

# Lesser known property sub-sectors offer hope for battle-scarred investors

By [Gary Palmer](#)

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Despite the patchy property performance last year, there are still pockets of excellence for the smart investor. This is particularly the case in the seldom spoken of sub-sectors of our property market which hold real value for those who are prepared to take the road less travelled in 2021.



Gary Palmer, CEO of Paragon Lending Solutions

Most investors track the well known and heavily traded commercial, industrial and residential markets. However, many investors and would-be investors don't realise that the property market is deeply complex with around 25 sectors and sub-sectors, each of which are recovering at very different rates. For the astute investor, however, there is still real value to be had if you know where to look.

Local investors remain cautious about the property market, which they view as high risk. And this is not surprising given the bruising 2020 performance. But I believe the tarnish of many of the property asset classes should not cast a pall on the sector as a whole.

## 'Tale of two cities'

Last year really was a 'tale of two cities' for the property market. On the back of a big jump in e-commerce growth, industrial property enjoyed its 'best of times', with a big spike in the demand for warehousing. Retail, however, really faced its 'worst of times' in 2020 with malls taking a pounding as we all adapted to pandemic norms. Office space was also heavily impacted. What's interesting for the pundits is that South African e-commerce still has lots of room for further growth. We have just a two to three percent digital penetration, compared to the 15% globally. So that's one to watch this year.

Other specialised sub-sectors enjoying some trend-bucking growth include infrastructure real estate investment trusts (REITs). These REITs expose investors to the rapid growth opportunities in infrastructure, particularly in the telecommunications and energy sectors. Infrastructure invested in would include cellular telecommunications towers, data centres, wireless infrastructure, fibre, as well as energy pipelines.

Similarly, specialised investments in the renewable space, including solar farms, are tapping into the huge demand for green energy with more and more government tenders coming online across the globe.



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## Petrol stations offer opportunity for property investors

Investing in petrol stations is enjoying renewed interest from both investors and lenders. This is not surprising considering the returns offered by this specialised sub-sector of property investment.

Even in a lockdown economy, petrol stations offer solid opportunity - in the right locations of course. Legislation has shifted to allow better margins for the owners of fuel stations and we have seen a real uptick in interest. We have recently helped fund three petrol stations, and the opportunities look compelling.

## The petrol station game

There are two main ways to make money in the petrol station game.

The first method is the traditional franchise route, the oil company-owned dealer operated (CODO) method, where the oil company would own the asset and the dealer operates the forecourts at the station. Here, the risk lies more with the oil company, making it easier to finance, but the returns are not as lucrative for the dealer who would not see the government-regulated cents on each litre pumped.

The second, which is of interest to property investors, offers a higher margin of return but carries more risk. The dealer-owner dealer operator (DODO) setup sees the person who owns the land also running the operations, which makes it more difficult to finance. While lucrative, this means fuel needs to be pumping to achieve success, placing a higher level of stress on the investor.

Set up costs can range anywhere from R15m to R100m depending on the size and location of the site, making for some complex deals. Finding the right backer is imperative when embarking on a DODO investment and it's best to partner with a specialised and independent lender.



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There are a number of funding avenues for specialised property investments. Different sectors and sub-sectors, like fashion, have their time in the sun. Unfortunately, even with the best fundamentals in place, property markets move in cycles and traditional lenders can be influenced by these.

## ABOUT THE AUTHOR

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