

Kingston Properties – Value Overlooked

Since Kingston Properties Limited issued 68,800,102 shares at \$5.91 to raised J\$406.6 million dollars for investment in the under-construction-Carlton-Savannah-Hotel in Port of Spain, Trinidad in mid-2008, its shares have been trading on the Jamaica Stock Exchange at a significant discount to book value. Currently, it stands at a discount of roughly -57%, having recovered some from the low of -64% in 2012.

Assets

The assets of Kingston Properties currently comprise 19 residential condominiums near the heart of downtown Miami and two office/warehouse complexes in Kingston, Jamaica.

For background, Kingston Properties bought the condominiums in the first quarter of 2010 and has seen the median asking price in Miami (between the first quarter of 2011 and first quarter of 2013) increased from its low in January 2011 by 44%.¹ Additionally, these units have remained occupied during that time with minimal vacancy.

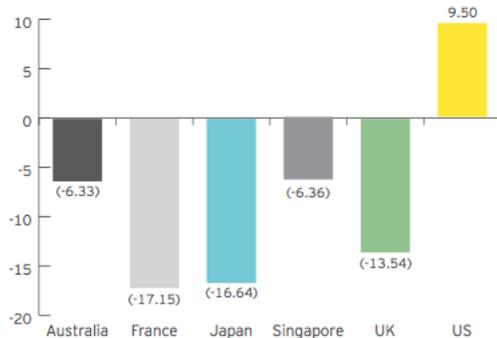
The other properties in Kingston, Jamaica have also performed well, in terms of occupancy, increasing rental rates and valuation.

Why such a deep discount of market value to book value?

Around the globe, the shares of publicly listed Real Estate Investment Trusts (REITs) do generally sell at discount to book value. During 2012, the average discount in Australia was -6.3%, France was -17.1%, Japan was -16.4%, Singapore was -6.4% and that of the UK REITs was -13.5%. The exceptions are REITs in the US that traded at a premium to their net asset value or book value in 2012. (Chart #1)

¹ <http://www.deptofnumbers.com/asking-prices/florida/miami/>

Premium and discount of market price to assets (%)



Source: SNL Financial

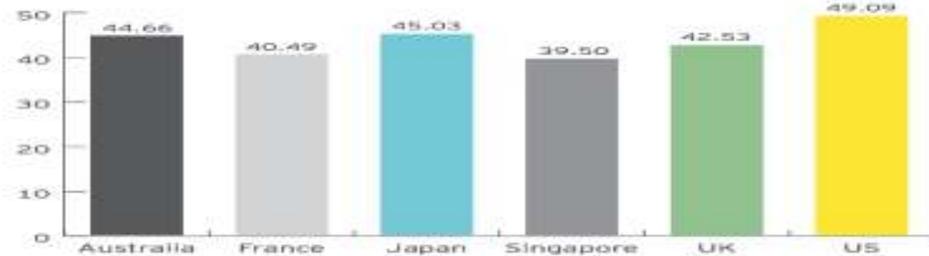
Kingston Properties shares at a discount to book value of -64% in 2012, stands out as an outlier.

What does all this mean?

It means that a discerning investor could sell the 19 condominium units in downtown Miami, use the proceeds to buy-back all the outstanding shares at the current market price of \$4.50 per share on August 2nd 2013, walk away with about \$27.8 million change in his/her pockets (after transactions cost) plus have an additional \$316.7 million after selling the other properties and paying off the debt. This is value that has gone completely unnoticed by market participants.

As a result of this huge discount, it is impractical for Kingston Properties to raise equity capital to help finance property investments. Instead, the company has only been relying on debt funding. Despite this, its debt profile is in line with that of global REITs at 37%.

Debt to gross properties



Source: SNL Financial

Dividends

Since its IPO, Kingston Properties has paid cumulative dividends of US\$0.41 per share. The average annual dividend yield has been 2.3%, not a far distance from REIT's across the globe whose average dividend yield is currently about 3.4%²

REITs

For background, REITs allow investors of any size and sophistication to have the benefits of owning commercial real estate without having to buy properties directly or commit large amounts of capital.

Kingston Properties Limited, stock symbol KPREIT, is Jamaica's first Real Estate Investment Trust (REIT)



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² <http://sg.finance.yahoo.com/news/optimistic-outlook-global-reit-market-013003972.html>. The Edge Financial Daily.