

Reitway Global - A smart alternative to physical property

By Sudha Ganesan MBA– September 2016

Franklin D. Roosevelt observed that real estate cannot be lost or stolen, nor can it be taken away. He also noted that real estate purchased with common sense, paid for in full, and managed with reasonable care, is the safest investment in the world.

Commercial property is often targeted as a means of accumulating wealth and generating a secondary income. However, “paid for in full” is not something we necessarily agree on, as FDR is missing a key advantage of owning property in his statement, that being the use of debt to leverage returns.

The question then is what is the optimal level of debt that an investor should apply? The answer lies in the individual investor’s risk appetite and of course, what lenders are prepared to put forward.

Notwithstanding an investor’s appetite for risk and the accompanying level of debt, an upfront and sizeable amount of capital is still required when it comes to purchasing physical property. Furthermore, the process of purchasing physical property is time consuming and comes with high administrative costs. In addition, landlords face the risk of delinquent tenants and maintenance costs.

Why is investing in a Global Listed Property Fund a smart alternative to owning and managing physical property?

These vehicles give investors exposure to large commercial property portfolios housed in REITs (Real Estate Investment Trusts) across the globe. The prime benefit being the holdings provide currency, as well as geographic and sectorial diversification. In addition, these funds are managed by professional investment managers, thus allowing investors to focus on their primary business activities.

To this end, the Reitway BCI Global Property Fund has achieved a compound annualised growth rate of 25.73% since February 2012 to 30 August 2016. This performance can be tracked on a daily basis and detailed information is available on the company website at www.reitwayglobal.com.

Reitway’s leveraged alternative

The Reitway BCI Global Property Fund is composed of a portfolio of listed global REITs. These underlying REITs within the unit trust fund have had an average debt exposure of approximately 30% over the last four years. This may be considered overly conservative by some investors who in many cases are comfortable to hold properties with a loan to value of 60% or even more. The Reitway Global leveraged product which is listed on the JSE is just the product for investors with a higher tolerance for risk and volatility.

The Reitway Global Leveraged Equity Structured Product (JSE code: ESPIB1) is a daily traded share that comprises of the Reitway BCI Global Property Fund, with an additional leverage of approximately 30%. The consequential debt to value is ratcheted up to approximately 60%. This is similar, if not slightly lower, than what banks would ordinarily offer for physical commercial property.

Leveraging is an innovative way of increasing your exposure to the fund which in turn magnifies returns (or losses). With approximately 30% of leverage added to the Reitway BCI Global Property fund, investors have achieved a return of 37.98% over the past year to 31 August 2016 versus 28.93% without the additional debt. Leverage had enhanced performance of the fund by 31.28%.

Further, an often unsurmountable impediment confronting small investors is the need to place a substantial deposit (40% to 50%) when acquiring commercial property. To this end, the Reitway Global Leveraged Equity Structured Product is more readily accessible and only requires a minimum investment of R100,000 as an entry point.

“90% of all millionaires become so through owning real estate”- Andrew Carnegie. We share this sentiment, however Andrew Carnegie lived almost a 100 years ago and our argument is that there are far more innovative ways of investing in property today.

Disclosure: The author is currently invested in the Reitway BCI Global Property Fund. For further information please contact us at info@reitwayglobal.com.