COMPANIES

COMPANY COMMENT

Fortress is expected to hold out for the long term

The B shares have fallen 73% this year, but the Reit offers diversified exposure across sectors with sound growth

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Fortress Reit CEO Steve Brown. Picture: SUPPLIED

The property sector has been one of the hardest hit in the Covid-19-related equity market sell-off, declining on average 48% since January. Highl unsustainable distributions and a generally oversupplied market in an increasingly challenging macroeconomic environment has been a near perf

The sector has three principal activities: retail, office and commercial/logistics. The longer-term outlook for retail property is challenged by weal social distancing measures. Office rentals are likely to suffer as more employees work from home, and commercial and logistics depend on overal is likely to be very muted.

The closure of non-essential retail and the subsequent refusal of the Clothing Retailer Group to pay rentals has exacerbated sectoral challenges a real estate investment trusts (Reits) are not paying a dividend. But it is within this market carnage that astute investors must seek long-term oppo

We believe that Fortress Reit B shares could be one of the opportunities. It has been among the worst-performing shares in 2020, losing an incre January 1.

This decline comes on top of a precipitous fall that began in 2018 when the company faced allegations of market manipulation, concerns over the and governance issues related to previous property transactions. The Financial Sector Conduct Authority (FSCA) cleared the fund of all allegation: process in late 2019.

After the unproven but damaging allegations in 2018, there has been a change in leadership, the adoption of several positive steps to strengthen g within the company and a strategic focus to simplify the portfolio into three key areas: commuter-orientated retail centres; a listed holding in Ne

This provides diversified exposure across sectors with relatively positive long-term growth outlooks. Commuter-orientated retail centres primari regions are more defensive than large super regional malls given that they are less exposed to fashion and less likely to be disrupted by online sho

Nepi Rockcastle provides access to dominant Central and East European retail centres with strong underlying growth fundamentals. Logistics is c globally as extremely resilient and a potential beneficiary of the Covid-19 pandemic in the acceleration of the trend towards e-commerce.

At this point it is still uncertain as to how long we will remain in lockdown, and consequently projecting the effect on businesses is extremely diffi ramifications for unemployment and GDP growth will no doubt be severe and the demand for commercial real estate is likely to be permanently l

It is important that companies take proactive steps to ensure they can manage financially through the period of disruption. In this vein, we are en taken by Fortress to manage its liquidity together with industry calls for JSE-listed property funds to be allowed temporary relief from the require 75% of their income to investors while retaining Reit status. The recent reduction in interest rates announced by the Reserve Bank should provide

The shares of listed property companies in SA are likely to continue to be volatile for an extended period until we get some degree of certainty as likely to resume.

Companies that have conservative balance sheets and exposure to more defensive assets are likely to emerge as relative winners. We believe that trade at a near 80% discount to the last reported book value, are an opportunity where certainly the known risks are more than fully reflected in t could be very significant upside for patient investors.

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