BIZCOMMUNITY

Retail property expected to lead out of recession

By Thabang Mokopanele

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Although net income growth remains strong and above inflation across all property sectors, the sectors are reflecting different points in the property market cycle, with retail property expected to come out of the recession faster than industrial properties and offices.

Investment Property Databank (IPD) SA MD Stan Garrun said last week that while nominal returns were strongly in the black last year, the figures marked the second successive year of performance decline in South African property markets following the boom years between 2004 and 2007, which peaked in 2005 at 29.8%.

Trends report

According to the South African Property Owners Association market trends report, also released last week, both offices and industrials had recovered from negative income growth in 2002, and while offices had continued to improve to 14.6% for last year, industrials were below their 2007 peak, with 12% for last year.

As a result of contracted rental increases, this continuous strong income growth had helped support capital values to date. Downward pressure on capital growth, on the other hand, is coming from softening yields across the board.

Playing catching up

With regard to yields, the industrial sector appeared to be lagging slightly but catching up fast.

Stanlib analyst Keillen Ndlovu said yesterday, 10 June 2010, the retail sector was approaching the bottom. "Arrears and vacancies are still increasing (in the listed property sector) but at a much slower pace."

He said he believed that traditional shopping centres anchored and mostly tenanted by national retailers would lead the pack.

"The consumer has not recovered to the level of affording non basic items. Newer and smaller shopping centres will take longer to recover. There are some retail nodes that are a concern for us, though, for example Pretoria East. It has too many shopping centres."

Positive movement

After four years in a row of significant yield compression, 2008 saw the first upward movement in yields in the retail and office sectors, by 40 basis points and 15 basis points, respectively. Again, the relative positioning on the property cycle becomes apparent, with retail yields moving out more mildly last year by only 13 basis points, yet office yields accelerated with a 47-basis-point movement last year.

According to the report, the industrial sector, by comparison, continued to experience firming yields into 2008, but last year saw the largest yield movement of the three property sectors with a 91 basis-point softening.

Kundayi Munzara, head of research at Investec Property, said the listed property sector was "under-geared" at about 25%, so it was a relatively low risk sector from a forecasting point of view.

Source: Business Day