

## MAJOR FOREIGN CAPITAL INFLOW INTO SA EXPECTED - 2007/01/15

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According to Angelique de Rauville, fund manager of Investec Property Equity Fund and an executive of Investec Property Group, there is a construction boom taking place in South Africa and it is likely to continue until at least 2010.

In addition she says that foreign direct investment into South Africa has increased significantly from R5,1 billion in 2004 to R40,7 billion in 2005 according to the Reserve Bank's 2006 Annual Economic Report released at the beginning of 2006.

"Subsequently, estimated foreign investment into the JSE has continued to increase, with projected foreign net inflows for 2006 in excess of 25% higher than the previous year (2005)," she says. "The bulk of foreign investment into South Africa has been resources and fixed income investments.

"When it comes to South African property, the foreign inflows have largely been limited to the residential property market."

She explains about the recent foreign interest in direct property that was aimed at the Victoria & Alfred Waterfront. "When it comes to listed property, the foreign shareholding is still estimated at below 2% of total market capitalisation," she says.

"Foreign investors are responsible for some of the major sell-off in the listed property sector between 11 May and 17 July 2006."

De Rauville stresses that the 36% difference between listed property's high point and low point in 2006 and the volatility around interest rates are detrimental to attracting foreign investment into South Africa.

However, de Rauville is confident that as international hedge fund managers start to play in the listed property sector, as South Africa emerges as a preferred investment destination for developing countries and as the global investment industry becomes smaller, with cross-border investment increasing and becoming less complicated, there will be a "major capital inflow into the country".

In order to absorb the growth, she is of the opinion that South Africa will need to be "bigger and better".

"Market capitalisation needs to double to be on the radar screen of foreign investors," she says. "The South African listed property market capitalisation needs to increase through property deal activity and there has to be greater liquidity in ZAR terms, not necessarily in volumes.

"Conversion of the current Property Unit Trust (PUT) and Property loan Stock (PLS) structures to the internationally known and understood REITs structure will also have to take place.

"Tradeability, which at just under 40% per annum is more liquid than the ALSI 40 and acceptable in terms of international standards, must continue, as must reporting and disclosure transparency and listed property expertise, including fund management and property administration capabilities."

In addition, according to de Rauville, to absorb the growth South Africa will

need less structures as co-investors restrict merger of acquisition of listed property stocks; less Robert Mugabes and negative international news, which lead to downbeat sentiment; and less commentators rejecting the idea of international investment into the sector.

"Demand will result in a firming of capitalisation rates and a decrease in listed property yields. Property values and listed property share prices should also increase," she says.

De Rauville points out that if the Old Mutuals sold the likes of the Cavendishes, Gateways and Menlyns, "that would definitely attract foreign investment".

However, according to her, the sale of direct property assets into listed property sector will have to be simultaneous, if not co-ordinated, and a re-rating in both the direct and listed property sectors will be likely. - Kara Michaels