Commercial property owners cling to land

The latest research from JLL South Africa shows that commercial property investment activity in South Africa slowed down in 2014, with the overriding contributing factor being the low supply of investment properties.

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Covering the years 2011 to 2014, with specific reference to the office, industrial and retail sectors, the report focuses primarily on major transactions. According to the report, the total purchase of office, industrial and retail properties by listed Real Estate Investment Trusts (REITs) declined by 43.7% to an estimated R13.8 billion. In line with the overall decline in transaction value, the total number of investment transactions declined from 148 to 112.

Zandile Makhoba, Head of Research, South Africa at JLL, says, "2014 was a prime example of unfavourable economic condition. GDP growth slowed, the economy saw credit rating downgrades, currency weakness and rising inflation, all working against investor confidence in the economy.

"Given these conditions, it is not surprising that commercial property investment activity slowed. It is important to note that more than a shortage of buyers, the slowdown was mainly because of a decline in willing sellers of commercial properties in the prevailing climate. Holding cash is a disinvestment in a high inflation and weak currency environment and with fewer options for alternative investments; investors prefer to hold the value in property assets."

Key outtakes from the report include:

- The industrial sector opposed the general downward trend in investment with a notable y/y increase, even when correcting for the large sale between Macsteel and Redefine.
- 2014 also saw very little cross-border investment in the commercial property market in comparison to previous years.
- Although total investment value declined, the total value of GLA invested in increased during the year. Hence, the overall investment value declined to R8 524/m² in 2014 from R16 145/m² in 2013. Again, the industrial sector countered the trend showing an improvement in this regard.
- Economic conditions and new developments might slow the pace of investment activity in 2015. However, the trend is not likely to be balanced across the sectors.

"Looking ahead to 2015, the question is which property owners are most likely to be more willing to let go of assets in the current climate. The bottom line is that alternative investment options remain rare for the longer-term investor. From an economic growth perspective, there is little to suggest that conditions would be much more improved from 2014: the treasury has forecast a muted GDP growth of 2.0% for the 2015/2016 fiscal year. We are battling to prevent further credit downgrades; the currency continues to struggle, whilst the turn in oil prices suggests that inflation will remain a concern for economic activity and investment returns," he concludes.