
IPD Property Investment Conference 2011

EXPANDING HORIZONS

“Over the past 100 years, dividends were responsible for 90% of U.S. stock returns.”
BlackRock

Craig Hallowes
Director



HISTORY OF GROWTH AND PERFORMANCE

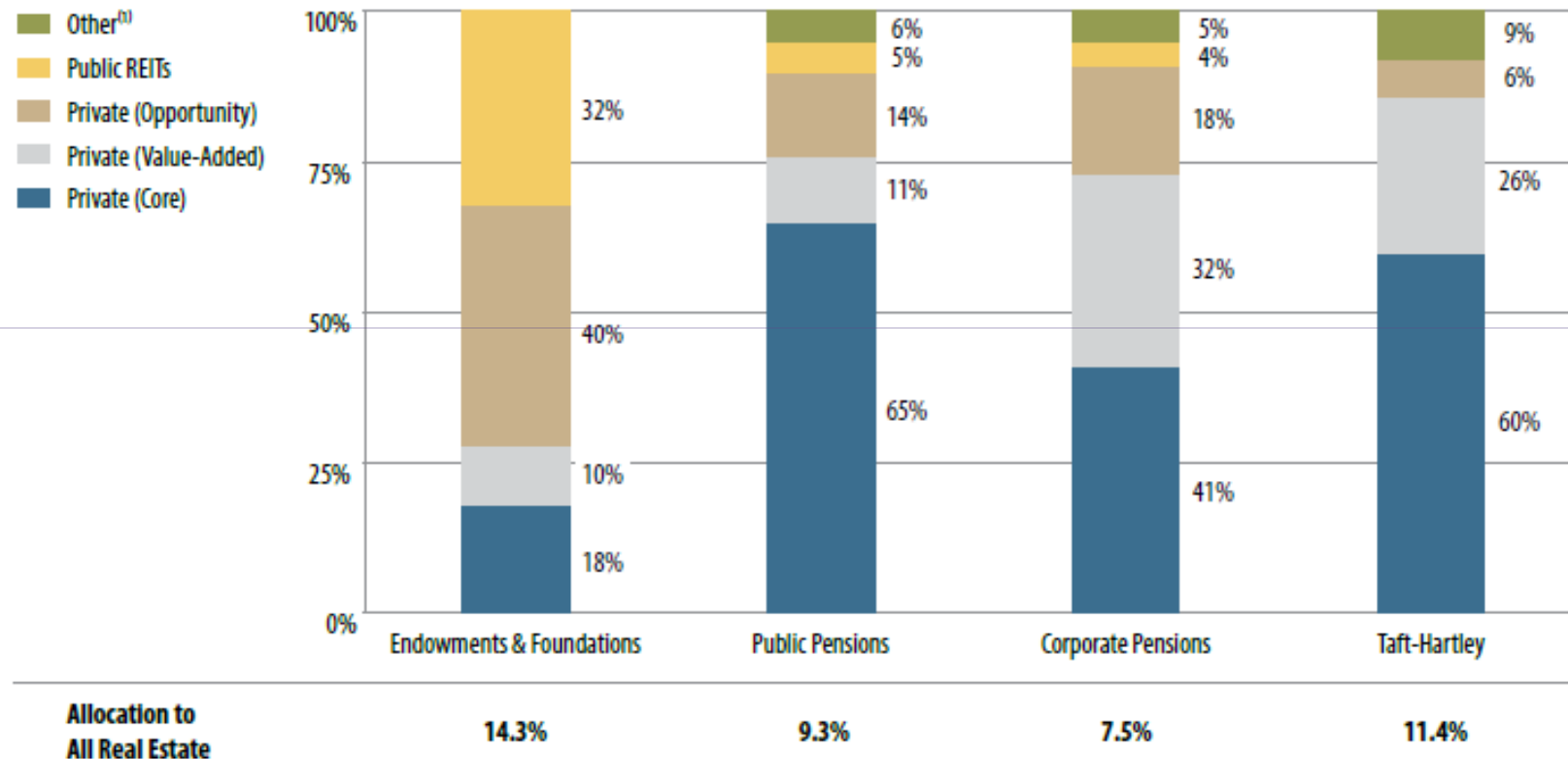
THE FOUR PILLARS OF REAL ESTATE INVESTMENT

- **COMPETITIVE TOTAL RETURNS**
 - *Linked to economic growth and value-added by management*
- **ATTRACTIVE CURRENT INCOME**
 - *Listed property minimum payout requirements and strong cash flows*
- **MODERATE VOLATILITY**
 - *Generally predictable revenues derived from contractual leases*
- **LOW CORRELATIONS**
 - *Low correlations to broad market and to fixed income*

(Source: Adapted from Cohen and Steers)

Institutional Real Estate Allocations

- U.S Institutions' Real Estate Allocation



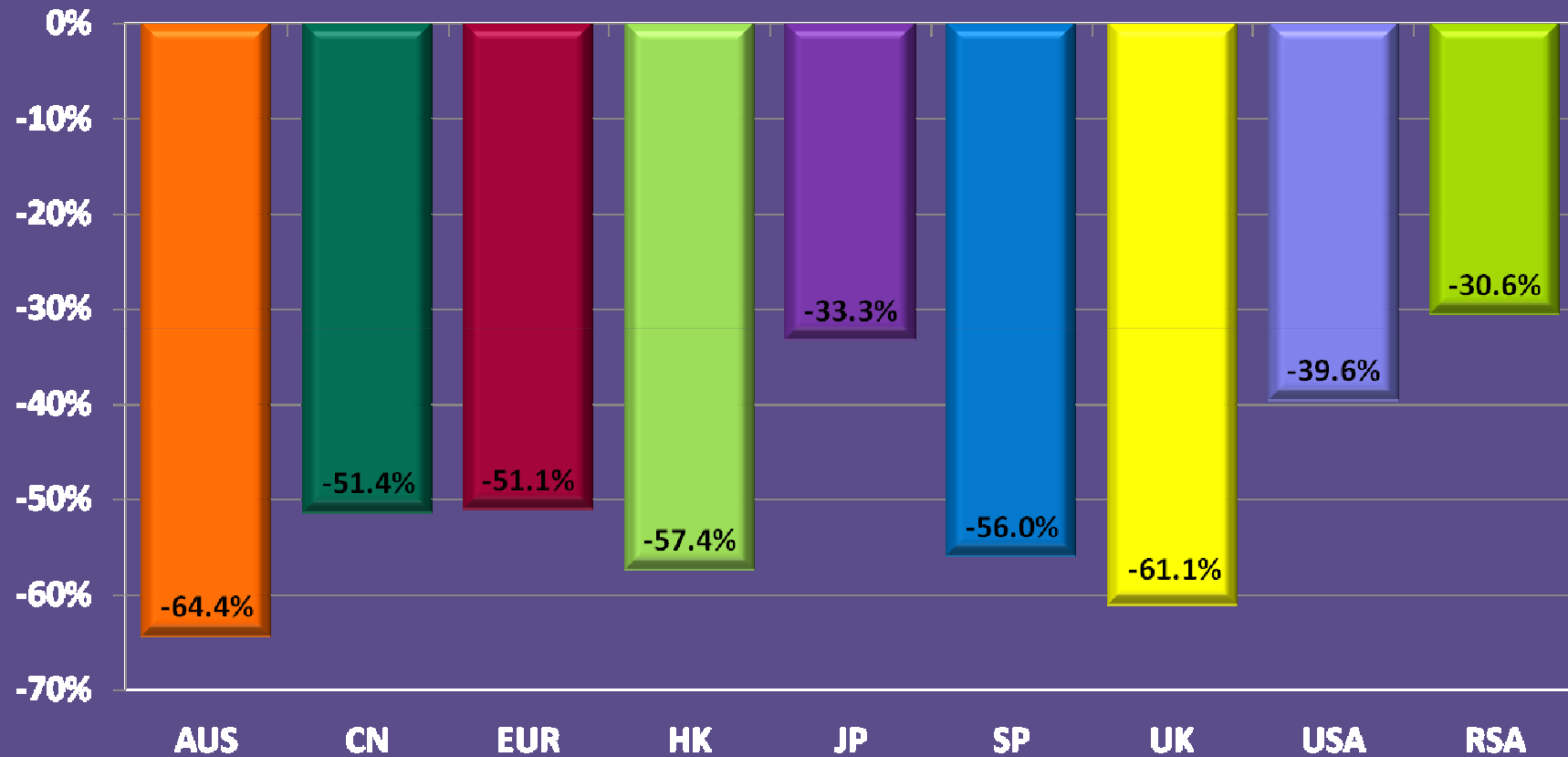
Source: IREI Tax-Exempt Real Estate 2009 Survey, Casey Quirk Analysis.

(1) "Other" includes private mortgages, Commercial Mortgage Backed Securities, securitized foreign investments and non-securitized foreign investments.

Asset classes not represented equal a 0% allocation. Allocations may not add to 100% due to rounding.

EPRA NAREIT Index

Historical Performance 2008

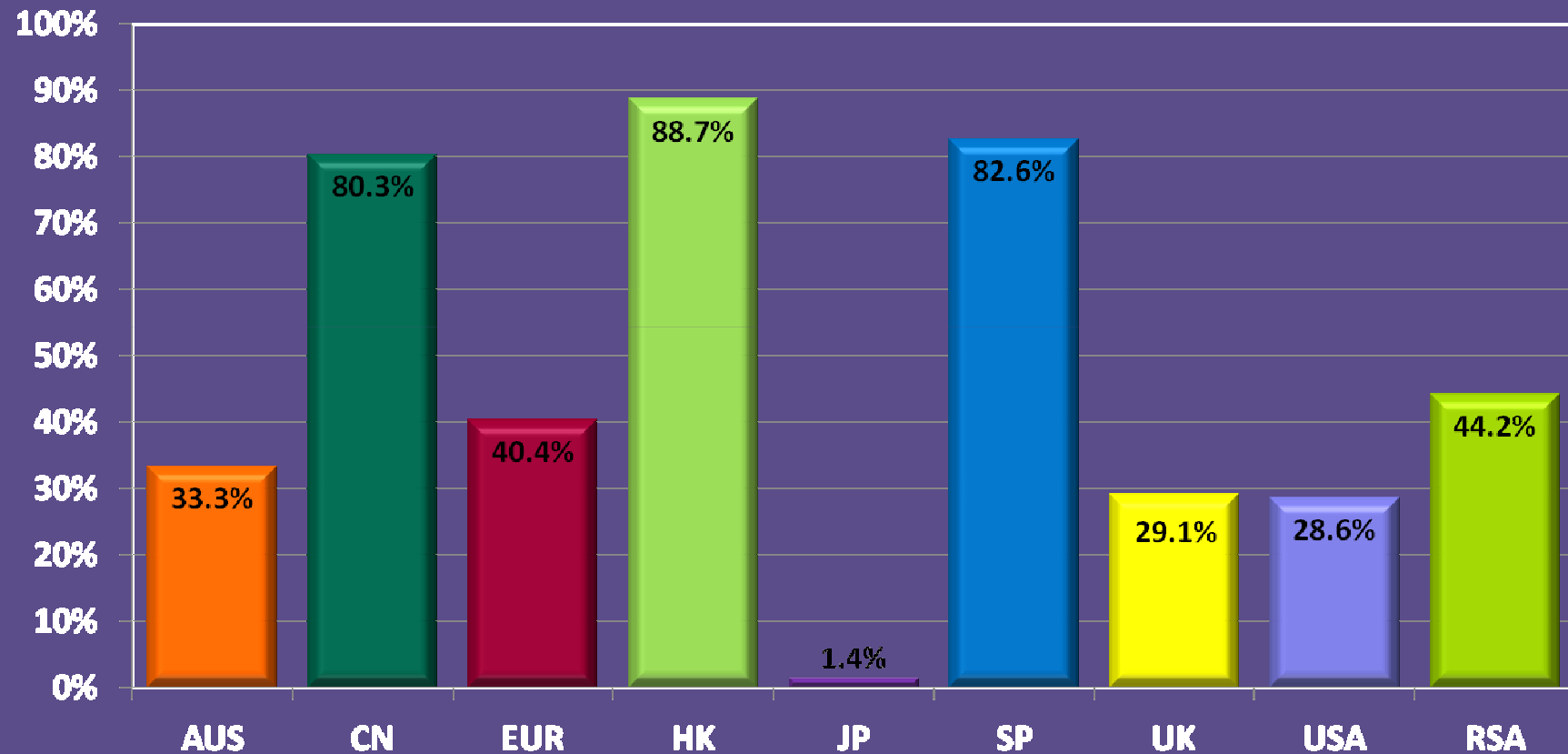


Source: Bloomberg

Note: Returns in USD, RSA returns in ZAR -4.5%

EPRA NAREIT Index

Historical Performance 2009

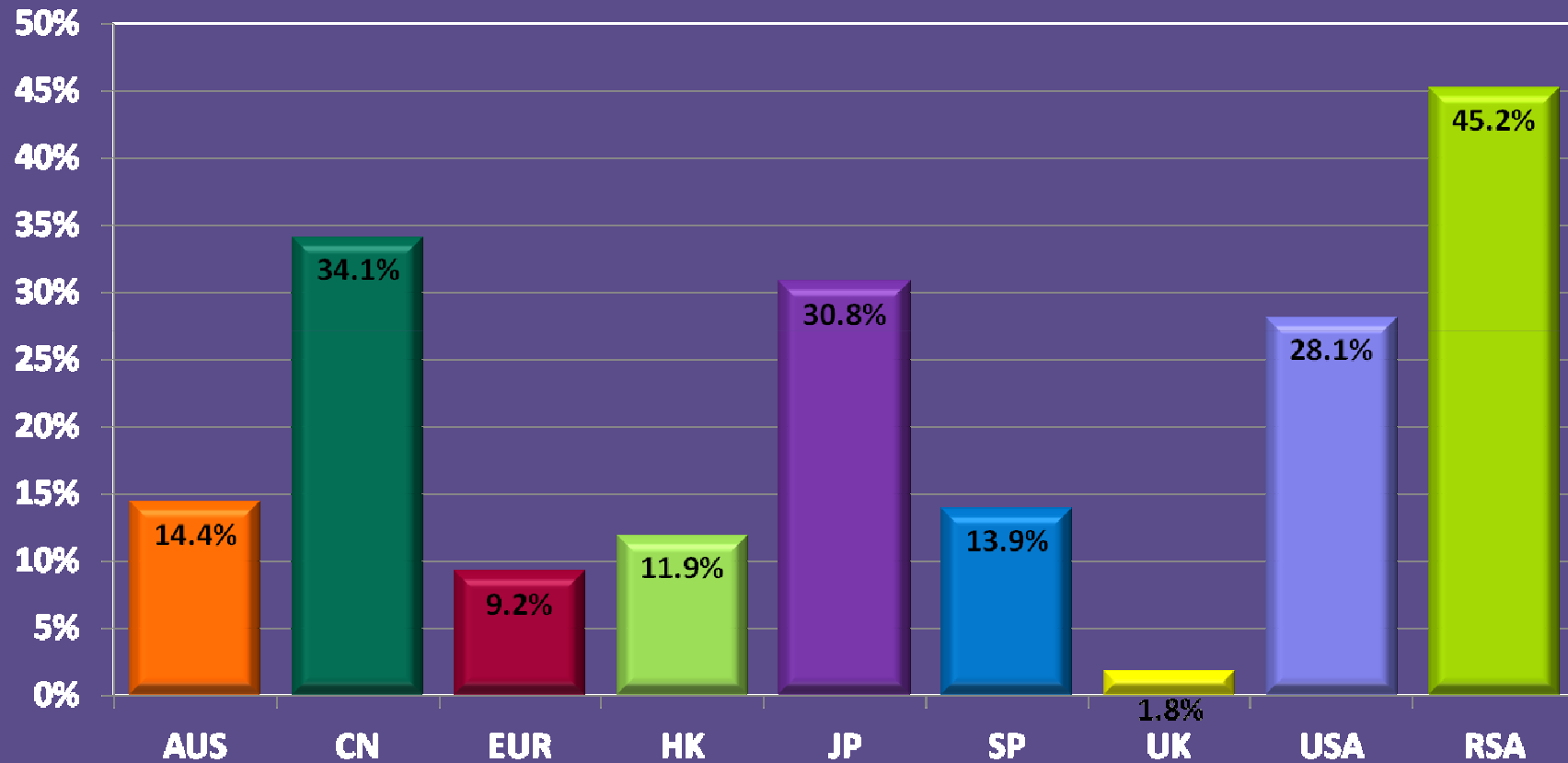


Source: Bloomberg

Note: Returns in USD, RSA returns in ZAR 14.1%

EPRA NAREIT Index

Historical Performance 2010



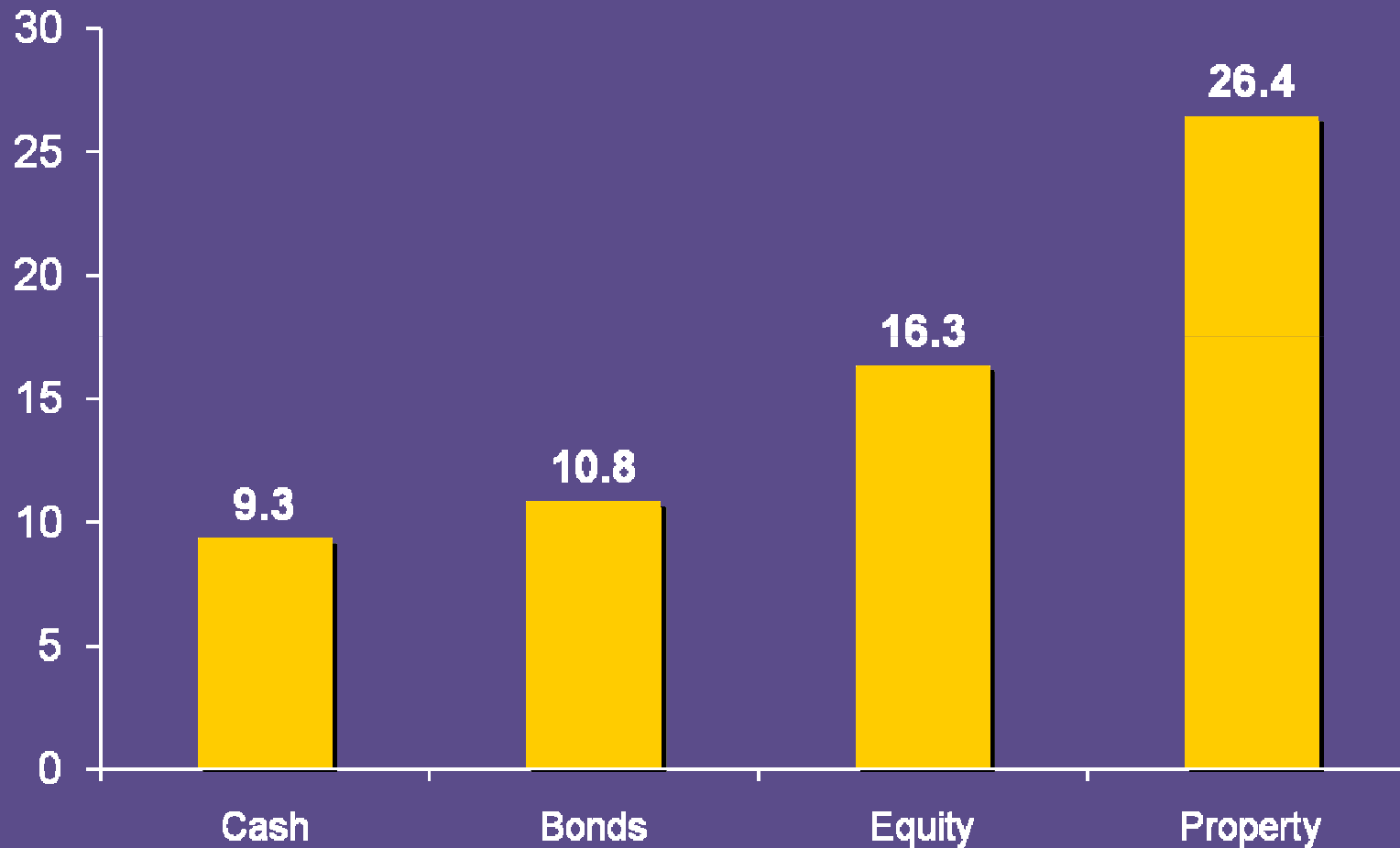
Source: Bloomberg

Note: Returns in USD, RSA returns in ZAR 29.6%

Performance

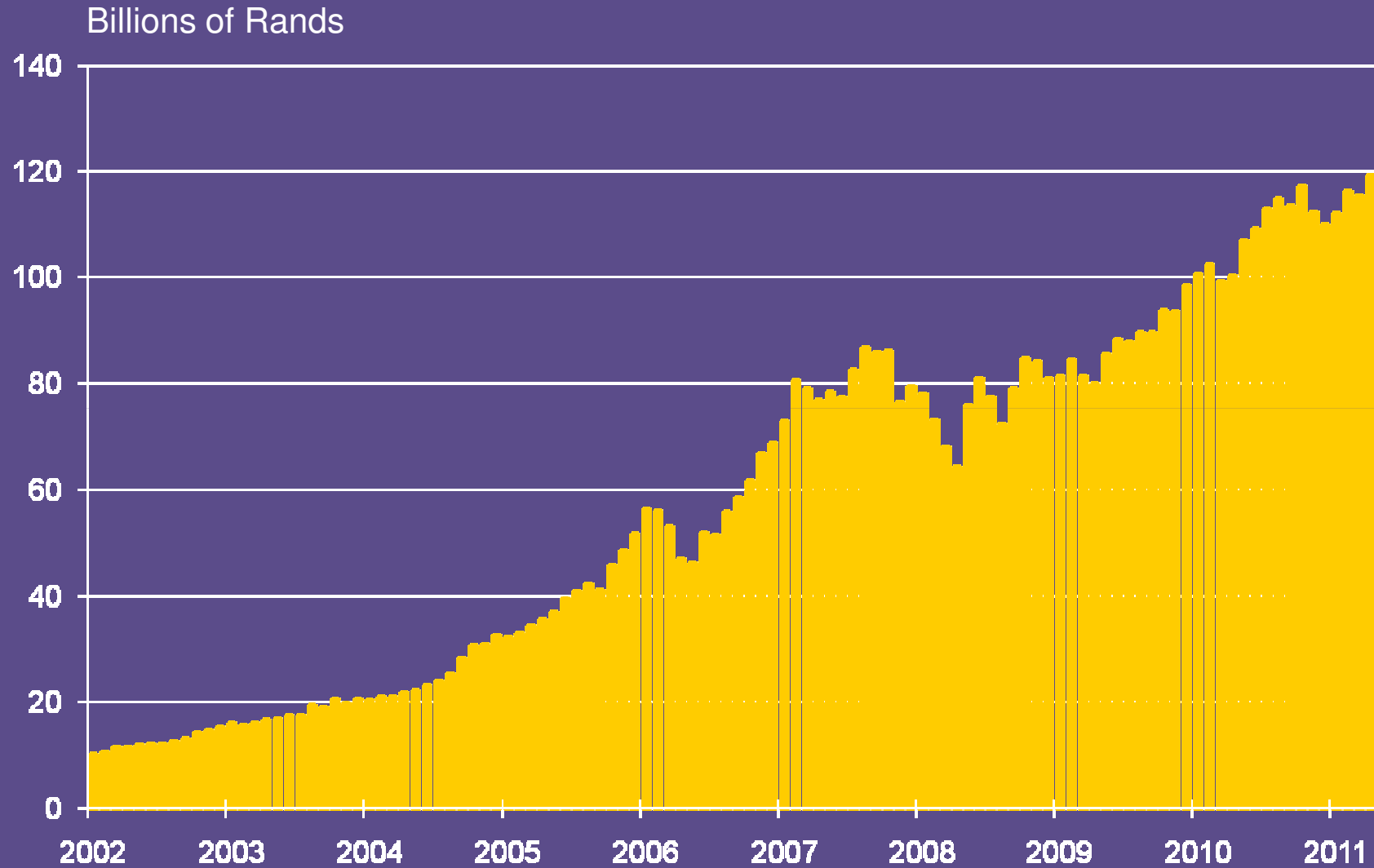
Outperform Leading SA Benchmarks

9 -Year annual compound total returns in percent, as of June 30, 2011



Source: I-Net

Market Capitalisation

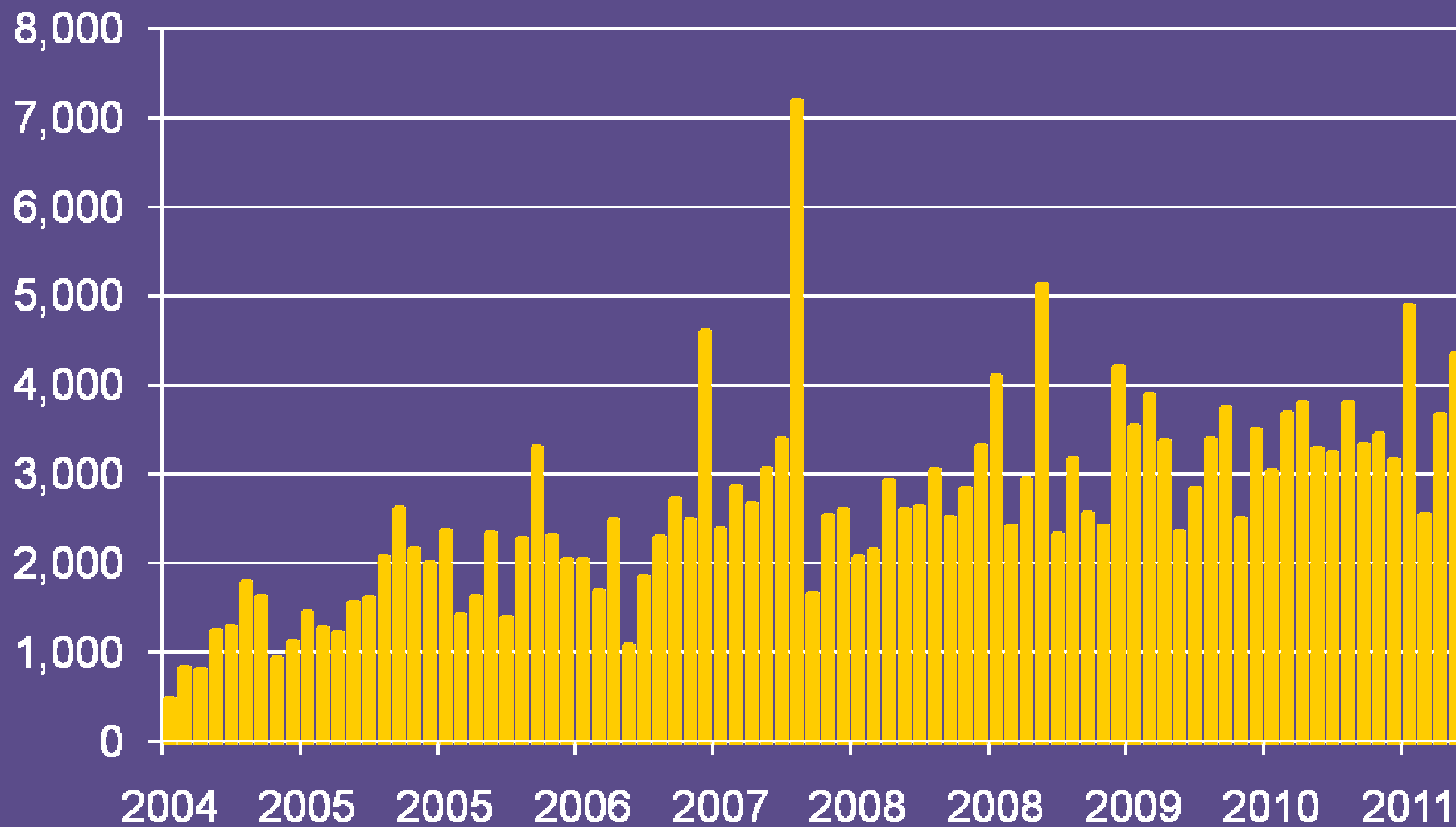


Data as of June 30, 2011; Source: I-Net

Liquidity

Average Daily Trading Volume

Market liquidity improved, value traded up from less than R500m a month to R4bn a month



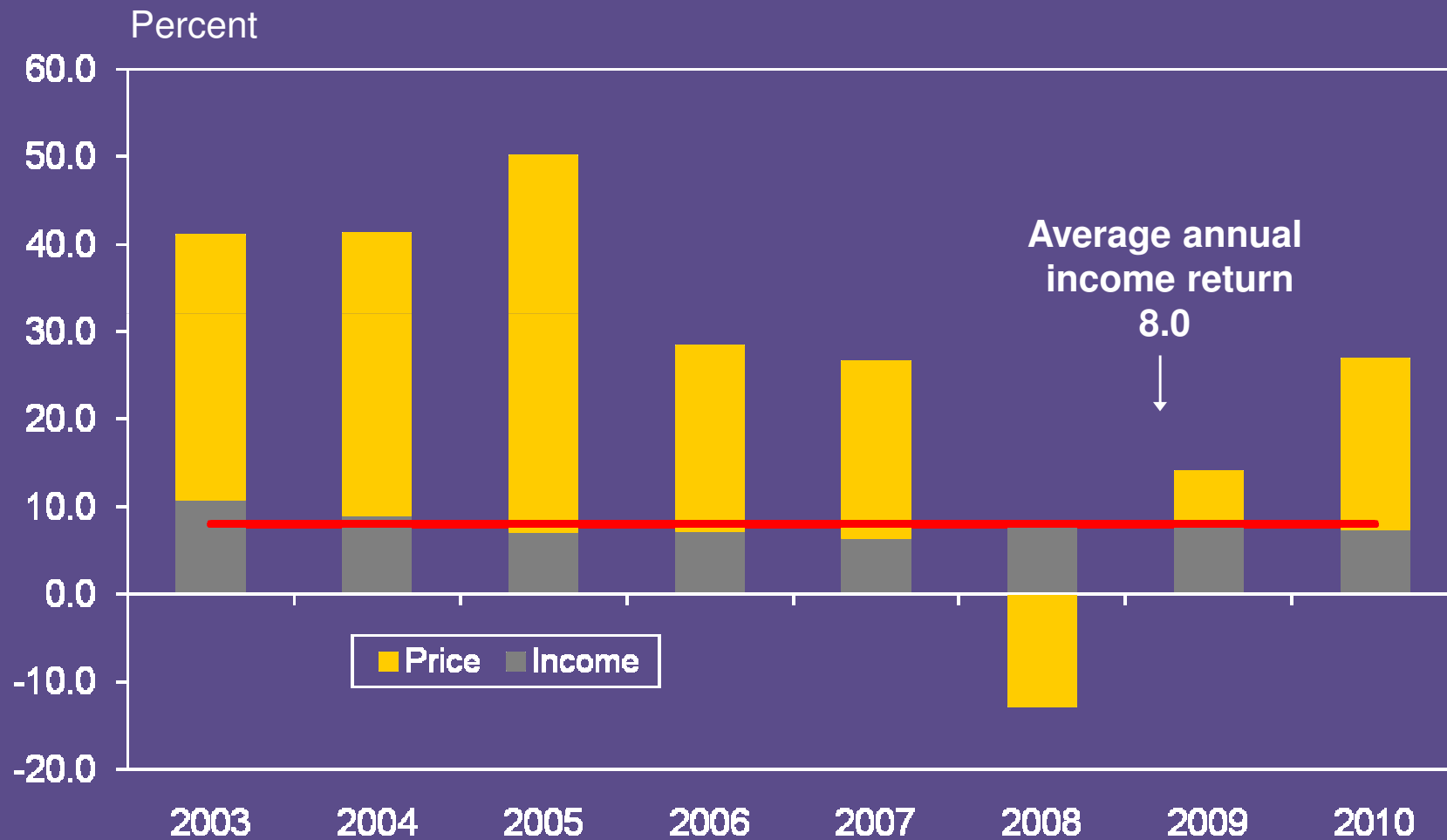
Data as of June 30, 2011; Source: I-Net

Dividends

Deliver Reliable Current Income

Average annual returns: 27.2 percent

Average annual income: 8.0 percentage points or 30 percent of total return



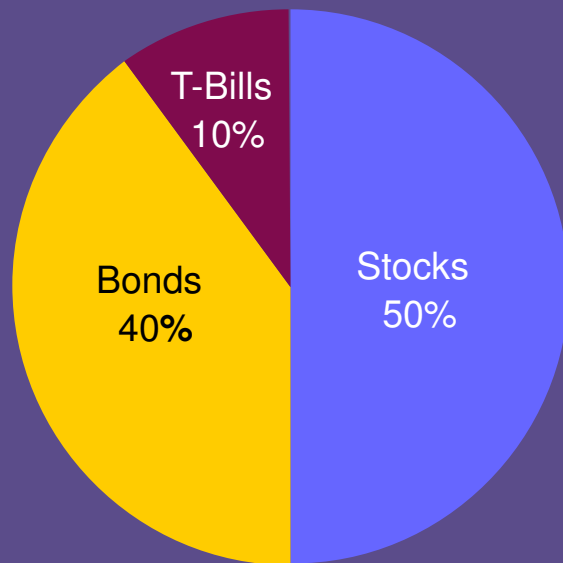
Source: I-Net

Diversification

Diversify to Reduce Risk and Increase Return

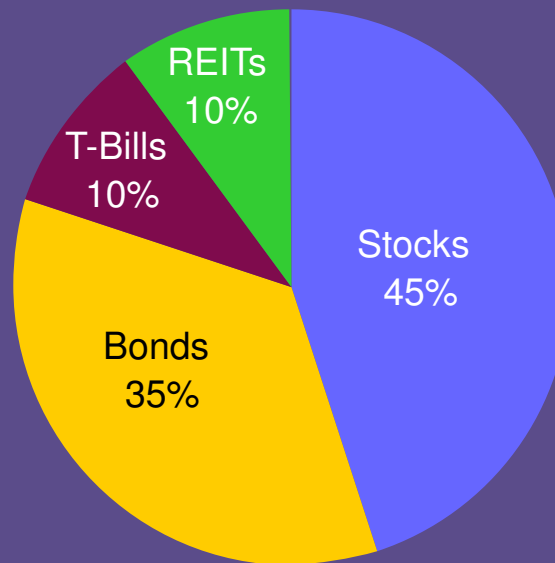
Stock and bond investors 1972–2005

Stocks and Bonds



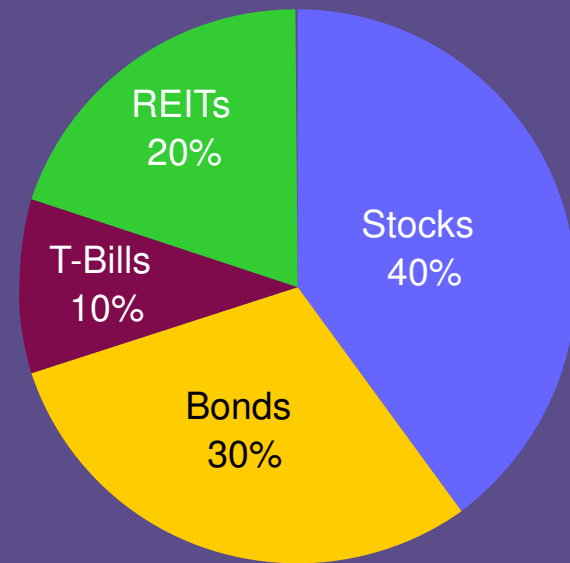
Return 10.7%
Risk 11.0%
Sharpe Ratio 0.42

With 10% REITs



Return 11.0%
Risk 10.7%
Sharpe Ratio 0.46

With 20% REITs



Return 11.4%
Risk 10.6%
Sharpe Ratio 0.50

Source: Stocks—Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general; Bonds—20-year U.S. Government Bond; Treasury Bills—30-day U.S. Treasury Bill; REITs—FTSE NAREIT Equity REIT Index.

Diversification

Historical Total Return Correlations

5 Year Correlations				
	Property	Equities	Bonds	Cash
Property	1.00	0.36	0.69	-0.09
Equities	0.25	1.00	0.06	-0.27
Bonds	0.77	0.05	1.00	0.04
Cash	0.21	-0.38	0.28	1.00
3 Year Correlations				

Data as of June 30, 2011; Source: I-Net, PropTrax Managers

Trends and Outlook for Global RE Securities (1)

- Trends

- *Lack of development opportunities*
- *Quality assets have recovered*
- *Cap Rate premium on quality*
- *Occupancies are stabilising*
- *Balance sheets have been repaired and low interest has benefited REITs*
- *Most funds are actively managing lower-end assets*
- *Acquisitions – as main growth driver (non-organic)*
- *Stronger distribution growth expected*

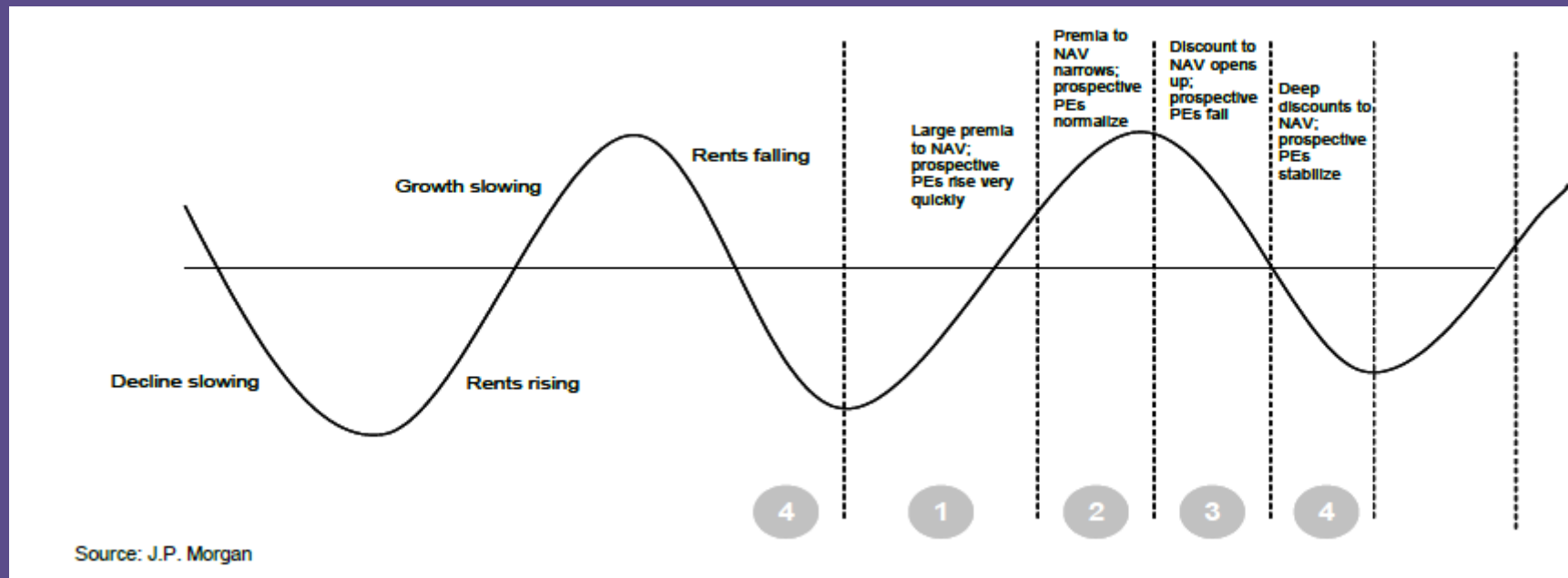
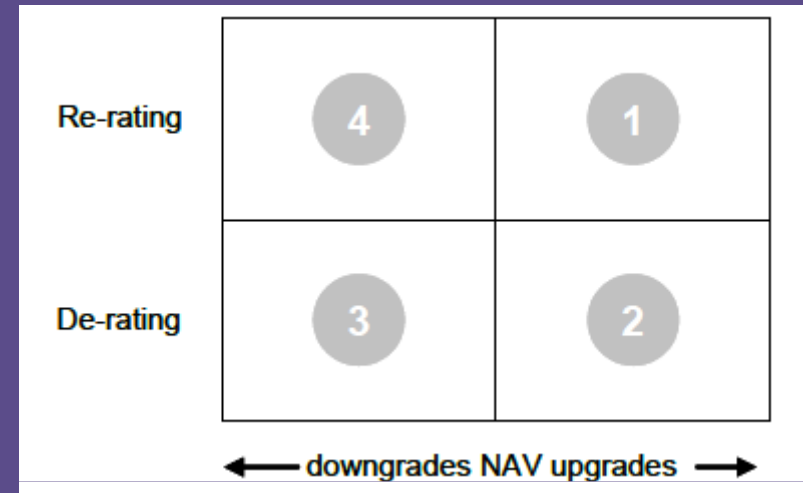
Trends and Outlook for Global RE Securities (2)

- **Negative Influences:**
 - *Unemployment*
 - *Global economic slowdown*
 - *High level of consumer indebtedness*

- **Positive Influences:**
 - *Federal government stimulus packages*
 - *Low interest rates*

Property cycles and how property securities trade

- Four phases of property securities cycle
- Asia property markets are moving quickly through re-rating/de-rating phases in the short term due to very elevated macro/policy
- Overall trend in Asia property cycle is up; NAV upgrade trend is well-entrenched
- Expect modest NAV upgrades in 2011, on the back of low interest rates



Fundamentals in SA Listed Property

- Low interest rate environment
 - Inflationary concerns
 - Bond-like characteristics
- Vacancies:
 - Retail
 - Industrial
 - Offices
- Demand and supply dynamic
 - Construction is down
 - New property supply lead times
 - Cap Rates – defensive quality vs secondary assets

Factors affecting SA Listed Property

- Plethora of legislative initiatives creating headwinds
- Regulation: competition commission, FSB, JSE, SARB, SARS
- Dysfunctional local government
- Rates and taxes, electricity, water – effectively an ‘indirect’ tax
- Servicing and development constraints
- Department of Public Works
- PIC

Trends in SA Listed Property

- Companies are well capitalised, with experienced, professional management
- Debt is low, and has remained so compared to international companies
- Premium assets performing well
- Non-major metropolitan retail is growing
- Secondary offices and industrial in non-major metropolitan performing poorly
- Government services a problem: courts (collections), utilities, town planning and zoning
- Companies now duplicating/ running parallel with government services
- Non-organic growth likely, due to stock shortages
- Regulation: missing the point

The Questions in SA Property (1)

- What property fundamentals underpin the performance – the fundamentals of supply and demand
- Sustainability of the property bull - yes, it is sustainable because of constraints on supply including lack of new developments, dysfunctional local government (services, zoning, general infrastructure, rates and taxes and utilities increases), government social spending, growth in the economy
- Capital growth is a factor of net income and capitalisation rates – yes
- Can valuations be trusted – yes, as the listed sector valuations are undertaken by independent valuers. If we look at listed prices to NAV, we see a 5-year average premium of 13% and a current NAV premium of 17%.
- How good is management – not perfect, but they have managed to weather the storm and grow during the global melt-down

The Questions in SA Property (2)

- Risks to NET income and how do we test
 - The ability to bill (municipal accounts) and collect (legal process and the courts)
 - Tenants failures
 - Vacancies
 - Under-rents for contractual periods
 - Under-recovery on utilities
 - Service providers' increases
 - Maintenance/ repairs and the skills required therefore

Indicators in SA Property

- Vacancies up – office sector vacancies up from 9.9% 1Q11 to 10.0% in 2Q11, mainly in secondary assets (B and C grade) (Source: Macquarie)
- Rising interest rates – 4Q11 or in 2012? There is an 80% historical correlation between the repo rate and listed property yields, and 90% between listed property and the long bond yields since 200 (Source: Macquarie)
- Liquidations for second quarter 2011 down 52.7% compared to second quarter 2010
- First six months indicate a year-on-year decrease of 22.9%, with company liquidations decreasing by 32%
- Personal insolvencies were also down year-on-year May 2011 by 37.5% (Source: Bowman Gilfillan Attorneys)
- CPI – is it in the band of 3% to 6%, and is it comparable with the CPI of 2000? Will the real inflation rate please stand up?
- Forecast growth in distributions of 8.4% forward (Source: Macquarie)

THANK YOU

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