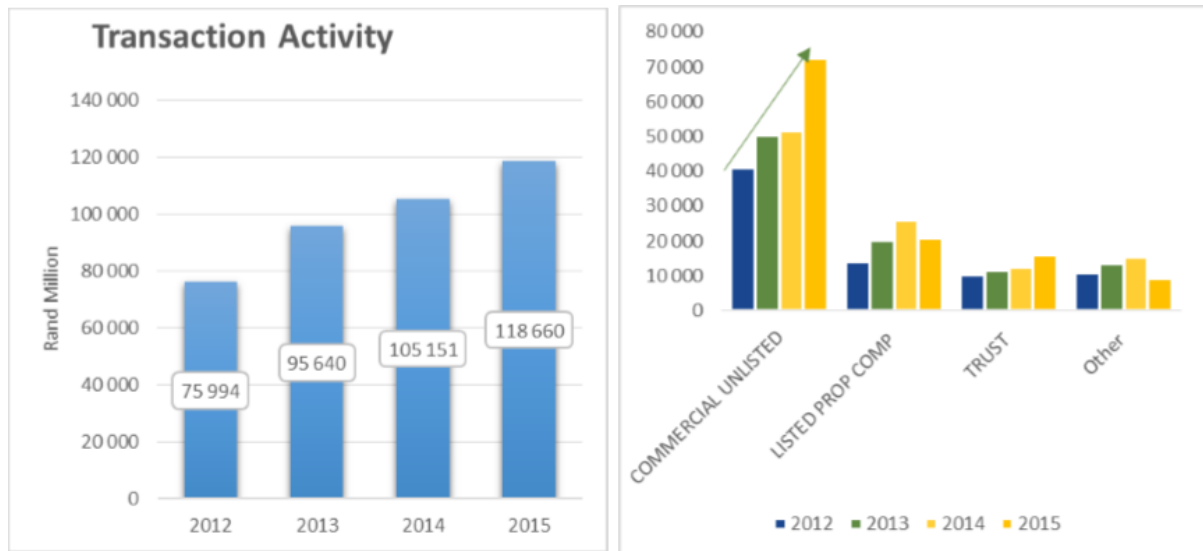




## Commercial property stood strong in spite of rollercoaster 2015

March 2016

It's no surprise that the South African economy experienced a few hiccups over the past year, which had a knock-on effect across multiple sectors. In light of that, we thought it'd be interesting to research how the commercial property sector fared in 2015 - and our results might surprise you.



In 2015, total transaction activity within the commercial property space came in at R118,5 billion, an impressive 12,8% increase from 2014 (which was sitting at R105 billion.)

Ndibu Motaung, Head of Commercial Property at Lightstone, highlights transactions by a private buyer in Kwazulu-Natal for potential development opportunities in Ezakheni C and Umlazi A, totalling over R940 million in value, as being a key contributor to this rapid increase. Despite this being the largest single transaction, there were a few notable deals by prominent funds, including Investec Property Fund's acquisition of Zenprop's portfolio (R7.1 billion in value) and Liberty's 25% acquisition of Melrose Arch. These contributed to the significant increase in transaction volumes in 2015.

Overall, transaction activity of commercial properties between 2012 and 2015 was on a constant rise. When looking at the transaction activity between unlisted and listed companies, there are some interesting points. The listed sector saw a 19.4% decline of transaction activity in 2015, but still saw them contributing a fair amount to overall commercial property transactions. In the listed company segment, Redefine was the most active listed property company with over R6 billion acquired in 2015. This is attributed to the fund acquiring a number of

portfolios including the transfer of McSteel, Leaf and Barrow properties, a trend lately witnessed in the sector where large funds are targeting a portfolio instead of single properties.

Between 2014 and 2015, while the listed sector's activity dipped slightly, the unlisted sector saw tremendous growth of 40%.

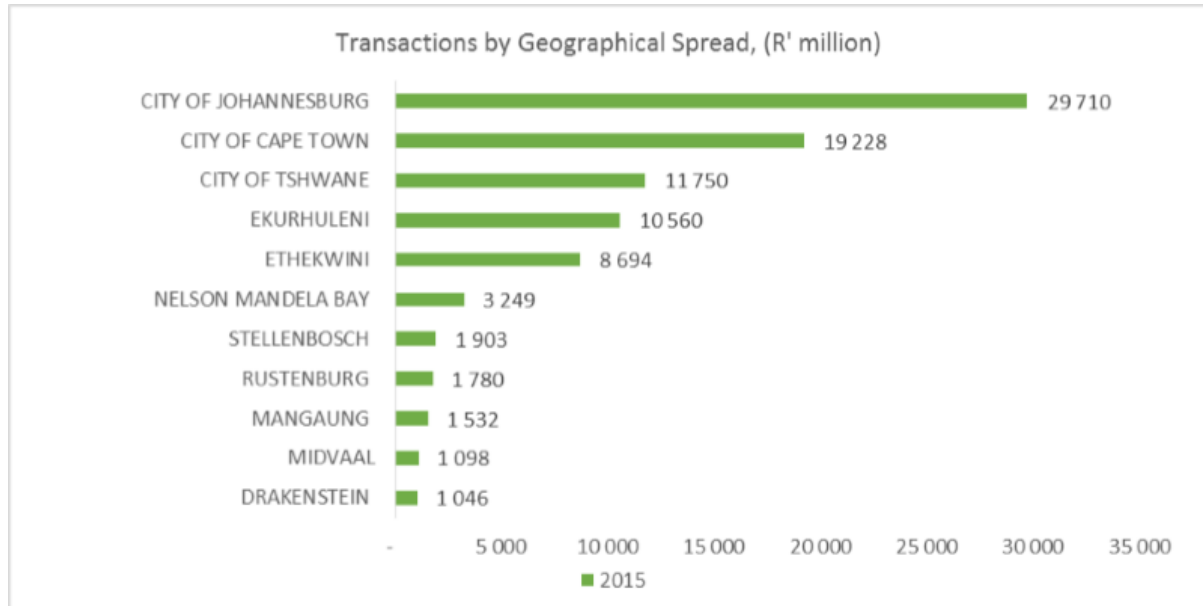
Mark Ingham of Ingham Analytics, notes that property has two connotations – the one being physical land and the other being a physical structure. "Land alone is only worth what it can yield. Investment in land improvements - be that for agricultural, residential, industrial or commercial use - is what provides the value uplift and future growth potential.

These investors (contributing to the commercial property transaction activity noted above) are specialist property investors (rather than generalists) and have a keen understanding of the risk and reward dynamics. They also understand that property is a long game with returns commensurate with that.

Demographics, urbanisation trends, economic cycles, regional and national business competitiveness or lack thereof, and tenant mix all play a part in the ebb and flow of the fortunes of property.

Asset prices can rise and fall at points in time. The possibility of elevated vacancies has an effect on both retention of existing tenants and attraction of new tenants," Ingham affirms.

The reason the listed sector transaction activity has dropped is because vacancies have been rising, while rentals decreasing, resulting in a struggle to find the right nodes to transact in.

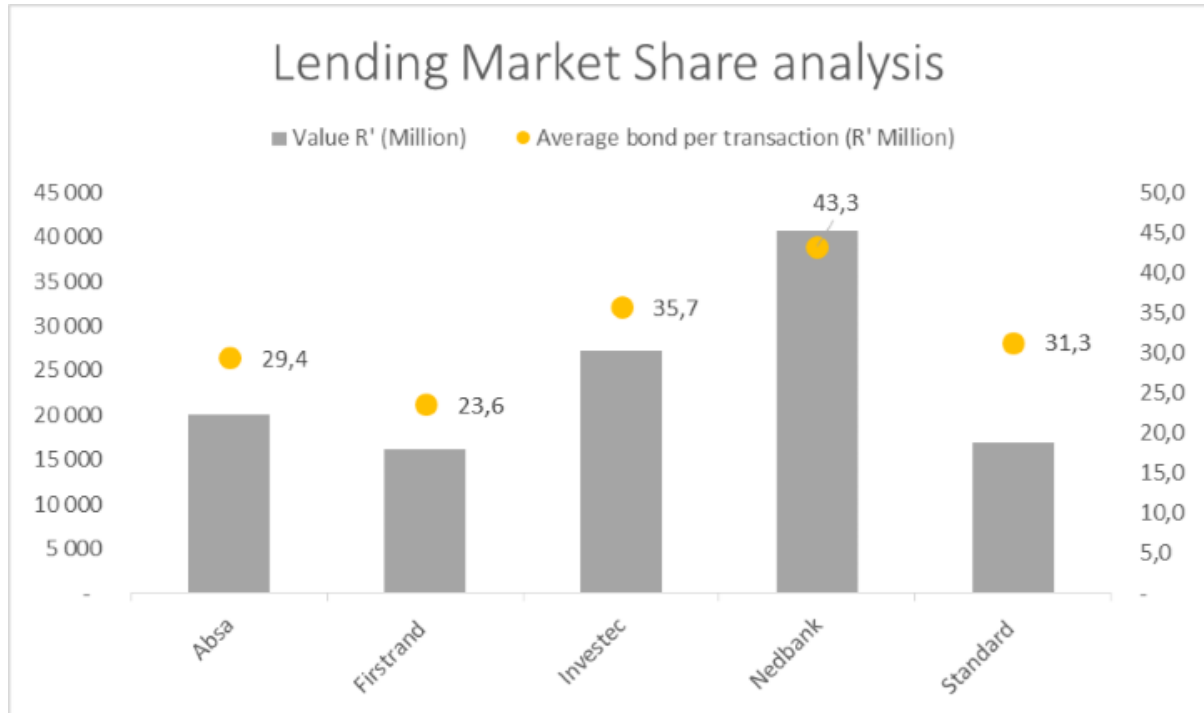


When looking at transactions by geographical spread, Gauteng's three biggest metropolitan municipalities accounted for 57.4% of the transaction values and, collectively, were the largest contributors to the overall sales activity in 2015.

Although the City of Johannesburg's sales dropped by 3% (to R29,7 billion) in 2015, they still stood head and shoulders above the other metros when it came to transactional activity in South Africa. The City of Tshwane had impressive traction in 2015 with a 64,5% increase in sales activity at 11,7 billion (when compared to R7,1 billion in 2014). Investors may be looking for additional opportunities to invest and drive commercial property

development outside of Johannesburg (which is now restricted to prime areas, ultimately restricting growth opportunities) and Tshwane may be the next ideal area for growth. Tshwane has seen impressive infrastructure and transport developments over recent years, including the Bus Rapid Transit (BRT) system and Gautrain, which could be factors contributing to its appeal.

And while the City of Cape Town was sitting pretty in 2<sup>nd</sup> place for all of commercial property transactions, they confidently hold the top spot when it comes to residential property transactions.



When it came to analysing lending market share, Nedbank came out tops. Nedbank continues to dominate the banking sector with over 33% market share, followed by Investec who hold 22.3%.

Absa had the greatest improvement in 2015, increasing its commercial property bonds by 117% to over R20 billion (compared to R9,2 billion in 2014). Standard Bank lending was lacklustre with a 1% decline in 2015. The average bond per transaction in 2015 was R33.5 million – an increase from R28,7 million in 2014. Overall, the quality of assets being funded seem to have improved, particularly for Nedbank which has reaffirmed its position in the market as the leading commercial property lender (for both market share and average bond per transaction) in the South African market, dominating a majority of the metropolitan areas. In 2015, Nedbank firmly led in four out of the five top metropolitan municipalities with Absa leading only in the City of Tshwane.

While no sector is safe when an economy and currency is as fickle as ours, the commercial property sector maintained a strong position throughout the year - in spite of the rollercoaster that was 2015.



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