Investment in commercial sector takes a knock

The latest research from Jones Lang LaSalle (JLL) SA shows commercial property investment activity in SA slowed down last year, with the overriding contributing factor being the low supply of investment properties.

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According to the report, the total purchase of office, industrial and retail properties by listed real estate investment trusts declined 43.7% to an estimated R13.8bn.

In line with the overall decline in transaction value, the total number of investment transactions declined from 148 to 112.

Covering the years 2011 to last year, with specific reference to the office, industrial and retail sectors, the report focuses primarily on major transactions.

Last year "was a prime example of unfavourable economic conditions: GDP (gross domestic product) growth slowed and credit rating downgrades, currency weakness and rising inflation all worked against investor confidence in the economy", JLL SA's Head of Research, Zandile Makhoba, says.

"Given these conditions, it is not surprising that commercial property investment activity slowed.

"It is important to note that more than a shortage of buyers, the slowdown was mainly as a result of a decline in willing sellers of commercial properties," Makhoba says.

"Holding cash is a disinvestment in a high inflation and weak currency environment, and with fewer options for alternative investments, investors are preferring to hold the value in property assets."

Key points of the report include:

- The industrial sector opposed the general downward trend in investment with a notable year-onyear increase, even when correcting for the large sale between Macsteel and Redefine.
- Last year also saw very little crossborder investment in the commercial property market in comparison with previous years.
- Although total investment value declined, the total value of gross lettable area invested in increased during the year. Hence the overall investment value declined to R8,524/mÂ² last year from R16,145/mÂ² in 2013. Again, the industrial sector countered the trend showing an improvement in this regard.
- Economic conditions and new developments might slow the pace of investment activity this year.

However, the trend is not likely to be balanced across the sectors.

"From an economic growth perspective, there is little to suggest that conditions would be much more improved from last year," Makhoba says.

"The Treasury has forecast muted GDP growth of 2.0% for the 2015-16 fiscal year, we are battling to prevent further credit downgrades and the currency continues to struggle."

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Source: Business Day