

Better prospects for SA's commercial property sector



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Intro

While consensus has the South African commercial property market facing a gradual and varied recovery in 2011, specific areas of the sector are showing promise beyond the norm

Izak Petersen of Mergence Africa Property Fund notes that the measured rental growth which is starting to come through in select areas is good news. He is confident that the commercial property market will continue to offer investors sound future returns.

"In addition to a cautiously positive outlook in general, commercial property investment in South Africa is extremely diverse and within the sector there are a number of bright spots offering the potential of higher than average returns for the informed investor," says Petersen.

While the sector adjusts to a prolonged journey to stable growth, Petersen believes that property owners with the necessary BEE credentials for government tenancies, which represent lower risk in a testing economic climate, are positioned to reap benefits.

Lower risk occupants such as Government and National Corporate tenants are an essential part of a property portfolio as they improve the reliability of cash flow which is essential to the performance of a property investment and, as such, leases from such tenants represent a strong covenant," notes Petersen. "Furthermore portfolios with a good component of government tenancies are in the beneficial position of being default free."

Growing income is a key consideration when investing in property and with the current low short term interest rates investors tend to opt for property as a yield sweetener.

There are however still risks in the system such as Corporate downsizing and liquidations which have become more common in the past 24 months, resulting in increased rental defaults and potentially driving down rentals. A further area of concern is increasing municipal costs and electricity.

For property funds looking to acquire direct property, an increase in distressed selling may well still also be on the cards as a result of bankruptcies according to Petersen. "This could mean more quality stock coming to market," says Petersen.

The SAPOA/IPD Office Vacancy Survey Q4 2010 indicates that prime office properties in areas such as Sandton, Cresta and the Joburg CBD in Gauteng and Bellville, Waterfront and the CBD in Cape Town are either fully let or have minimal vacancies around 1%.