

South African property continues to play in the top league

The South African commercial property market achieved total returns of 26.7% in 2006, the second highest annual return since the start of the index in 1995. This strong result was below the 2005 overall property return, which was at 30.1%, signalling a levelling of a very strong property cycle. These results were released by IPD (Investment Property Databank) in Johannesburg, Cape Town and Durban at events sponsored by RMB Properties (Pty) Ltd.

“The three-year annualised return for commercial property is 26.7%, equivalent to the total return of 2006, and the five-year annualised return is a sturdy 20.8%”, said Managing Director of IPD South Africa, Stan Garrun.

Equities and property loan stocks outstripped the direct property index at 41.2% and 33.8% respectively, but direct property achieved better returns than the property unit trusts at 16.2% and bonds at 5.5%. Over a 12-year period property marginally outperformed equities at 15.8% vs. 15.6%.

Returns were buoyed by strong capital growth of 16.2%, which compares to 18.2% in 2005. The income return component was 9.2%, down from 10.2% in 2005. Capital growth was driven by strong net income growth of 11.4%, the highest since 1997, and a further sharp contraction of year end net income yields to 8.2%. Vacancies have continued to fall on the back of increasing demand and were down to a mere 4.2% for total property at the end of 2006.

For the second consecutive year, the industrial sector has led the pack with a return of 31.1%. Retail slipped from 32.6% in 2005 to a lower but still impressive 27.4%. The office sector lagged as has been the pattern over the last five years, with a total return of 24.5%. However, the income return for offices was solid at 10.2% (second to industrials at 10.9%) and the year on year income growth was at a high 13.6%. The capital growth for offices was 13.0%.

Industrial sector returns were supported by strong capital growth of 18.4% and an income return of 10.9%. Retail income returns of 8.4% underperformed the all property income return and were the lowest on record.

Capital growth for retails was 17.6%, down from 21.2% in 2005, but was underpinned by rental growth of 10.2% and a further drop in the net income yield from 8.2% in 2005 to 7.4% in 2006.

Internationally these results compare favourably to other countries measured by IPD, although the South African return of 26.7% was marginally lower than the return of 27.2% recorded in Ireland. Other IPD index results for 2006 published so far are: Canada (18.6%), United Kingdom (18.1%), Denmark (17.8%), Norway (17.6%), Sweden (16.2%), Netherlands (12.5%) and Portugal (12.0%).

“This is another year of stunning performance for South African commercial property.” said Garrun. “It is the second best achieved historically and all indications are that it will rank in the top performers internationally as well. It is in a sense a cooling of exceptionally high returns in 2005, reflecting changing dynamics in the market as these affected the different sectors.”

He further noted “Offices were possibly expected to perform relatively better, but are well grounded for future growth in the underlying fundamentals. Vacancies continued to decline across the board, reaching the lowest levels in ten years. This pushed up income growth, especially in the office and industrial sector. Income yields continued their downward trend.

Continuing demand, confidence and strong property fundamentals are confirmed in the IPD figures. The international re-rating of South Africa as an investment destination continues and the foreign investors are coming in. The next year will be very interesting.”