

Dampened economic climate impacts on commercial property market

Low interest rates, coupled with ongoing investor confidence, has sustained the demand for commercial property for the past few years.



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Norman Raad, CEO of Broll Auctions and Sales, says after the global financial crunch the South African commercial property market showed extreme resilience.

"The increased demand and scarcity of investment properties for the listed sector was also a supporting factor to relatively inexpensive commercial realty market prices compared to those in global international metropolitan cities. However, current dampened economic sentiment and the trend towards increasing interest rates are now impacting the investment market," he says.

In August 2015 Broll Auctions and Sales held another multiple auction which brought some interesting and unique investment properties to market. Raad says during the six week marketing campaign prior to the auction, interest was at an all-time high with enquiries in line with expectations of the quality of the properties on offer.

Adjusted market values

"The bidding process however, reflected the adjusted market values that have been expected for a while. The buying yields were between 11 and 13% and the strongest demand was still undoubtedly for residential blocks of flats, retail and service station properties."

He says the demand for retail centres in outlying areas attracted investment buyers from all areas of the country, as most shopping centres are held by the listed funds and delivering good dividend growth. One of the properties sold was Wonderboom Retail Centre, comprising a gross lettable area of 6,834m² and situated close to Wonderboom Airport approximately 11km north of Pretoria - which fetched R22m even prior to the auction.

"While other sales were concluded for a range of properties, including a 35 room hotel and pub in Limpopo and block of 16 flats in Germiston, among others, a number of properties were not confirmed on auction as the sellers have not accepted the price adjustment and are still expecting too much for their properties," Raad says.

Sound investment

"While property has proven to be a sound long-term investment, the market is facing difficult times that sellers may not want to accept in the short-term, until reality sets in. Auctioning properties is arguably the most transparent and real reflection of the property prices achievable today, bringing all interested parties together. Sellers will need to start making peace with the current market scenario when considering what the future holds for the next years ahead.

"One of the reasons for sellers' high expectations is that in some instances buyers are making offers subject to due diligence and after their in-depth financial investigation and funding application, the due diligence fails. Despite this, the sellers remain with an unrealistic value in their minds, making it emotionally difficult to accept anything less down the line," Raad explains.

"In line with this, we are planning on changing our auction model to make it less onerous for buyers to register and bid on auction, providing incentive to ensure that investors do not sit on the fence and instead participate."

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