

Sound Year Foreseen for KwaZulu–Natal Property

Despite rising interest rates and a tightening consumer market, early indications are that the KwaZulu–Natal commercial and industrial property markets have yet to peak, with this year predicted to be another sound one.

One positive factor underpinning the predictions was that rentals have yet to peak for industrial properties, particularly among older properties. This is despite the province, and especially Durban, its economic hub, struggling with limited stock and excess demand.

MaxProp MD Russell Scorer said there were several industrial properties in the greater Durban area where tenants were benefiting from rentals up to 30% below market indicators. This meant that when the leases were renegotiated, the rentals would jump, with investors reaping the financial benefits.

There remained “a serious shortage” of land for development in the commercial and industrial property sectors.

Scorer believed rising interest rates were not yet causing stress, translating into too few sellers of commercial property. The lack of suitable land for commercial and industrial development was pushing commercial land prices to R1500/m² in Durban.

“Private investors may find the going a bit tougher next year with rates having moved up significantly, but on the whole there will be no significant change in the market for the first six months of 2008,” he said.

Hunters MD Nash Cohen said the property market had outperformed other investment vehicles, with pensions, stocks and unit trusts diminishing in importance for investors.

The substantial property development along the KwaZulu–Natal north coast was expected to increase as the international airport at La Mercy came into being.

Scorer said in the light of the recent prime interest rate hike and the possibility of another 0,5 percentage-point increase early next year, the pressure would be on property developers to consider their traditionally low yields. This was likely to translate into an upward shift, in line with increasing building and borrowing costs.

However, Scorer said the economy remained strong and the demand for commercial and industrial land was unlikely to let up. When quality space came on to the market, there were few problems in finding tenants and that boded well for the year ahead.

John Loos, a property strategist at First National Bank, says that from a commercial property perspective there is “very much of a muchness across the country”.

In the country as a whole, industrial property vacancies, in particular, are “very low”. He says that in 2006, KwaZulu-Natal was the top performer in commercial property.

But he says the KwaZulu-Natal economy may “slow a bit more” this year than other major regions because it is “slightly more sensitive” to global cycles as manufacturing comprises a much bigger portion of its economy than in Gauteng and Western Cape.

“I think it’s going to be quite a hard year for manufacturing in general. That might curb demand growth for commercial and industrial space just a little more than in the Western Cape and Gauteng, where I also expect growth slowdowns but a little less severe than KwaZulu-Natal,” says Loos.

But as far as supply side issues are concerned, Loos believes there is a shortage of supply of both land and vacant space in KwaZulu-Natal.

“So whatever the slowdown is in commercial and industrial property returns, it will still be a pretty good situation in KwaZulu-Natal.

“As soon as the economic growth and interest rate cycles show clear signs of turning, I think that we will see commercial property returns start to strengthen off what remains a very high base.”