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Property deals shun slowdown

Commercial market up 9.7 percent in 2014

Roy Cokayne

TRANSACTION activity in the South African commercial market appears buoyant despite the impact on local markets of prolonged sluggish domestic and global economic activity.

This was one of the conclusions of the first report on the commercial property market compiled by property services company Lightstone.

The company said it was evident that transaction activity seemed to be unaffected, even in a sluggish economic environment, which proved that property was a vital asset class in the economy.

Lightstone added that transaction activity was likely to improve and would be mainly be driven by the listed real estate sector as list property funds continued to look for good assets.

The report on commercial property transaction activity and market share was based on transfers and bonded transactions valued at R5 million and higher that were registered at the deeds office between 2012 and 2014.

Value of transactions

Lightstone said property owners and stakeholders in the commercial property sector continued to seek investment opportunity as evidenced by the uptick in the listed commercial property companies and the volume of transactions in the past few years.

It said the value of transactions in the commercial property space grew last year by 9.7 percent to R105 billion from R96.5bn in 2013 and R76.36bn in 2012.

"As expected, the three metropolitan municipalities in Gauteng (Johannesburg, Ekurhuleni and Tshwane) accounted for 57.7 percent of the total transaction activity, with over R47.2bn worth of transfers," it said.

Lightstone said transaction activity according to owner segments revealed that the majority of transactions were undertaken by the non-listed property sector although the listed sector was gaining momentum fast.

This was indicated by the growth in the share of ownership of the listed property sector between 2012 and 2014 and the listed sector's transaction activity growing by 42.5 percent in 2013 and 32 percent last year to surpass the growth rate of the other owner segments.

Lightstone added that the listed property sector's share of total commercial property transactions increased from 18.5 percent to 25 percent between 2012 and last year.

This signaled that listed commercial property companies were continuing to aggressively buy income-producing assets to increase their investments, it said.

To reach expansion objectives, larger players will elect to target existing portfolios.

"This is visible by the amount of excess supply the market has welcomed over the past years.

"All three segments of the commercial property space (retail, offices and industrial) have seen increased development activity, especially in the office segment where development activity has been noticeable in Rosebank, Sandton, Waterfall and Bryanston; Cape Town city centre, and Century City," it said.

Lightstone added that a number of funds had also been acquiring existing properties in non-central business district areas for redevelopment and upgrading to better yielding assets to address tenant's demand for quality accommodation.

The report said the industrial sector had also experienced visible growth, particularly in the Waterfall estate area in Midrand and the East Rand in Gauteng while retail property had benefited somewhat from the township retail development activity by a number of funds, which were seeking to address the shortage of retail stock in previously disadvantaged townships.

Lightstone said Nedbank remained a leader in the sector, with more than R30.9bn bonded properties between 2012 and last year.

It added that while Absa, FNB and Standard bank were regarded as leaders in the overall banking sector, their commercial property lending position was lagging behind Nedbank.

The report revealed that Nedbank's average bond value per transaction at R33.3m was lower than Standard Bank (R39.1m) and Investec (R38m) but higher than Absa (R16.5m) and FirstRand (R19.5m).

Lower-prized assets

It said this signaled that Nedbank could be providing funding for lower-prized assets despite its overall higher total bond value compared to its competitors.

Simon Black, the managing director of Black Pepper Properties, envisages this trend continuing and smaller property funds and developers battling to compete with the larger, established real estate investment trusts from a funding/gearing perspective.

"To reach expansion objectives, larger players in the property development space will elect to target existing portfolios rather than embarking on riskier speculative greenfields portfolio development.

"In terms of greenfields opportunities, Gauteng has a promising pipeline, both from an office and industrial perspective. New efficient buildings will put pressure on investors holding B-Grade stock, which may lead to churn in this sector of the market."