



# Commercial players pounce on distressed residential rental market

One of the significant developments in the corporate property finance market this year involved the rise in the number of commercial property players increasing their exposure to the residential rental market.



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This is according to Robin Lockhart-Ross, Managing Executive at Nedbank Corporate Property Finance, who says many large property investors have been buying distressed buy-to-let portfolios from banks.

"Given this clear shift towards the residential buy-to-let market, we would expect to see a focused residential fund established over the next 12 to 24 months. In order for this to happen, however, we may see certain players in the market actually combining their portfolios in order to bring a viable listed residential fund to market."

He adds that within this space, many players are also looking specifically at student accommodation.

"Most major tertiary institutions are only able to supply about 25% of the accommodation needs for students, meaning there is ample opportunity to provide housing for this segment. In fact, we may even see the establishment of a new fund dedicated to providing student accommodation in the future."

Lockhart-Ross notes some uncertainty is set to continue within the retail property segment, given the current muted growth that has been seen among certain retailers throughout 2014.

However, he notes that there is still appetite for growth in the market, driven mainly by shopping centre developments in rural or lower income areas that cater to an emerging middle market.

In the past three years, there has been a higher than normal level of activity, with several large developments recently completed or in progress, and several more projects being planned.

He says that the number of vacancies within the office segment is on the increase, alongside a number of large corporates consolidating multiple offices into one large space, particularly with recent large developments in Sandton. "There is some concern over the level of office vacancies, which means that future projects are unlikely to obtain funding as easily as before, unless the development is tenant-driven rather than speculative."

Lockhart-Ross says while certain areas of the property sector are slowing down, it is positive to note that sometimes the best corporate property finance deals occur when the economy is weak.

He notes that a positive development following the property market slowdown in recent years is that banks are far more considered in terms of their lending criteria now. The bulk of defaulted loans, according to Lockhart-Ross, are installed residential developments that will have to be traded out over a longer period.

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