

## 'Cautious investors look to commercial property'

With volatility and uncertainty becoming common features of financial markets, investors continue to seek stable investment opportunities in the commercial property sector, according to Rael Levitt, CEO of Auction Alliance.

"The dislocation currently characterising the global equities and bonds markets, is spurring a growing number of risk averse investors to seek refuge in the stable cash flows offered by core commercial assets," Levitt said.

According to a report released by global real estate services firm Jones Lang LaSalle, there was US\$103.5 billion in direct commercial real estate investment globally in the second quarter of 2011, which is up 50% from a year ago.

Levitt suggested that together with the low volatility characteristics of prime investment properties, one of the key drivers of investor interest in quality commercial property was the fact that unlike other asset classes, property was tangible and transparent.

"While renewed economic concerns are challenging investor confidence, the results yielded from auctions in the second, third and fourth quarters of this year, are painting a contrasting picture, with prime commercial assets continuing to be snapped up at competitive prices by investors seeking stable investments".

Investors were incorporating a variety of creative strategies to avoid additional risk and to make their investments work, and whilst concerns about sovereign debt in the Eurozone and decelerating growth in the US economy had caused significant uncertainty in the real estate sector, Levitt expected demand for good quality properties to persist.

"In contrast with the capricious nature of the equities and bonds markets, the returns from commercial property tend to be less volatile; a critical factor which is highly important to risk-averse investors."

He said the local equity market had experienced extreme instability in 2011 with three spikes in volatility since the financial crisis in 2008. While the JSE was down 3% since the beginning of the year and the Dow Jones remained flat, the capricious nature of the market does not instil uniform investor confidence.

On a global front, the recent announcement by Mervin King, governor of the Bank of England, that the bank would inject GBP 75 billion into the UK economy in an effort to quell the recession was a poor indictment on the future outlook for the equity market. King adds that, "the current financial situation is the most serious financial crisis since at least the 1930s, if not ever."

Levitt said that the general consensus among economic commentators pointed to the fact that investors were chasing cash flow as their primary motive. Investors were proceeding cautiously in this market and re-evaluating their exposure to

equities.

The supply gap for prime assets had expanded within the sector during the second half of 2011. Levitt maintained that investors had grown increasingly selective with their investments, with investor interest focused on core markets, and interest in secondary markets stalling significantly. He expected demand for prime assets in established nodes, where new capacity is being built, to persist.

"Rental levels and valuations have held their own in key nodes such as the Sandton CBD, Rosebank, the Cape Town CBD and Century City".

Placing the auction sector within the context of a wider investment market place, Levitt predicted that the commercial real estate sector was headed for a continued and gradual recovery. Whilst the commercial property sector remained susceptible to market instability, the quality of a property's location and covenant, would dictate demand and determine how it was priced.

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