

2010 Property Predictions: Don't Expect Double-Digit Returns

Those South African property watchers who are predicting significantly improved conditions in 2010 are by and large unrealistic, says Mike Flax, Executive Director of Redefine Properties.

South Africa is following the rest of the world out of its recession, but the property cycle traditionally lags a year behind the general economy and the first year in which conditions start improving can often be as difficult for the property sector as the recession.

The reason, says Flax, is that it takes time for the secondary effects of the recession to make themselves felt.

Although there are now clear signs that the South African economy has at last turned the corner, tenants (in all walks of life) will in the recovery period still suffer from the job losses and expenditure cut-backs which the recession made essential. In the retail sector vacancies in both malls and the high street, we have found, tend to be as serious in the initial upturn as in the downturn phases.

In addition, says Flax, the banks often wait until the market improves before moving in to pull the plug on defaulting debtors, their thinking being that, as conditions improve, so do chances of selling off assets at a better price.

We have certainly not yet seen the last of tenant failures in our portfolio.

What does this scenario hold for a group like Redefine, with a portfolio of 3,6 million square metres, the bulk of which is divided into 45% office, 43% retail and 12% industrial?

It means that Redefine will have to put - and are already putting - considerable effort and resources into marketing their vacant space which they plan to reduce this from 8% to below 5% by the end of 2010. We have just appointed Quintin Rossi as National Leasing Manager as a first step in this process.

I previously said that the Redefine group's aim is now to increase the average value of its holdings from R40 million to ± R100 million and this will involve not only selling off the less expensive stock but also purchasing newer, higher quality stock.

An overall improvement in the property market will probably not be seen until late 2010. It will be led by the residential sector, which was the first to succumb to, and the worst affected by, the downturn and will be particularly necessary in the office and retail sectors which countrywide now have rising vacancies. Industrial space still has relatively low vacancies - in the Redefine portfolio below 5% - and with the economy now improving demand here is likely to increase.

Redefine will in the year ahead be able to raise its distributions by 15% to 20%, not because conditions are improving but because stakeholders will feel the benefits of the recent merger with Madison and Apex-Hi Properties ([JSE:AXC](#)). Most listed property companies will find it difficult to produce double digit returns.