

Transaction activity to strengthen in commercial property

By [Ndibu Motaung](#)

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The South African commercial property market has broadly performed relatively well in the past few years despite the disappointing economic climate and somewhat mixed market fundamentals.

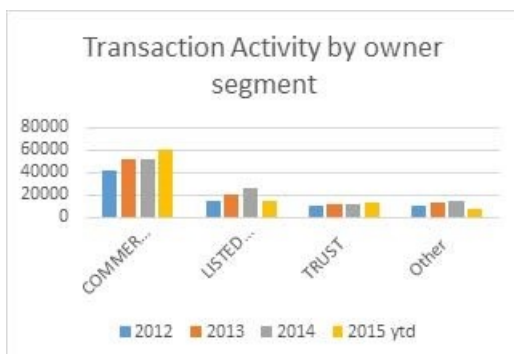


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Transaction activity has been on an upsurge, new developments and reinvestment in current assets being the order of the day; and the majority of funds posting good returns albeit rising vacancies in office, industrial and retail assets. Large retail centres, prime + and prime offices performed well despite the sluggish economic performance.

Since the 2009 recession, the South African economy always seems to start off with much optimism but half way into the year reality sets in with growth projections revised down to disheartening levels. The economy has not yielded much growth but despite this, the commercial property market seems to gain momentum showing improved real returns on an annual basis. Businesses and consumers are however finding it difficult to cope in a high cost climate with rand volatility adding much disappointment to the already sluggish market.

Transaction activity to strengthen, despite negative outlook



Value of transactions is on the rise, with year to date amount reaching R96,9bn in October 2015 from the total of R105,9bn in 2014. With only two months to go this year, the transaction activity might come in at R116bn in 2015 driven by the acquisition optimism by private commercial owners. The listed sector is however on the back foot this year, despite a number of funds having excess cash which can be utilised for further investment.

In addition, a number of funds have been engaged in more development activity with a number of new shopping centres, new industrial developments added in the market with an uptick in commitment to office

developments in 2015.

If the latest downward growth revision by the finance minister is anything to go by, the South African economy continues to be in a period of stagnation having failed to achieve growth rates that can yield improved demand and promote private

investment.

A further disappointment in the economic growth in 2016 will result in increased transaction activity as funds with excess cash look to grow their portfolios. We are likely to see further acquisitions of portfolios following Growthpoint's model when they bought Abseq and Tiber portfolios in the last few years. New commitment to developments could reduce somewhat as vacancies are continuing to increase.

Refurbishment of existing assets

The last three years saw development activity growing enormously for all commercial property asset segments. This trend has resulted in secondary assets performing below par with widening vacancies in offices and industrial properties. Funds that are holding non-performing secondary assets are likely to engage in redevelopment and refurbishment activity in order to provide occupiers improved quality stock. This trend will benefit both the landlord and the occupiers by addressing quality and reducing cost of occupation.

Chinese retailers moving into formal malls

The increase in China shopping centres in the past years has provided options and bargains for consumers. Constrained consumers have been looking for bargains and cheaper ways to curb the rising costs. As such, Chinese retailers are starting to move into more formal shopping centres in order to reach a wider market. This trend is likely to continue past 2016 as these retailers look to grow their customer base and compete with low-cost prominent brands in the market. Take-up of space by these retailers at lower rental rates could mitigate vacancies in older and smaller shopping centres.

Listing of residential property funds

In 2015, we have seen a listing of the first residential Reit, Indluplace Properties as well as Balwin Properties. This could open an opportunity for other residential funds to consider going for public listings as market fundamentals are becoming challenging in the commercial property space. The residential market has grown significantly in the past few years with a number of derelict buildings in the CBDs being converted into student accommodation. Furthermore, growth is concentrated in the top five metropolitan municipalities (City of Joburg, Cape Town, Tshwane, Ekurhuleni and Ethekwini) with 57.9% of transaction activity. More opportunities for rental accommodation and student accommodation will continue past 2016.

ABOUT NDIBU MOTAUNG

Ndibu Motaung is the head of Commercial Property at Lightstone Property, a data and analytics company. She has eight years of experience gained in property research and seven years in management consulting roles as a principal consultant and project manager.

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