Property indicator reveals improved performance

The SAPOA/IPD South African Biannual Property Indicator, released yesterday, 25 September 2013, showed that the South African property sector delivered an improved 9.2% total return fo the first six months in 2013. This is 30 basis points more than the December 2012 biannual tota return of 8.9%. The performance growth came from high capital growth of 4.9% and an income return of 4.2%, for the period.

MD of IPD SA, Stan Garrun

The Indicator is the definitive standard for measuring property investment returns. The transparency it brin to investment property adds to the credibility of the asset class. It is the essential resource for local and international investors considering commercial property investment in SA.

Outperforming equities

The property sector outperformed both equities at -2.8% (MSCI South Africa Equities) and bonds at -2.5% (JP Morgan 7-10 Year South Africa Government Bond Index) for the first six months of the year. The grow was driven higher by capital growth and firming of the rental yield by 30 basis points over the first half of th year.

Operating costs continue to pose a threat to the growth of the industry, increasing by 6.0% compared with December 2012. Operating costs as percentage of gross rent also increased to 47.3% in this biannual update from 46.3% as at December 2012. Property taxes, which constitute about 21.0% of the total operating costs, registered a strong 10.5% growth following the new municipal price increases. Electricity, which contributes 33.0% to the costs, posted a growth of 4.3%.

On a sector level, the retail sector posted an overall total return of 10.0%; 5.9% capital return and 3.9% income return. The industrial sector followed closely with 9.1% overall return of which 3.9% was capital growth and 5.0% income return. Offices trailed behind at 7.9% total return, comprising 3.5% capital and 4.3% income return.

Retail outperforms

The retail sector outperformed other sectors on the back of strong capital growth and stable vacancies. Super regional shopping centres registered the strongest capital value growth in the sector, which was 6.7 the income return was 3.3%. Regional and community shopping centres registered impressive base renta growth of 4.5% and 6.1% respectively over the six months though this does not yet reflect in strengthening capital value growth or returns.

The office sector continued to register high vacancy levels (of 12.6% overall) with recent office developme activity placing pressure on rental levels and the lower grade office space. Provincial offices were the wors performing segment registering 2.5% negative capital growth and a total return of only 2.3%. In terms of occupancy, inner city office continues to register low occupancy levels with the areas recording 22.8% vacancy rate for the first half of the year.

Industrial shows high capital growth

The industrial sector's impressive performance for the six months of the year was underpinned by high capital growth and low vacancy rates averaging 2.8% for the 6 months, which is 1.6% less than the 2012 annual average. This occupancy level compensated for relatively low base rental growth in this segment at R35.3/m2 versus R34.6/ m2 in the six months ending December 2012.

Stan Garrun, executive director and head of Investment Property Databank South Africa, said, "It is encouraging that the IPD bi-annual indicator shows a modest overall improvement over the first 6 months o 2013. The retail sector continued to dominate, but the industrial market improved in a number of key aspects. Offices continue to bear the brunt of it, exacerbated by new development activity. There are conflicting signs, which in an uninspiring economy will make interesting for reading for property investors over the next 6 months."