

Diversify your investment portfolio with industrial property

According to Robert Shaff of Nexus Property Group (NPG), investing in the right industrial property is an ideal way to diversify an investment portfolio, while ensuring a relatively safe source of steady income.



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Industrial property returns are fairly uncorrelated with those from other asset classes, such as bonds and equities, which helps reduce the overall volatility of a portfolio, he says. Furthermore, the property itself represents a solid investment, in that yield of the property is higher than the prime lending rate and thus provides the investor with positive cash flow from day one.

“South African commercial property continues to present attractive investment opportunities to discerning investors, despite challenging economic conditions. Evidence of this lies in the strong performance of the South African listed property industry, having risen nearly 9% over the first nine months of this year – close to double what equities have achieved.”

Securing a reliable rental income

When it comes to investing in industrial property, Shaff points out that the key priority lies in securing a reliable rental income. “The major risk involved with investment property is around securing a reliable tenant. With these kinds of property, the return potential is high, but investors run the risk of being untenanted for extended periods of time or getting stuck with unreliable tenants. Conversely, properties with a more established tenant provides more reliable income, however the yield is relatively lower as the risk is lower.

“As this return is largely dependent on the strength of a property’s tenant and their ability to make timely and consistent payments, investors tend to favour blue chip tenants, which refers to large corporate or JSE-listed tenants who are likely to take out a long lease and are very unlikely to default on rental payments,” he explains.

Another risk of investing in commercial property that Shaff points out is the possibility of the property requiring unexpected costly upgrades. “Unless they have been factored into the purchase price, upgrades to a large commercial property can eat into return and may even run an investor into negative territory. It is therefore essential that investors do their due diligence when looking at a potential investment property.”

After taking these risks into account, finding the right property to add to your investment portfolio can be challenging, but Shaff assures that these opportunities, while rare, are out there.

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