2016 investment growth is highest seen in five years - JLL report

JLL SSA's 2016 Investment Review of the South African property market reports a R28.8bn increase in investment (from R18.5bn in 2015), and a similar 52.8% increase in gross lettable area (2-million square metres). While portfolio sales contributed notably to this value (key portfolio deals included purchases by Tradehold, Imbali Properties, Delta and Mendo), investments still grew by an exponential 28.0% if the Tradehold is excluded.

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JLL SSA head of research Zandile Makhoba reports that the investment growth in 2016 is the highest the company has seen in the past five years, which is interesting in the light of the perceived over-supply amongst developers in the market. “This is a good reflection of investors seeing value in existing fixed assets, as well as long term confidence in the economy. It must be noted that on closer inspection, we have seen a slowing in greenfield investments over the past few years. For instance, the growth in new commercial building plans has reduced from a peak of 25% in 2012. This is considered a mitigation against a potential over-supply which could stifle rental growth as investors look to upgrade existing buildings and improve their value, rather than to break new ground adding new lettable area to existing stock.”

This report reviews investment activity in the South African commercial real estate market and analyses key trends observed from investment sales data. Data was sourced from publicly available announced media reports, research by Real Capital Analytics, and the annual reports of the listed sector, among other sources. The report covers the 2016 year with specific reference to commercial property, including the office, industrial and retail sectors, focusing primarily on major transactions.

Gauteng dominates

From a geographic perspective, Gauteng continues to dominate activity, accounting for 50% of the total investment value in the year. However, KwaZulu-Natal and Western Cape showed stronger investment growth, both more than doubling the investment levels of 2015. Industrial activity dominated KZN’s growth.

In the commercial office space, investments continued to show healthy growth in 2016. A total of R8.3m was invested in existing office stock, a growth of 8.9% on a y/y basis. Makhoba comments that KZN recorded the most growth in the year with sales more than doubling at R781m. The rise was largely driven by the Tradehold portfolio purchase from Collins Property Projects, she says. Then in the Western Cape, demand for investment property has been on the rise, with the

City of Cape Town attracting both local and international occupiers. “Office investments are highly valued given the region’s potential, with the result that investors have adopted a hold-everything strategy in the city.”

High quality transactions in Western Cape

On the retail front, in 2016 there is compelling evidence of transactional interest returning to key metros, after three years of growth outside the major metropolitan areas. 83 retail properties - the highest number of recorded deals since 2011 - ranging from community to small regional malls were transacted in 2016. “Overall investment value amounted to R7.18bn in 2016, with the Western Cape passing the R1bn mark with a value of R1.39bn in investments in the year,” says Makhoba. Three high quality transactions contributed to most of this value, including Eden Meander, Makro Cape Gate and Somerset Value Mall. Makhoba also reports it was a year for buyers with the average purchase price for retail investment properties declining from R12,982/m^2 in 2015 to R9,054/m^2 in 2016.

Double-digit growth for industrial sector

JLL’s 2016 Investment Review confirms a notable increase in 2016 industrial investment activity. “It was the only asset class to record double digit growth in completed new builds at 14%,” says Makhoba. It also saw a 25% increase in number of industrial accommodation transactions. It is worth noting that there was major growth in interest in Eastern Cape properties, accounting for 44.4% of transactions in the other province’s category (excluding Gauteng, KwaZulu-Natal and Western Cape). This further emphasises the growing potential within the industrial sector. Another point of interest is the potential for brownfield investments in this asset class. Makhoba says that relatively lower building costs and the potential to expand and upgrade industrial properties is an investment opportunity, given the growing preference for maxi-unit accommodation. This is even more important in areas with limited or expensive land options such as Gauteng, KwaZulu-Natal and Western Cape.

Looking ahead, whether buying or selling, investors remain conscious of the economic climate which could affect their investment returns. Although forecasts for GDP show an improvement in the next three years, with the National Treasury anticipating a 2.2% growth rate by 2019, these levels are insufficient to stimulate significant employment growth, with far reaching implications for the broader economy.

Read the full JLL Investment Review 2016.