

Discovery Flexible Property

30 September 2026

Market background

US Treasury yields rose sharply over the quarter as oil-driven inflation concerns and resilient data led the US Federal Reserve (Fed) to its first rate hike since 2023; the 10-year closed the quarter at 5.28% (its highest since 2007), and the 30-year at 5.63% (its highest since 2002). Heavy Treasury issuance and fiscal deficit concerns drove a sell-off in longer-dated bonds, which an expanded long-bond buyback programme only briefly steadied.

South African equities ended the quarter marginally lower, with early gains unwinding in September. The FTSE/JSE All Share Index fell 0.3%: a rotation into precious metals lifted resources 12.8% over the quarter, but a rate hike by the South African Reserve Bank (SARB), surging oil prices and rising global yields weighed on markets.

The SARB raised the repo rate by 25bps to 7.25% (prime 10.75%) on 23 September in a unanimous vote, resuming the tightening cycle after an unexpected hold in July. Headline inflation slowed sharply to 4.3% year-on-year in July, from 5.0% in June and below consensus expectations of 4.4–4.5%. The August print edged up to 4.4% year-on-year, again below consensus, but rising oil prices threaten to push inflation higher in the months ahead.

In fixed income, the 10-year government bond yield rose above 9% towards quarter-end, its highest since April, as oil prices surged after the US rejected Iran's proposal to reopen the Strait of Hormuz – intensifying concerns over inflation and interest rates. The rand followed a similar path. It traded below R16.00/USD in August, supported by a softer US dollar, strong gold and platinum prices, and favourable carry, but much of that strength unwound in September as the oil shock, Fed tightening, and expectations of a SARB hike weighed on sentiment.

South Africa's growth backdrop also softened. GDP data released in September showed the economy contracted 0.2% quarter-on-quarter, ending six consecutive quarters of expansion and adding a growth headwind to the rate shock.

Performance review

The portfolio underperformed its benchmark for the quarter.

The quarter was a volatile one for listed property. July delivered a solid positive return as the mid-year inflation and geopolitical concerns eased, but momentum turned sharply in August as a renewed sell-off in global long bond yields weighed heavily on the sector.

The largest contributor to relative performance was the portfolio's off-benchmark exposure to SEGRO. Following the earlier takeover approach, SEGRO accepted a bid from Prologis at roughly a 20% premium to the prevailing share price, which drove a sharp re-rating of the shares. We had held a long-standing overweight position in SEGRO through a period of industrial oversupply, underpinned by conviction in its medium-term fundamentals.

Among the portfolio's South African holdings, the overweight position in Hyprop was the single largest contributor to relative performance, with the stock proving resilient against a difficult sector backdrop as improving operational delivery and a strong set of results reinforced the investment case. The overweight in Vukile Property Fund also added value, supported by continued positive earnings delivery and growing investor confidence in the group's accretive Iberian acquisition pipeline.

On the negative side, the portfolio's direct offshore holdings were a meaningful drag on relative performance. Overweight positions in Merlin Properties and Unibail-Rodamco-Westfield detracted as both names sold off sharply against a weaker continental European property backdrop and rising long-dated yields.



Within South Africa, the overweight positions in Fairvest and Redefine Properties detracted as higher-beta domestic counters bore the brunt of the August sell-off. We used the weakness in share prices to add selectively to our highest-conviction domestic positions, including Redefine.

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. While renewed volatility in global long-dated bond yields weighed on the sector in the quarter, the underlying domestic funding environment remains supportive, with swap margins compressing and real funding costs easing. Looking ahead, we expect fundamentals to reassert themselves as the principal driver of sector returns, underpinned by resilient operational delivery and a stabilising domestic interest rate backdrop.

Although valuations have recovered meaningfully from their 2023 lows, 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. Persistent undersupply across most sub-sectors is keeping occupancies at record highs. 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 global rate volatility and geopolitical risks continue to drive short-term noise, the sector's bottom-up fundamentals remain constructive. Combined with a stable rand and contained domestic 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.