

Gradual, patchy recovery for listed property

With investor demand being hampered by enduring economic challenges and stalled global growth, Auction Alliance is predicting a gradual and patchy recovery for the local commercial property sector over coming months with certain segments expected to perform better than others.

The values of both residential and commercial real estate assets in SA are expected to fall by a further 10% over the next months according to Auction Alliance.

The auctioneer warned investors considering ploughing their money into property to be thorough when carrying out due diligence.

"Three years into the recession, the question on the status of the commercial property sector's recovery is difficult to answer, with recovery appearing to have stalled significantly in recent months in the face of renewed economic fears", said Rael Levitt, CEO of Auction Alliance.

According to a recently released report by PricewaterhouseCoopers in the US and the Urban Land Institute, entitled Emerging Trends in Real Estate 2012, "The return landscape for 2012 presents a mixed bag, and all depends on where and when investors bought, the amount of property leverage employed, and asset quality".

The report warned that, "As markets creep back in 2012, investors can no longer just ride the capital tide of rate compression, but instead must pick projects well and execute on management".

Another important factor was the performance of local municipalities when considering commercial property investment.

Redefine one of SA's largest listed property groups, had already decided to stop investing in poorly run municipalities and halted further improvements on their existing properties in such areas.

"SA poses its own challenges to the property investor with rising costs and an increased risk of stagflation in the economy as price pressures rise and economic recovery remains sluggish.

"Both buyers and sellers need to realign their expectations of the property sector, and face up to the tough reality of today market," said Levitt.