

Industrial property tops in real estate

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18 May 2017

Industrial property may have a reputation of being the ugly cousin in the real estate sector, but for more than a year it has outperformed retail and offices. While traditional smokestack industrial properties are struggling, the sector's newer, modern distribution warehouses are booming. Growing demand for online shopping and increased imported products in the market are helping distribution centres.



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People at the coal face say various types of industrial property, especially distribution centres, should continue to deliver attractive returns for the rest of 2017 and in 2018.

Industrial property was the top performer in 2016, with a total return of 13.6%, outperforming the traditional frontrunner, retail, at 12.6%, the IPD South African Annual Property index showed in April.

IPD's research showed the top-performing industrial category was high-tech industrial with a total annual return of 18.1%. This was also the second-best segment behind neighbourhood shopping centres and warehouses at 12.9%.

"These results show the demand of industrial users for modern, efficient space in accessible locations and mirror the development activity we " have seen in recent years, where the majority of our new lending has been for the funding of large-scale logistics, distribution and assembly facilities in industrial and activity parks," said Robin Lockhart-Ross,

managing executive at Nedbank CIB Property Finance.

Some companies are developing their own industrial assets because existing stock is too expensive. This improved supply to the sector.

Growthpoint Properties' industrial divisional director, Engelbert Binedell, says industrial property should perform at a "slow but healthy pace" for months.

This is while the retail property sector's performance begins to weaken after years of stellar growth and offices continue to struggle.

Certain industrial nodes are offering various opportunities for redevelopment.

"Various older areas are becoming attractive again. These include Jet Park, Isando and Wynberg. There are many multifunctional buildings in these areas, which are well located close to motorways," Binedell says.

Growthpoint has assets worth R120bn on a consolidated basis including its assets in Growthpoint Australia. Its highly diverse industrial portfolio is worth R12.2bn, says Binedell.

Warehousing accounts for the bulk of the portfolio making up about 35.8% of it. Industrial parks account for 15.6%, with high-grade industrial making up 12.4% and high-tech industrial 10.6%. Mini units account for 6.6%, low-grade industrial 4.5%, retail warehousing 4.4%, midi units 3.7%, motor-related units 3.6%, vacant land 2.2% and maxi units 0.6%.

Binedell says industrial land remains affordable in Johannesburg. "Land is cheap in Johannesburg and there is heaps of it," he says.

Chloe Ma, listed-property analyst at Stanlib, agrees companies with exposure to certain types of industrial property have fared the best.

"For the industrial sector, performance is heavily dependent on the type of industrial as well as the lease on the property. A major component of Redefine Properties' industrial portfolio, for example, is let to Macsteel on a long-term lease. These long-term leases generally escalate at 8% for 5 to 10 years.

"This means that the landlord can expect 8% growth from these assets until the lease expires, which is great in a tough economy. However, when these long leases expire, the rentals on expiry are typically much higher than market rentals and, as a result, landlords may often need to take a rental cut for the tenant to renew the lease," says Ma.

"Therefore, I would not necessarily say it is a trend that industrial property is doing better. It is heavily dependent on the type of industrial property and the terms of the lease structure. What is a trend is that logistics or warehouse industrial properties are generally performing well relative to manufacturing industrial properties or mini/ maxi-type industrial units."

One of the best-performing industrial specialists over the past year has been Equites Property Fund. CEO Andrea Taverna-Turisan says he has invested in high-quality distribution centres for large companies and multinationals in SA before much of his competition. "We got in early and now [own] assets which are well-positioned to bring double-digit returns for a sustained period."

Source: Business Day