Property chiefs fear political risks

By Alistair Anderson

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The bosses of SA's two largest locally based real estate companies are becoming increasingly concerned that political risks have increased in SA recently, placing pressure upon a sector that is trying to perform in a sluggish economy.

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Estienne de Klerk, MD of the largest locally based listed real estate group Growthpoint Properties, said rumours of a cabinet reshuffle that could potentially see the removal of Finance Minister Pravin Gordhan and the growing possibility of a sovereign ratings downgrade for SA would scupper Growthpoint's local development plans.

"We can only control certain things and cannot anticipate all market shocks. We have to be cautious. There has been increased political uncertainty recently. Investors hear that the government could make policy changes or changes to its executive, which can affect their sentiment," said De Klerk.

"While we continue with our current local projects, there has been a downturn in demand for longer-term leases, especially in the office sector."

Evan Robins, the listed property manager of Old Mutual Investment Group's MacroSolutions boutique, said a sovereign ratings downgrade would affect Growthpoint's ability to fund new developments. "The risk would be that SA gets downgraded and this pushes bond yields up, which will result in lower listed property prices and higher funding costs.

"If a downgrade results in higher costs of capital for banks and higher yields, these will translate into higher borrowing costs for Growthpoint," he said.

Andrew Konig, CEO of SA's second-largest local property fund Redefine Properties, said a concern was that while business confidence had been weakened by political uncertainty, this would be prolonged in the lead-up to the ANC's 54th national elective conference in December.

"Property is a function of confidence and business and consumer confidence are low in our economy. The concern is that markets may overreact if a change is negative. Almost 25% of Redefine's shareholder base is offshore and many of those investors could walk away should a shock occur in favour of a market with a more attractive risk-reward balance."

Konig said Redefine had not curtailed any of its investment plans.

"We are not on an investment strike. We know we offer a good product, we engage with our staff and clients and we manage our debt. We are not going to sit back and be defeated," he said.

Source: Business Day