Property sector shows interesting promise

With interest rates one of the most important underlying forces for the property sector and retail expected to perform well, South Africa's listed property sector can expect another interesting year in 2014.

Image courtesy of Stuart Miles / FreeDigitalPhotos.net

"The direction interest rates take could have a dramatic impact on the prices of listed property stocks and ultimately the yields at which properties trade," explains Redefine Properties CEO, Marc Wainer.

He cautions that 2014 could be a volatile year for pricing in the listed property sector given the uncertainty about the effec of quantitative easing, as the US Federal Reserve's policy is yet unknown or the impact it will have on bond yields. "Howev there still appears to be strong appetite from investors and from the bond market for South African property stocks," says Wainer.

However, he notes that biggest threat to the South African economy in 2014 is the potential of a downgrade of South Afric sovereign risk. "Should this happen, there will be a sell-off of South African bonds by international investors. The repercussions for the South African economy, including the listed property sector could be dire."

When it comes to levels of activity in the listed property sector, Wainer believes property acquisitions and developments w be slow in 2014. "We can expect some consolidation between smaller funds as well as a few more listings, particularly tho with an international flavour."

Dipula Income Fund CEO, Izak Petersen disagrees, saying the market can expect an active listed property sector in 2014 "Despite the expected challenges, listed property should still deliver a relatively good return compared to other asset classe so it remains a compelling investment case.

"Investments into foreign funds and assets by South African listed property funds, tenant-driven developments, sector consolidation, the trade of private portfolios and transactions between listed and unlisted funds are all likely to features in t sector this year."

Retail offers performance

Looking at property market fundamentals, Wainer predicts retail property will continue to outperform other subsectors thar to strong demand for space from South African and international retailers alike. On the other hand, an oversupply of office will mean further underperformance from this subsector.

Petersen agrees that retail property is expected to deliver better results to investors in 2014 with offices being the weakest commercial property subsectors this year. "Retail should perform well again in 2014. General warehousing should also produce relatively strong performance." South African retail property has outperformed all other property subsectors in recent years and this has served Dipula well.

According to Wainer, the listed property sector will also continue to identify new opportunities 2014. "Increasingly South African property companies seek ways to diversify their investments into sub-Saharan Africa or other offshore jurisdiction The yields available are better than in South Africa and there's strong appetite from investors for counters offering a rand hedge component."

Not only will the sector consider new territories, but also new investment categories. Wainer explains: "There is much exploratory work underway to improve non-lettable area income, as well as interest in new property subsectors like residential, health care and storage among others."

Pressure from rising costs

"The office sector will continue to experience more pressure than other sectors in 2014," says Petersen. "While we've see a fair amount of leasing in the office sector, most comes from relocating tenants and not new businesses."

He notes that businesses in all sectors will come under pressure from rising costs.

"Sustained economic challenges will make the year difficult. Tenants are likely to come under the most strain from increas in municipal costs and electricity."

Property owners are responding to the pressures their tenants face by finding ways to make their buildings more efficient and drawing on alternative energy and water sources, reducing running costs.

A fair amount of new property development will come on stream in 2014, mostly in urban areas. However, Petersen notes there will be some rural retail development.

"With low levels of investment property stock in the market and relatively low capital available, listed property companies ar expected to consider mergers and acquisitions as a means for growth," concludes Petersen.