RESEARCH | NEDBANK CIB

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Insight Report

SA REIT payout ratio analysis

ANALYST DETAILS

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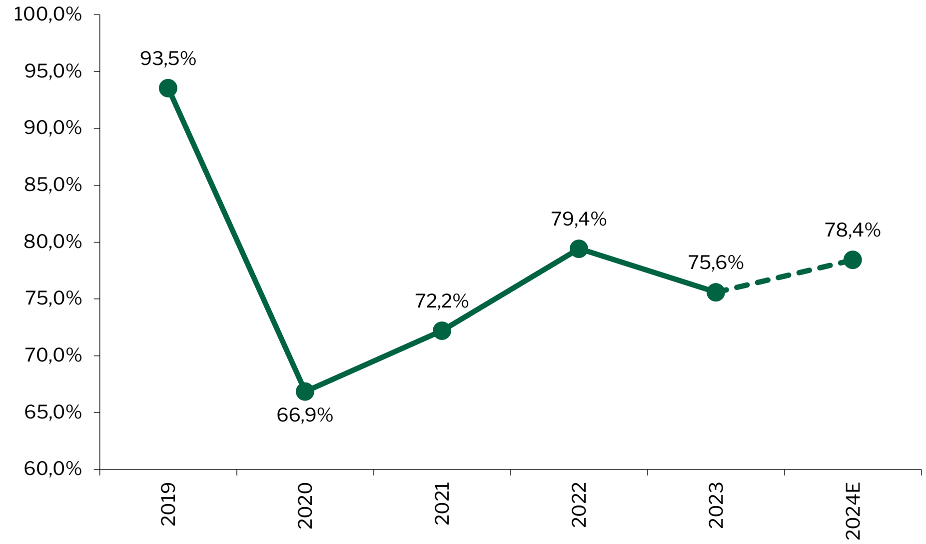
The SA REIT Index offered an annualised price return of 13.2% over the last three years. Whereas dividends provided an additional 11.6% p.a. in income return. This underscores the attraction of REITs- the potential to offer attractive total returns from steady dividend income and capital appreciation.

To comply with section 13 of the JSE Listing requirements, SA REIT's must pay out at least 75% of its taxable earnings available for distribution to its shareholders each year (subject to solvency and liquidity tests).

The average payout ratio by SA REITs have declined from 93.5% in FY19 to 75.6% in FY23. We estimate that it should increase to c.78.4% in FY24.

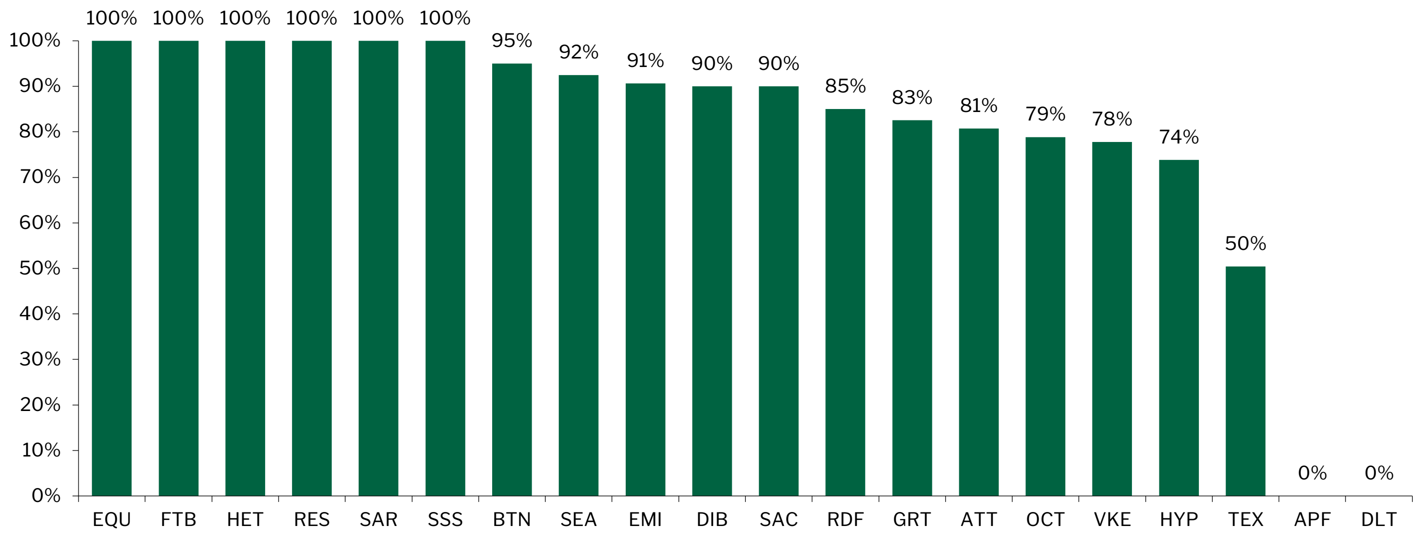
Exhibit 1: Average payout ratio of SA REITs since 2019



Source: Nedbank CIB Markets Research, company data

We show the FY23 payout ratio by company below:

Exhibit 2: FY23 payout ratio by company



Source: Nedbank CIB Markets Research, company data

SA's payout ratio is relatively in line with global peers. This is illustrated below:

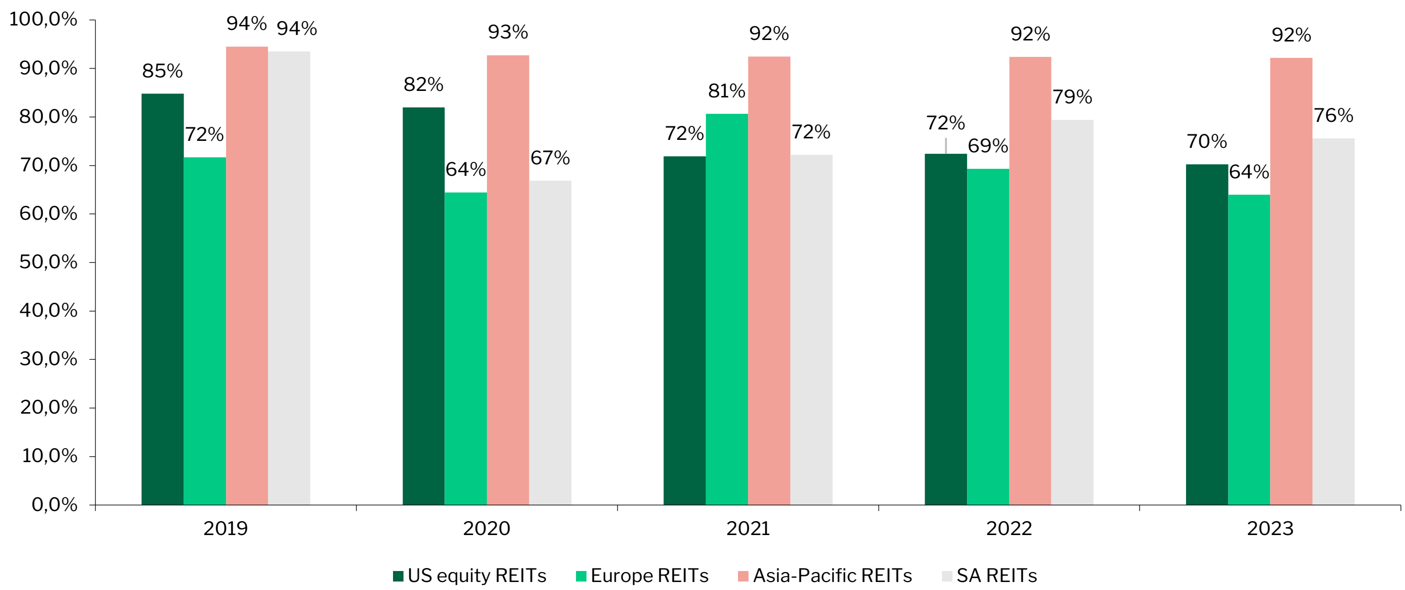
Exhibit 3: Global payout ratio evolution

Region	2019	2020	2021	2022	2023	Country average
US equity REITs	84,8%	82,0%	71,9%	72,4%	70,3%	**76,3%**
Europe REITs	71,7%	64,4%	80,7%	69,3%	64,0%	**70,0%**
Asia-Pacific REITs	94,5%	92,7%	92,4%	92,4%	92,2%	**92,8%**
SA REITs	93,5%	66,9%	72,2%	79,4%	75,6%	**77,5%**
Average	**86,1%**	**76,5%**	**79,3%**	**78,4%**	**75,5%**	**79,2%**

Source: company data, NAREIT, REITAS, Nedbank CIB Markets Research

The global average payout ratio is currently c. 76%, slightly lower than its 5-year average of 79%. Distributions in APAC region were less impacted by the pandemic compared to SA and the US, which saw payout ratios decline c.18% and -15%, respectively. European payout ratios remain below peers.

Exhibit 4: Global payout ratios by region (2019-2023)



Source: company data, NAREIT, REITAS, Nedbank CIB Markets Research

However, one cannot simply compare payout ratios across different regions/countries given the diverging REIT distribution rules as well as tax systems. The source of income also needs to be considered when determining payout ratios (ordinary income, capital gains, return of capital), which is evident in France. We provide a high-level comparison below:

Exhibit 5: REIT distribution rules by country

Country	Rule
USA	At least 90% of the taxable profits
UK	At least 90% of the taxable profits
Belgium	At least 80% of the net profits
France	At least 95% of the tax-exempt profits from qualifying leasing activities
	At least 70% of the capital gains
	100% of the dividends received from subsidiaries that have elected for the SIIC regime
Germany	At least 90% of the net income
Netherlands	100% of the taxable profits
Spain	At least 80% of the profits from rental income
	100% of dividends distributed by qualifying entities
Australia	No specific distribution rules
Japan	At least 90% of accounting income or distributable profit
Singapore	At least 90% of the taxable income
Hong Kong	At least 90% of the post-tax net income
South Africa	At least 75% of the taxable income

Source: Nedbank CIB Markets Research, PWC, EPRA, NAREIT, London Stock Exchange, REITAS, SAREIT

We note that there is some ambiguity in the application of these rules as most specify ‘taxable income’ as opposed to distributable income/Fund from operations (FFO). Taxable income is subject to accounting standards and principles ((GAAP vs IFRS) and could carry non-cash items such as depreciation and/or property valuation gains/(losses).

Thus, taxable income could be lowered but REIT’s could still adopt a higher payout ratio as they base dividends on underlying distributable income or FFO, which is cash-backed. Therefore, comparability of a REIT’s distribution against statutory rule may not be appropriate in some cases.

We highlight further inconsistencies when comparing payout ratios. In Australia, REIT’s may use operating profit, AFFO, FFO or adjusted earnings in determining distributions. REITs in Japan mostly use net income, Singapore and Hong Kong use distributable income and Europe tend to use adjusted or EPRA earnings.