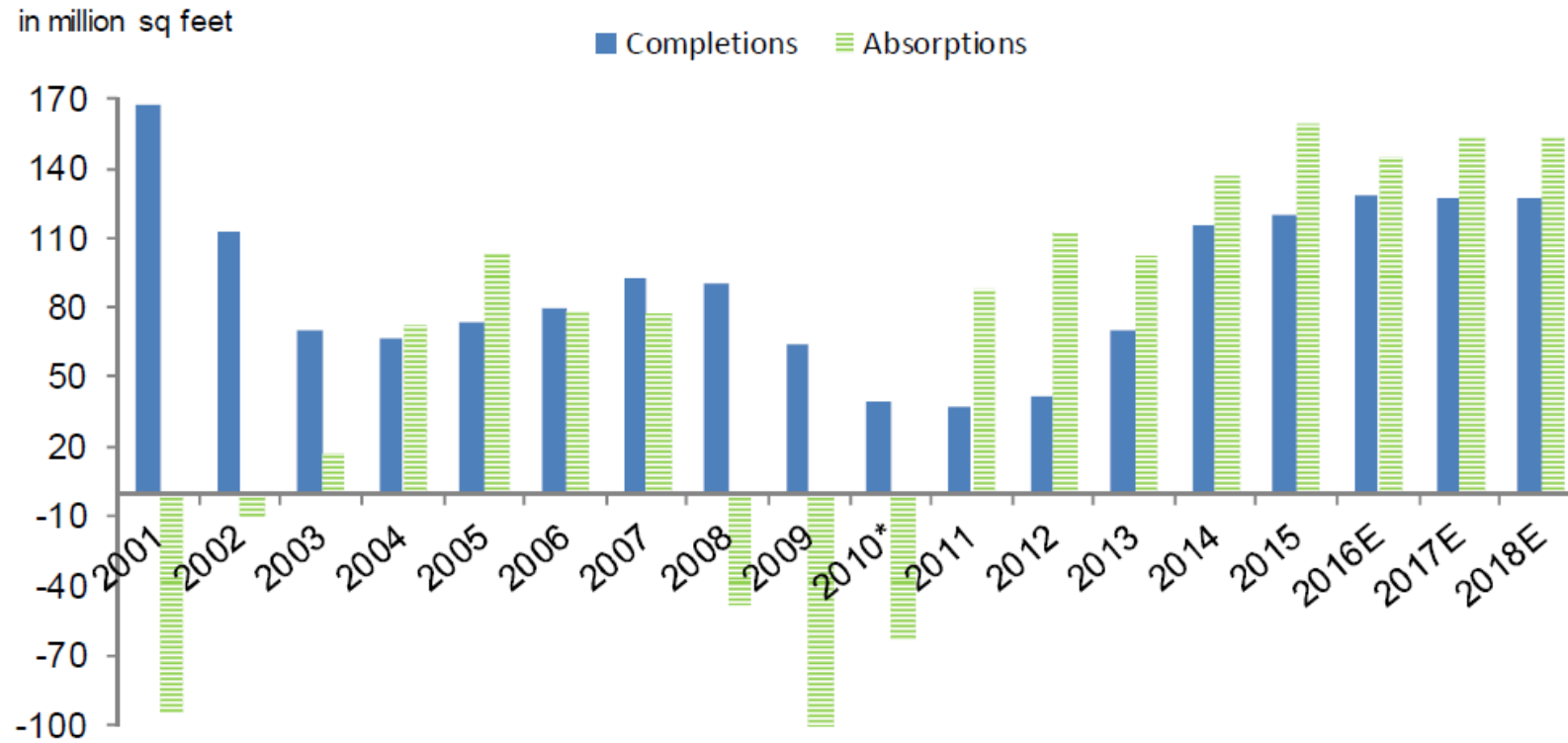
Source: REIS Analytics and JP Morgan April 2016

USA Property Market – Supply is picking up, marginally



Source: REIS Analytics and JP Morgan April 2016

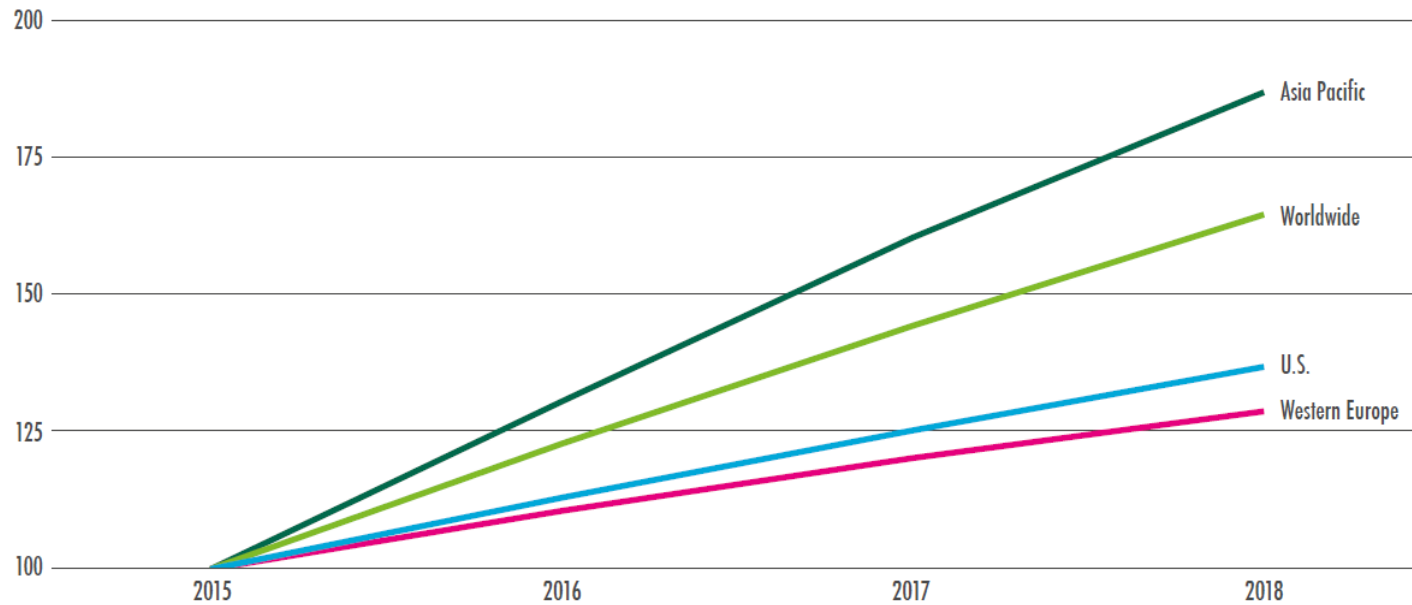
US Property Market – But new space is being absorbed



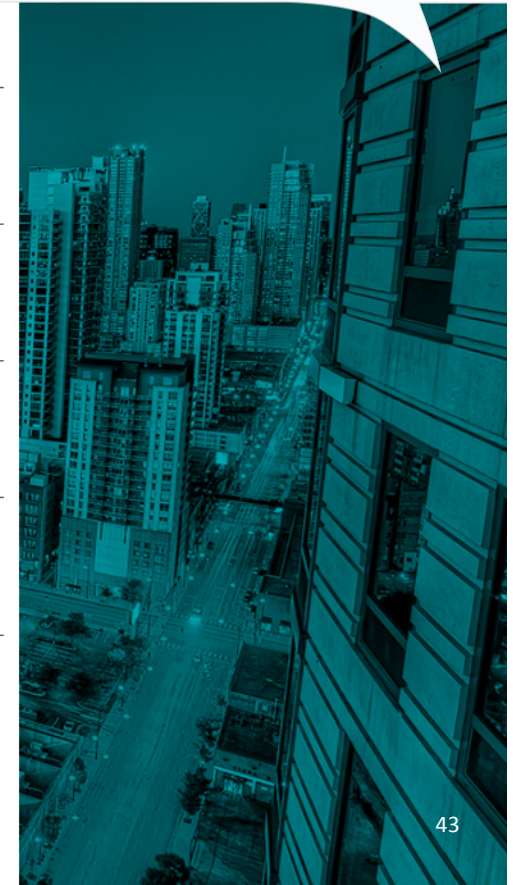
Source: REIS Analytics and JP Morgan September 2016

E-Commerce showing strong growth across the world

Sales Forecast – 2015 to 2018 based to 100



Source: CBRE 2016



Food, beverage & entertainment now new anchor tenants



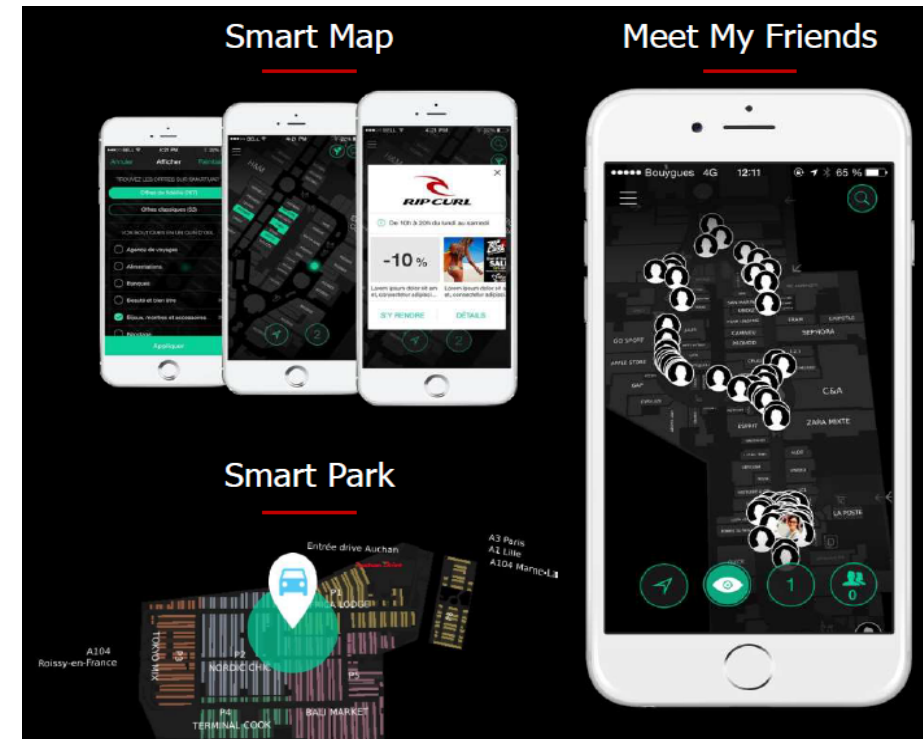
“Experience-driven retail, which includes fine dining, education and family entertainment – all customised to the needs and wants of the local catchment area – will be the key to success”

Mall of Scandinavia, Stockholm, Sweden (Unibail-Rodamco)



Source: STANLIB Research April 2016

“Experiential” shopping, technology and bigger stores



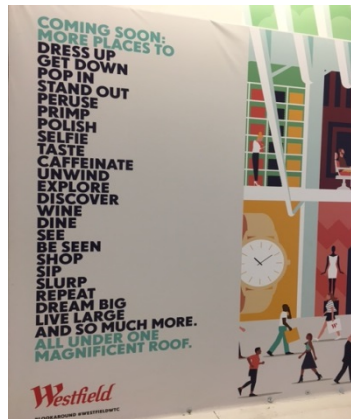
Source: Unibail-Rodamco Results Presentation, February 2016

Times Square, New York City, USA – Vornado Realty Trust



Source: STANLIB Research September 2016

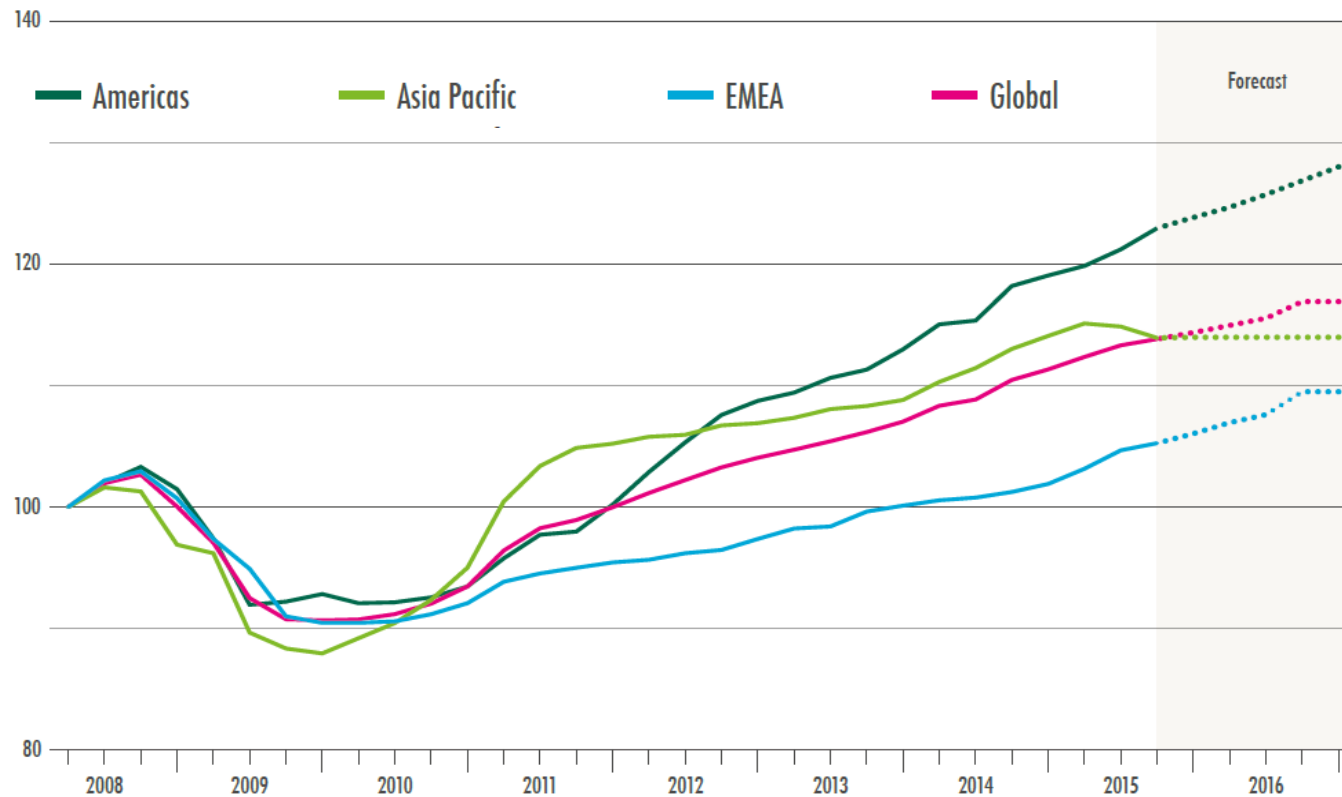
Westfield World Trade Centre, New York City, USA – Westfield Corp



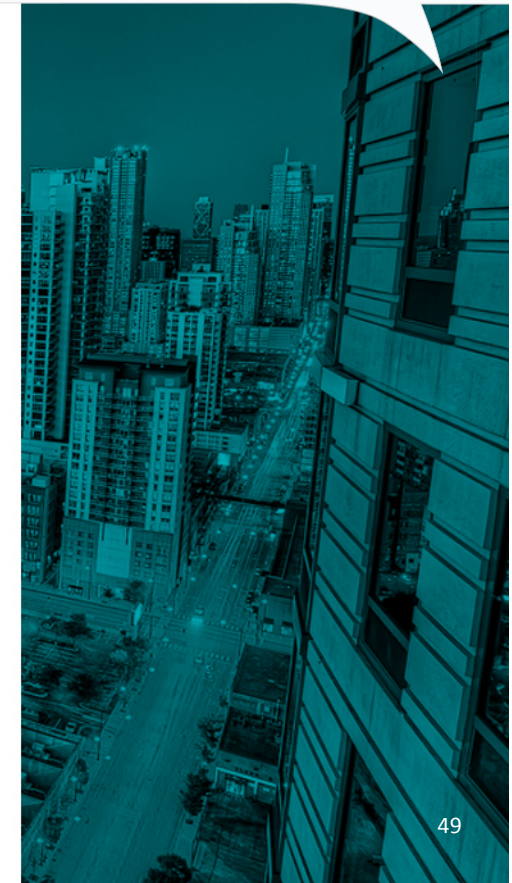
Source: STANLIB September 2016

Rents up across all sectors and regions globally

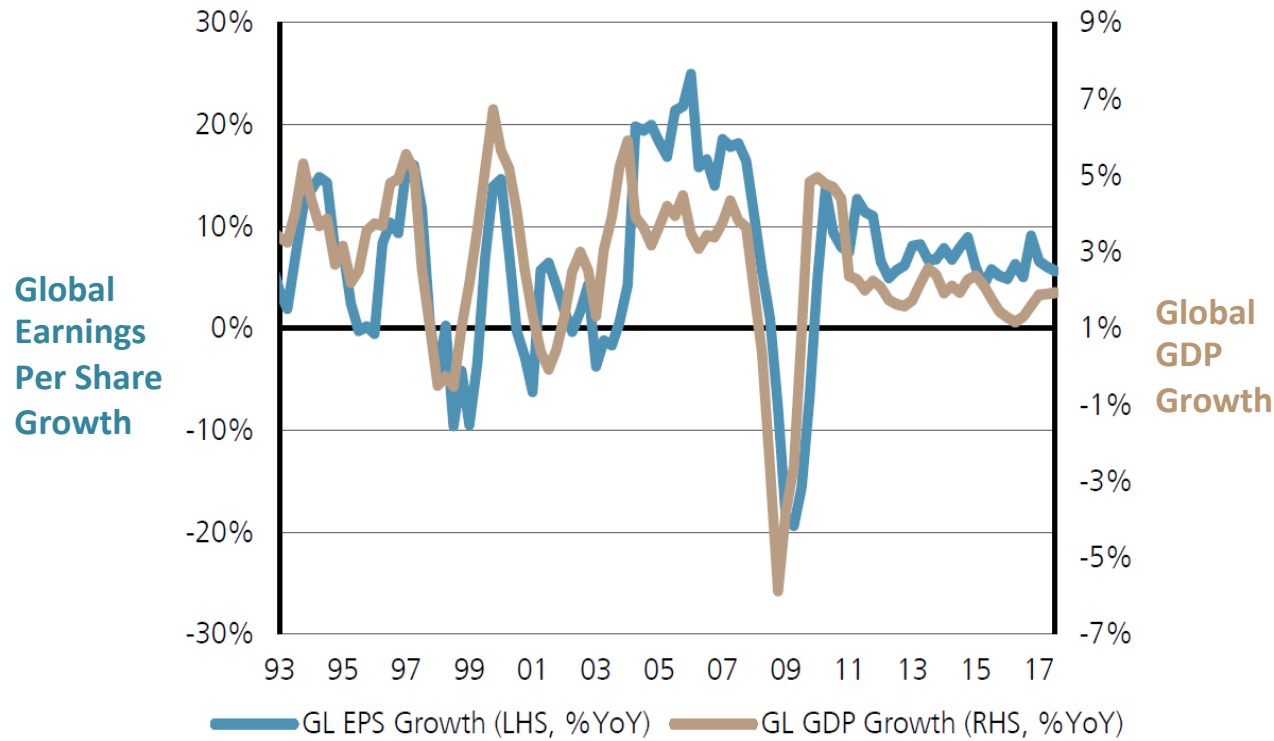
Despite some weakness in Asia



Source: CBRE 2016



Global Property Earnings track Global GDP Growth

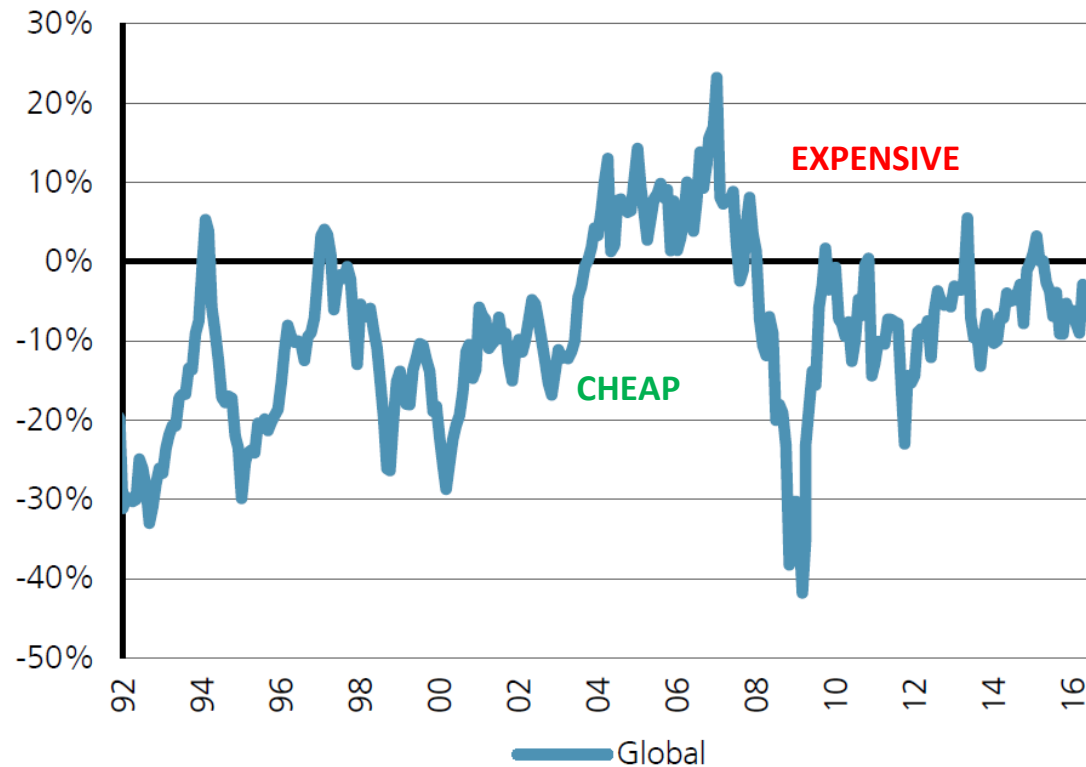


Source: UBS, MSCI, Thomson Financial Datastream, 31 August 2016



Global Listed Property Price to Net Asset Value (NAV)

Listed Property still cheaper than Physical Property generally

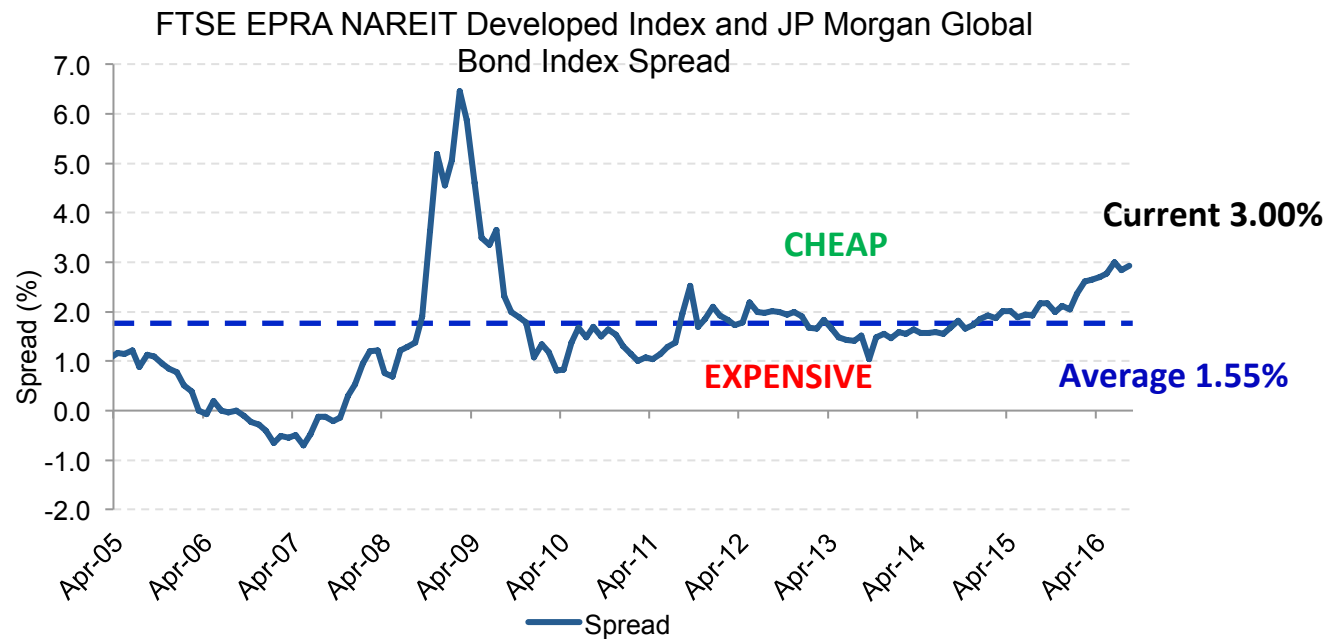


Source: UBS , Worldscope, Datastream 31 August 2016



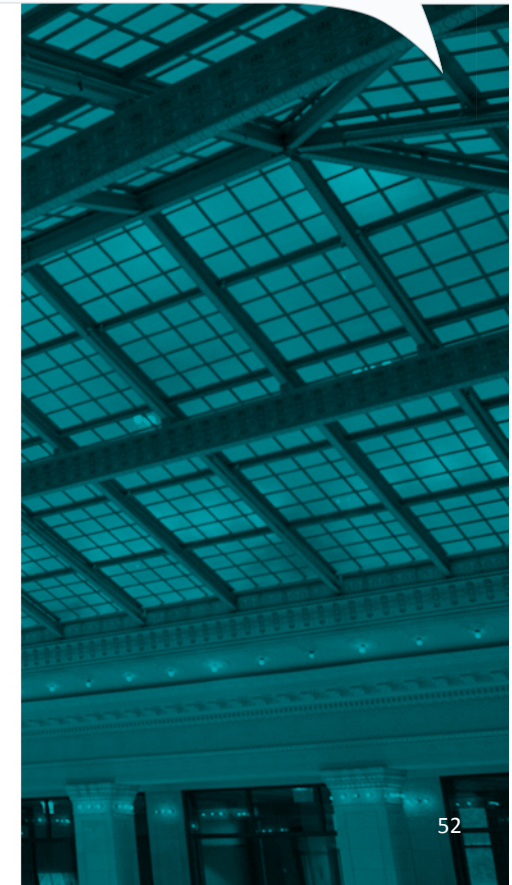
Yield Spread between Listed Property and Bonds

Global Property still cheap relative to Bonds



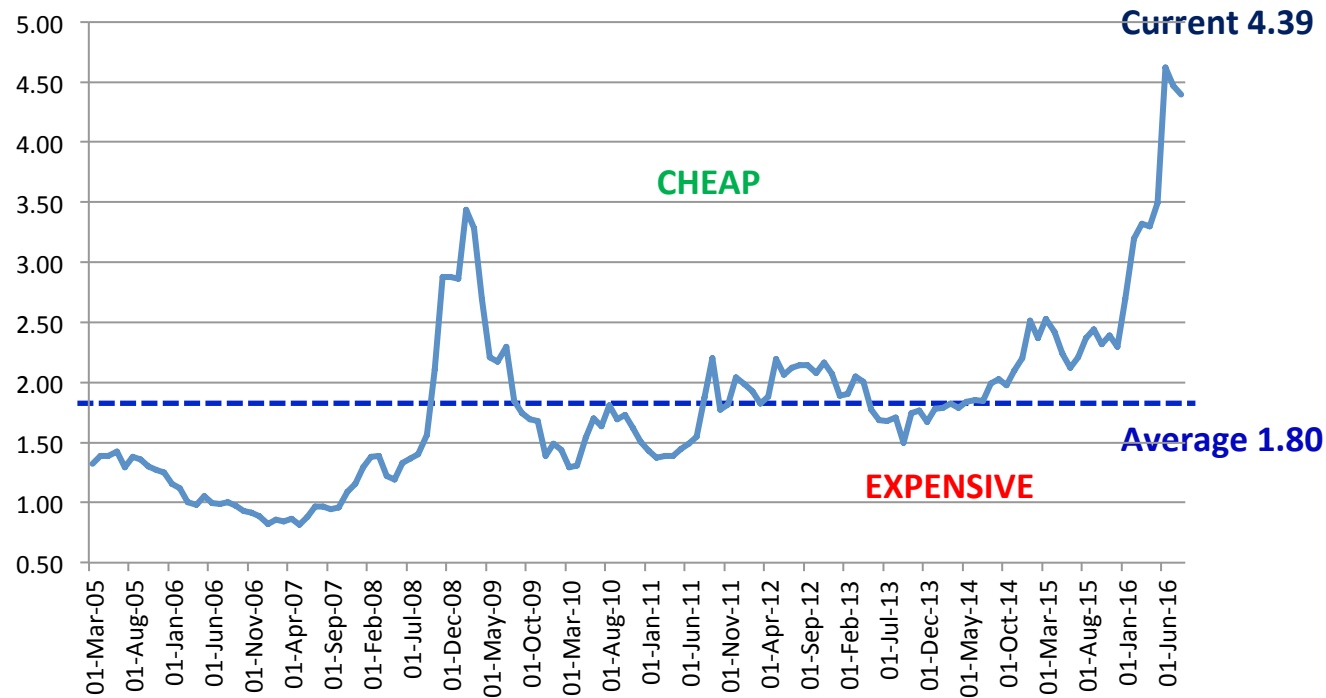
Spread = Global Developed Property Yields less Developed Bond Yields

Source: BNP Paribas Cadiz , STANLIB Research 31 August 2016



Global Property-Bond Yield Ratio

Property now cheaper than sub-prime period



Ratio = Property Yield (EPRA/NAREIT Index) divided by Bond Yields (JP Morgan Index)

Source: BNP Paribas Cadiz , STANLIB Research 31 August 2016



Global Listed Property Outlook (USD)

Lower correlation to bonds, above average yield gap/ratios give some comfort*

1 Year	Bull Case	Base Case	Bear Case
Total Return (Income and Capital)	11.27%	4.89%	-0.76%
Assumption 1: US 10 Year Bond Yield (Current 1.60%)	1.50%	2.00%	2.50%
Assumption 2: Exit Yield (Current 4.0%)	3.95%	4.20%	4.45%
Assumption 3: Earnings Growth	5.70%	5.70%	5.70%

4 Years (Lower for Longer Interest Rates)	Bull Case	Base Case	Bear Case
Total Return (Income and Capital)	8.23%	7.54%	6.87%
Assumption 1: US 10 year Bond Yield (Current 1.60%)	2.25%	2.50%	2.75%
Assumption 2: Exit Yield (Current 4.0%)	4.33%	4.45%	4.58%
Assumption 3: Average Earnings Growth	5.90%	5.90%	5.90%

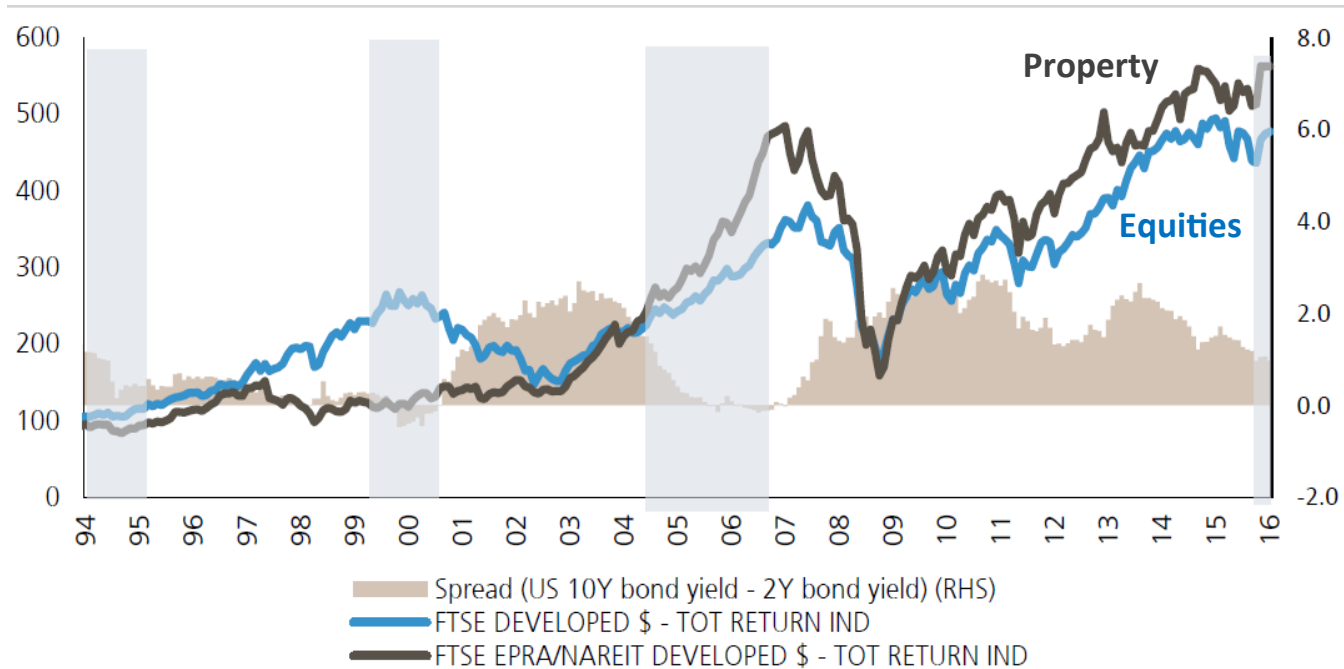
* NB: Hence we apply only a 50% rating change to bond yield movements in our exit yields

Source: STANLIB Research, UBS, S&P, Bloomberg September 2016



Global Listed Property in a rising interest rate cycle

Property prices have gone up driven by good earnings growth

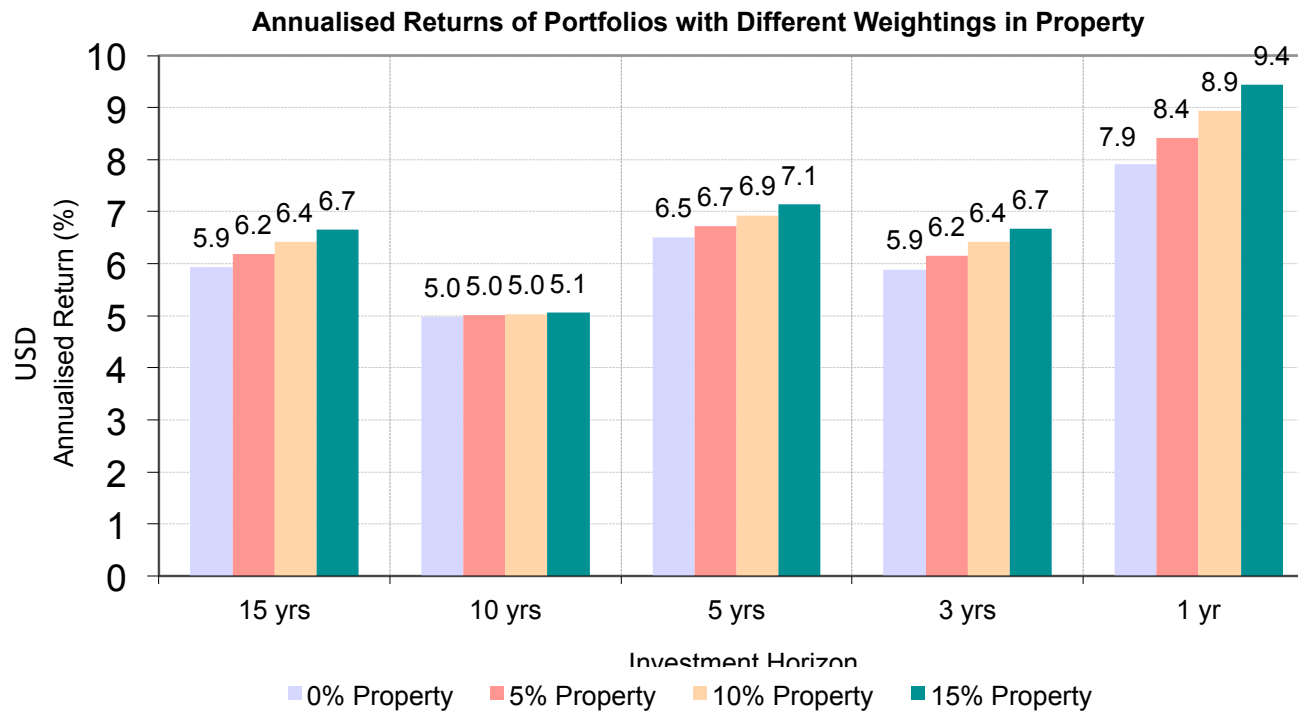


Grey shading is Fed rate hikes period

Source: DataStream and UBS August 2016



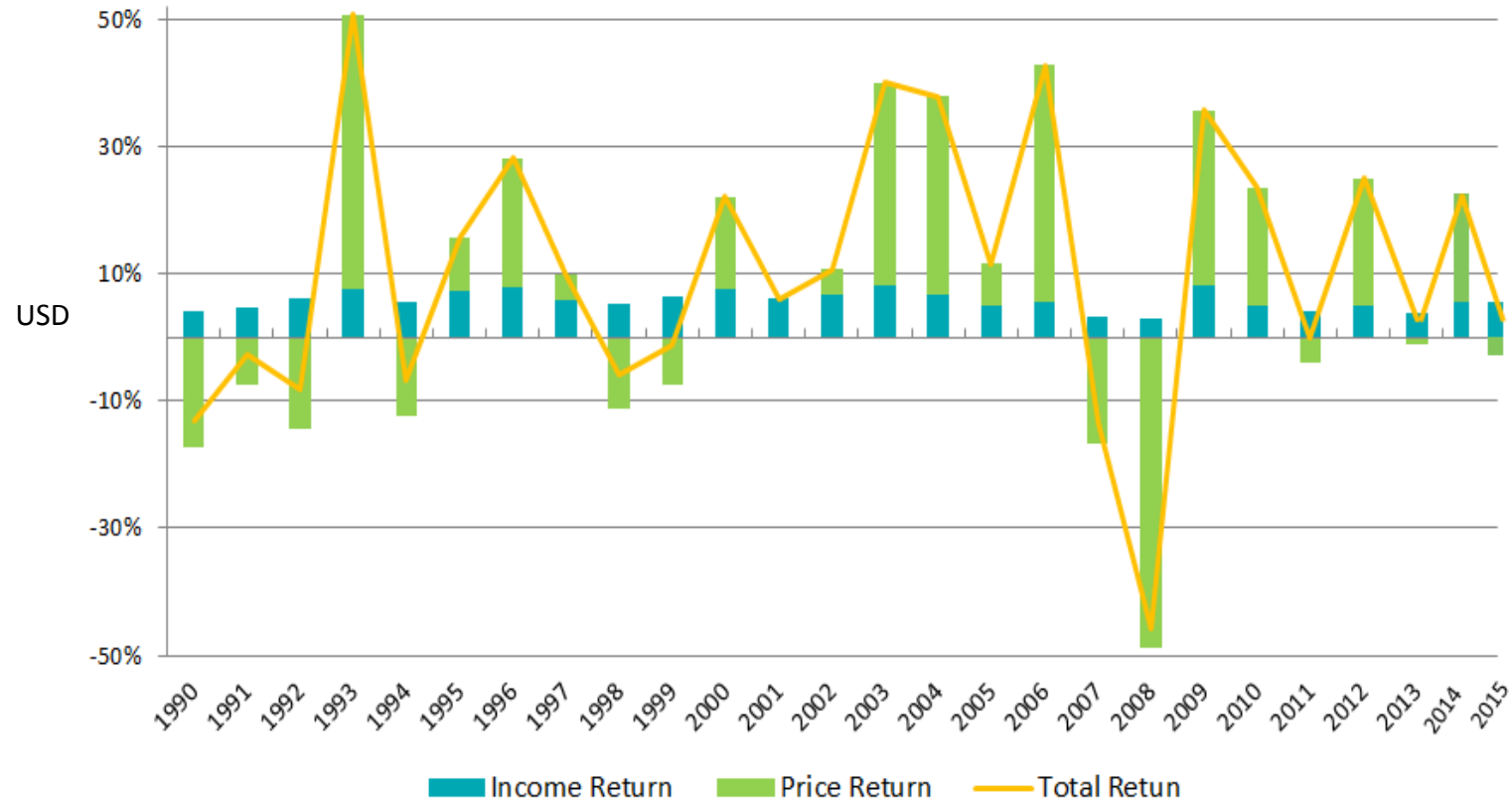
Adding Global Listed Property Helps to Improve Returns in Global Balanced Portfolios



Source: Cadiz BNP Paribas, Bloomberg and various indices to 31 August 2016



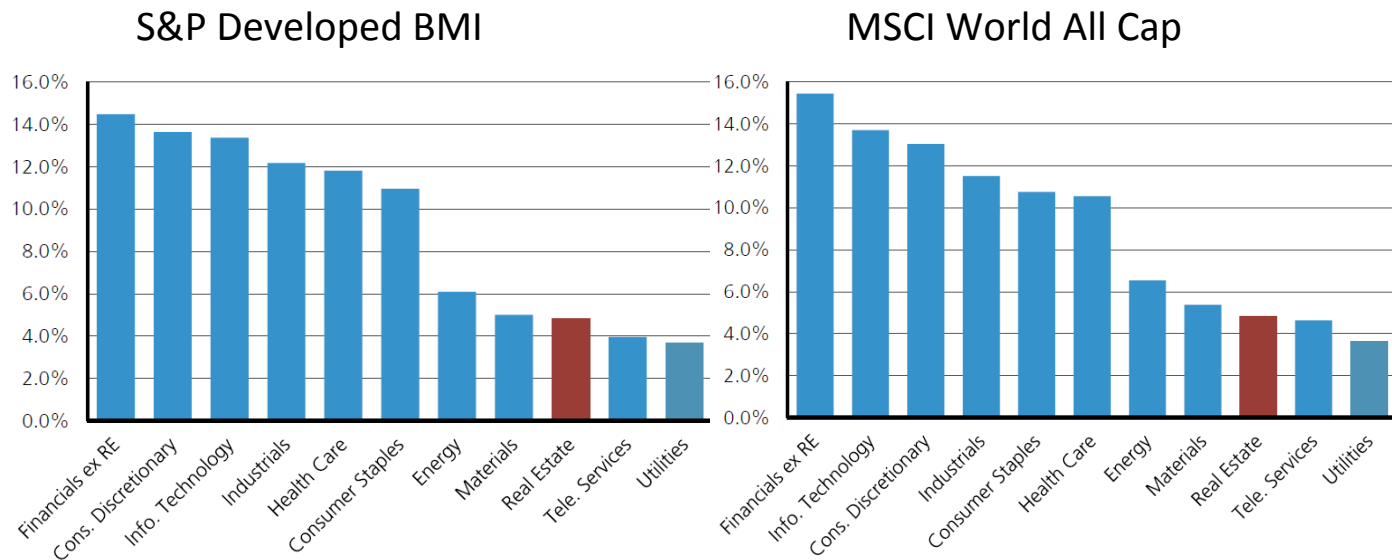
Global Property Provides Stable & Fairly Predictable Income



Source: UBS Investors Index , S&P Developed REIT Index, Bloomberg January 2016

Listed Property now a stand-alone sector

Rather than being part of Financials in S&P and MSCI Indices



Source: Data Stream, UBS August 2016





Upside Risk

- Better than expected economic growth
- Lower for longer interest rates
- Wall of money still chasing property
- Big gap between property yields and bond yields
- Limited supply of properties in most sectors
- Property now a standalone sector

Downside Risk

- Rising global bond yields and interest rates
- Lower than expected economic growth
- Brexit uncertainty

Global Listed Property Conclusion Developed Markets



THANK
YOU

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