Redefining Listed Property Investing

The home country bias and global REITs

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The home country bias

The International Journal of Economics and Finance states that "in order to reduce portfolio risk, investors should hold nationally and internationally well diversified portfolios." The same source also cites international portfolio theory that in terms of portfolio construction, international diversification should take higher precedence over diversification within respective national markets.

However, investors persistently overweight their allocations towards domestic assets. This is known as *the "equity home bias*."

The reasons for the irrational equity home bias include:-

- Transaction costs
- Asymmetric information (investors have a better sense of what is happening in their respective geographies)
- Exchange rate risk

Other factors that contribute towards this disproportionate "local" bias include:-

- A preference for the familiar
- Liability hedging
- A large presence of multinational companies on local bourses which lulls investors into the belief that this is an adequate source of diversification

South African real estate fundamentals are weak – local landlords are looking offshore for opportunities

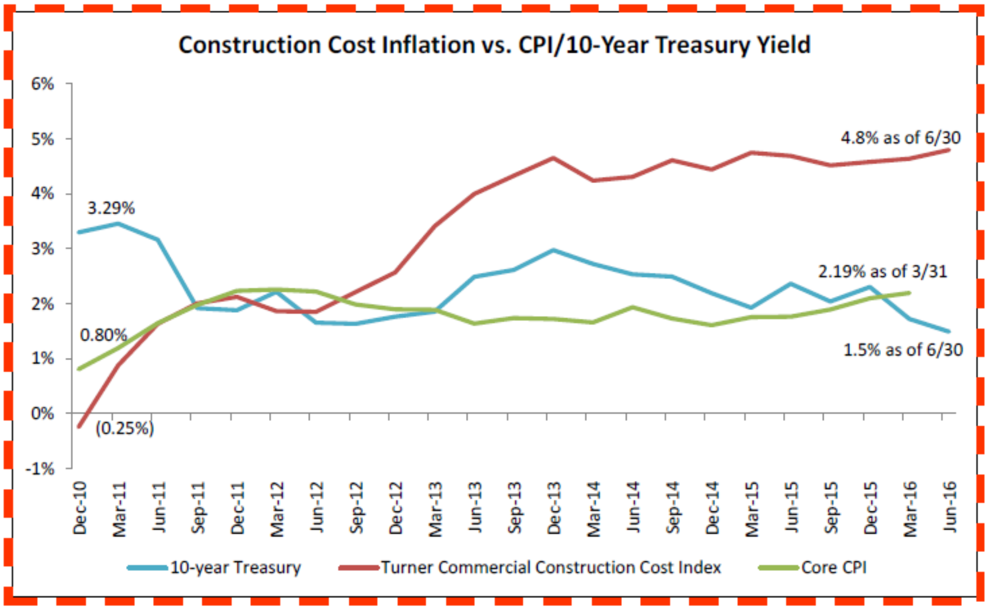
The CEO of the largest South African commercial landlord (Growthpoint) recently highlighted the following factors with regards to the South African property environment:-

- Deteriorating property fundamentals
- A poor macroeconomic outlook with limited growth opportunities, particularly in real terms
- Political/sovereign risk and the looming downgrade of South African debt, which would adversely affect sovereign and corporate borrowing costs
- Inferior South African yield spreads compared to cost of debt
- Deteriorating demand/supply dynamics in SA, with excess stock coming online (most recently in retail)

The result is that local landlords have embarked on a strategy to increasingly internationalise their footprint. By their own admission, though, it is tough for them to compete against foreigners on strange turf, both in terms of market knowledge as well as access to attractive opportunities.

Therefore it makes much more sense to invest in landlords who are experts in their respective regions worldwide. To this point, South African investors shouldn't be fooled that some UK and European exposure in terms of local REITs represents adequate global diversification. A true global approach is required.

Globally, there is a surplus of great opportunities. For example, in the US, the largest listed and most diversified property market in the world, fundamentals are solid. A key aspect of this, as seen below, is that construction cost inflation has been significantly above general inflation. This has meaningfully curtailed supply.



Source: Raymond James

In an environment of even modest economic growth as well as robust tenant demand, landlords are able to achieve strong rental growth. This is what drives REIT profitability over time. The specific dynamics differ by geography and sector, but the main point stands: global investing offers a wide array of attractive opportunities.

At Reitway, we specialise in global listed property investing

Yes, South African REITs have a substantial and growing global exposure. However the South African opportunity set is but a minor fraction of the global market.

We at Reitway Global, along with our global research associates, specialise in nothing but global REIT investing. In an environment where the leading landlords are pessimistic about prospects in South Africa, with strategic intentions to expand offshore, shouldn't you be investing in global listed property?

For more information about Reitway Global Property Funds, please visit our website at www.reitwayglobal.com or contact us at 021 551 3688.