

Discovery Flexible Property

31 March 2026

Market background

The first quarter (Q1) of 2026 saw a clear shift in market conditions. Listed property began the year on a relatively strong footing, but that momentum faded in March as geopolitical tensions escalated and markets were hit by a sharp energy shock. The resulting surge in oil prices reignited inflation concerns and prompted a rapid reassessment of interest rate expectations, weighing on yield-sensitive assets, including listed real estate, across most major markets.

Globally, the move in bond yields proved to be a key transmission channel. As inflation expectations shifted higher, markets began to price out earlier expectations for rate cuts, leading to tighter financial conditions. This placed pressure on property valuations, given the sector's sensitivity to changes in discount rates. While some regions proved more resilient than others, the overall backdrop became more volatile and less supportive as the quarter progressed.

Encouragingly, the underlying fundamentals remain more resilient than market moves might suggest. Across many regions, operating conditions continue to improve, with lower vacancies, positive rental reversions and stronger balance sheets than seen a few years ago. In South Africa, the sector also continues to show signs of gradual stabilisation, supported by improved financial positions and more disciplined capital allocation.

Locally, the listed property sector followed a similar pattern to global markets. A constructive start to the year, supported by improved sentiment and a more favourable rates backdrop at the time, gave way to a weaker March, as global risk aversion picked up and markets became more sensitive to the shifting interest rate outlook.

Performance review

The portfolio outperformed the benchmark for the quarter.

Performance was supported by a combination of positioning and stock selection. In terms of positioning, the largest contributor to relative performance was the portfolio's underweight exposure to MAS plc, which sold off due to ongoing governance concerns and the continued withholding of dividends. Among stock-specific contributors, overweight positioning in Redefine Properties added value, supported by balance sheet improvements and better positioning within the company's offshore portfolio, particularly in Poland.

In terms of the portfolio's offshore exposure, Merlin Properties, Unibail-Rodamco-Westfield and Prologis added value, underpinned by strong operational performance, positive earnings revisions, and, in part, currency support following rand weakness during March.

On the negative side, performance was primarily impacted by valuation-driven positioning and market dynamics. The portfolio's underweight position in Attacq was the largest detractor from relative performance. While the company continues to exhibit solid underlying fundamentals, we believe more attractive value exists elsewhere in the sector. Also weighing on performance was the portfolio's overweight in Hammerson, driven primarily by the sharp move in UK yields during March. Importantly, this was not a reflection of underlying fundamentals, which we believe remain sound, with the company delivering strong results and positive earnings revisions over the period.

During the quarter, the portfolio actively reallocated capital, reducing exposure to Sirius and Fortress. In the case of Fortress, this reflected a preference for direct exposure to underlying assets rather than indirect exposure through holding companies. Proceeds were redeployed into higher-conviction opportunities, including Redefine Properties, Hyprop and Vukile, where attractive entry points emerged following the March sell-off.



Outlook and strategy

Following a strong performance in 2025, the listed property sector has continued to benefit from firmer operational delivery and improved balance sheet discipline. The anticipated improvement in the domestic bond environment has provided further support to the sector. Looking ahead, we expect this positive momentum to persist, underpinned by resilient fundamentals and no imminent interest rate headwinds.

Although valuations have recovered meaningfully, the sector continues to offer a compelling combination of income yield and growth. On a relative basis, listed property remains favourably positioned within the context of the domestic bond market.

Underlying fundamentals continue to improve. Tenant demand is normalising, vacancies are trending lower, and rental reversions are stabilising across most retail and industrial segments. The office sector remains more challenged; however, pockets of recovery are emerging, particularly in well-located, energy-efficient buildings.

Encouragingly, several REITs are normalising towards higher payout ratios as balance sheets strengthen and interest cover ratios improve. This supports both dividend yield sustainability and future growth prospects.

Macro conditions remain an important driver of sentiment. While geopolitical risks continue to rise, the sector's bottom-up fundamentals remain constructive. Combined with a stable rand and contained inflation, the ratings outlook for SA-listed property should remain stable, with potential for further improvement. Selective offshore exposure continues to provide diversification benefits alongside solid operational momentum.

Against this backdrop, the portfolio remains positioned towards domestically focused counters offering sustainable income visibility, strong management execution and disciplined capital allocation, while maintaining selective exposure to higher-growth international opportunities.