

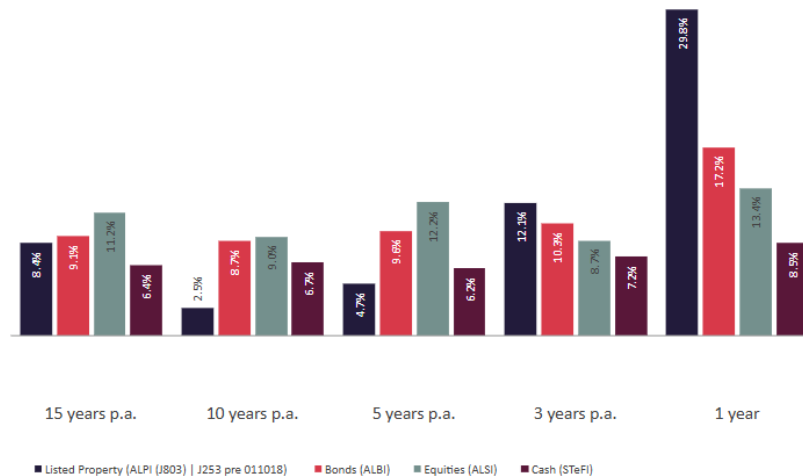
SA property had an exceptional year in 2024: where to next in 2025?

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Ninety One sees a continued improvement for local property as rental reversions trend up across retail, office, industrial sectors

The SA property sector was one of the best performing asset classes in 2024, benefitting from the post-election optimism and a potential long-awaited turnaround in economic fortunes for the country. Helped by declining local bond yields, listed property returned almost 30% for the year:

South African asset class total returns – period to 31 December 2024

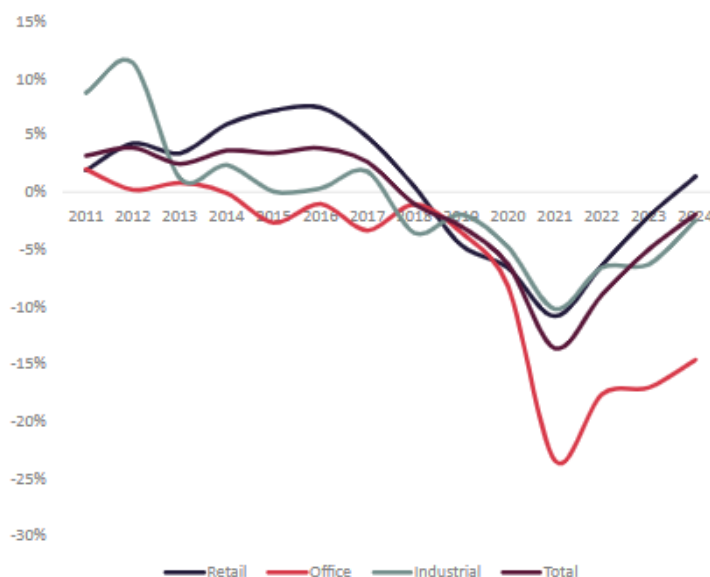


Source: Ninety One

The majority of this return was through re-rating, with comparatively smaller contributions from income and income growth. This echoed the case for many SA assets in 2024, where returns were driven by increasing expectations from a low base, rather than fundamental improvement.

Looking ahead into 2025, we see a continued improving trajectory for local property as rental reversions begin to trend upwards across the retail, office and industrial sectors.

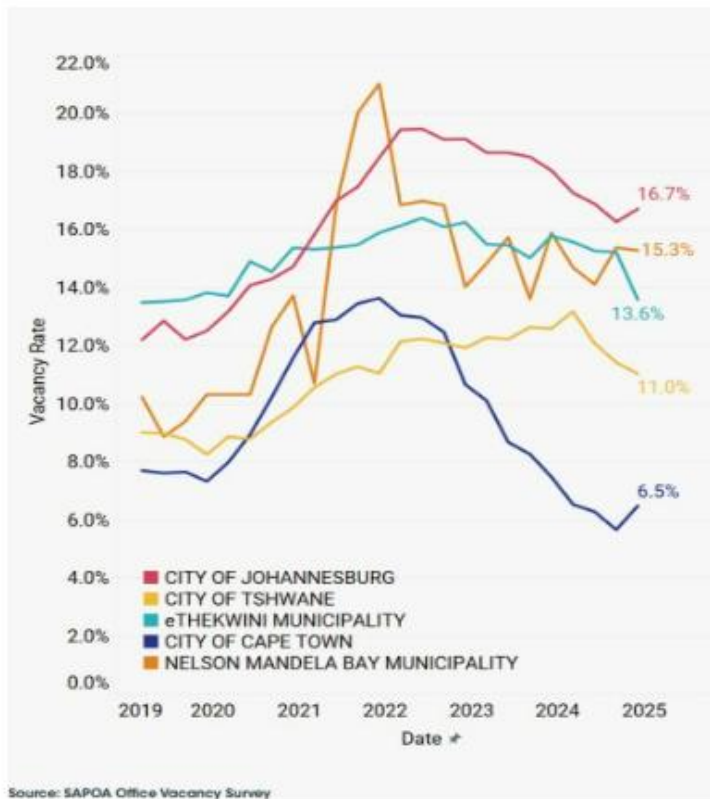
SA rental reversions



Source: Ninety One

In retail, we are seeing rental growth starting to emerge, and we believe this should be supported by low vacancies, greater tenant affordability and high sales growth. Similarly in offices, while there is divergence among different regions, we are starting to see reductions in vacancies. With new office developments largely non-existent at this stage, the outlook for vacancies and rental growth should be supportive as we move into the current year:

Vacancy by Region – December 2024



From a valuation perspective, the property sector is trading around its highest Price/NAV levels post-COVID. However, on a longer-term basis, the sector is still comfortably below average valuation levels:

Sector Price to NAV



Source: Ninety One

We continue to see select opportunities in SA-orientated names exposed to retail and industrial subsectors (i.e. Hyprop, Equites Property Fund and Vukile), while the UK retail names (Hammerson and Shaftesbury Capital) also offer an attractive combination of yield, growth, strong balance sheets and accelerating improvement in fundamentals.

Overall, we expect a decent year for local listed property in 2025. While the majority of the rerating has probably already occurred, fundamentals for the sector appear reasonably favourable. Prospects are clearly very closely tied to the anticipated economic recovery in SA continuing to make progress, and any disruptions or noise, as we have seen in the early part of this year, will impact sentiment in the short term. However, fundamental trends such as higher competition for space in light of limited supply are likely to persist and lead to reduced negative reversions and therefore growth in rental income.

Dividend sustainability also looks much improved. With many companies having restructured their balance sheets, current dividend streams are well covered by operational income. Against the backdrop of moderately declining local interest rates, this should provide a favourable environment for decent returns in 2025. With anticipated income returns in the region of 8% on average likely to be bolstered by some growth and marginal rerating, we see low double digit returns as an achievable target for the sector this year.

[Tax-free savings accounts \(TFSAs\)](#) were introduced in 2015 to encourage South Africans to save more. Some ten years later, we now have a sufficiently long track record to analyse whether investors and advisors are maximising the material benefits that they offer: the growth and income received on a TFSA are tax-free, which means that you are not liable for any capital gains tax (CGT) or income tax on the dividends and interest received on your investment.

Maximise your annual TFSA contribution, early in the tax year

An investor who has maximised their annual contribution limit from the outset would have invested R339 000 by the end of February 2025. Interestingly, the largest TFSA account value on the Ninety One Investment Platform (Ninety One IP) was approximately R833 000 by the end of December 2024, i.e. tax-free growth of R494 000 – almost two and a half times the total amount invested! And in aggregate, TFSA investors at Ninety One IP now have a total of approximately R5.1 billion invested, being a combination of the smallish annual contributions and tax-free market growth.

Maximising any tax benefit is an important consideration, as is appreciating that the earlier you start earning investment returns, the earlier those investment returns start compounding. Analysis undertaken by Ninety One showed that simply investing in the Ninety One Opportunity Fund via a TFSA at the beginning of each tax year, as opposed to the end of the tax year would result in as much as an additional 10% payout after 15 years. And, for those who cannot commit to an investment of R36 000 at the beginning of each tax year, it is more financially rewarding to initiate a monthly debit order of R3 000, as this results in an additional 5% compared to investing R36 000 at the end of each tax year.

Unfortunately, an analysis of Ninety One IP TFSA cash flow shows that not only are many investors waiting until the end of the tax year to top up their TFSA but that many debit order investors have not increased their monthly debit order amount from the previous maximum contribution limits of initially R2 500 per month, to R2 750 per month to the current limit of R3 000 per month.

Disappointingly, only two thirds of active TFSA investors on the Ninety One IP platform made an investment into their TFSA in the last tax year, and only approximately one third invested close to the maximum annual allowance. These are all missed opportunities.

Invest for growth, over the long term

A key insight when setting up a TFSA is that the underlying investment portfolio should be consistent with the long-term nature of the investment; based on the current annual limit it will

take 14 years to reach the lifetime contribution limit of R500 000. This is a key consideration as the tax benefits of TFSAs compound exponentially over time. Therefore, it makes no sense for an investor to use a TFSA for an investment horizon of less than five years.

While most Ninety One IP TFSA investors appear to agree – 93% are invested in offshore, equity or multi-asset (balanced or flexible) funds – unfortunately 7% are not maximising the return potential of growth assets/investments.

Don't treat your TFSA as an emergency fund

TFSA benefits only accrue to those investors that remain invested for the full investment period. Remember that a TFSA allowance is a 'use it or lose it' allowance – if you withdraw some or all of your TFSA investment, you cannot reinvest the amount withdrawn.

Unfortunately, over the past two years, almost 12% of Ninety One IP TFSA investors made some level of withdrawal from their TFSA:

- 11% withdrew up to R50 000, and
- A further 1% withdrew more than R 50 000, i.e. more than a third of all those who made a withdrawal in the last three years withdrew more than R50 000.

If we look at withdrawals as a percentage of opening TFSA assets:

- From January to December 2023, we had withdrawals of 5.2% of opening assets.
- From January to December 2024, we had withdrawals of 5.3% of opening assets, still a relatively high percentage and perhaps indicative of the tough economic environment.

Finally, around 7.5% of the TFSA accounts on Ninety One IP had a withdrawal rate of more than 25% of account balances, with some investors completely emptying their TFSA accounts. Disappointingly, some investors appear to be using their TFSA as a transactional account, with most of what they contributed being withdrawn in the same year.

Conclusion

In ten short years, early adopters are already reaping the material benefits offered by TFSAs. However, it is critical that investors stay the course and whenever possible invest the maximum allowable amount at the beginning of each tax year into a growth-oriented fund. If this is not possible, it is preferable to initiate a monthly debit order rather than wait until the end of the tax year to contribute. The earlier you start earning investment returns, the earlier those investment returns start compounding, tax-free!