

Challenging times produce exciting opportunities in property sector

Norman Raad, CEO of Broll Auctions and Sales, has noted that exciting opportunities arise in uncertain and difficult times.



Sandton office building sold for R85m on auction

"At the last two auctions we have experienced an increase in confirmations of transactions before or on auction days - the main reason being that sellers are becoming more realistic in terms of market-related expectations.

"The majority of property owners have enjoyed a tremendous run, created by a perfect storm of low interest rates and a developing economy. However, this curve has taken a turn, with all the indications of this apparent for over a year, coupled with our plummeting currency in December (2015). Sellers are exercising caution and concern about what the future holds and this has been displayed by the increase in properties reaching the market," he says.

More than R1bn in commercial property sales

Since launch in March 2015, Broll Auctions and Sales has achieved in excess of R1bn worth of commercial property sales around the country. These include the sale of a residential block comprising nine apartments and situated in Hillbrow in Johannesburg which fetched R420m, an office block in Sandton, Johannesburg which sold for R85m, a shopping centre in Queenstown in the Eastern Cape which was acquired for R63.8m, a retail and parkade property in the Johannesburg CBD which sold for R45m and an office block in Morningside in Durban which achieved R40.2m.

"If our most recent auction on 14 June (2016) was anything to go by, then what we have been talking about for the past year regarding the headwinds expected for the property sector have made their impact felt. It's a buyer's market at the moment, with marginal properties attracting little or no interest, and this is based purely on the ability to raise finance, linked to the expectations that the market won't experience a positive spin in the near foreseeable future.

"The buyers are still here, however they are investing their money wisely and prudently. This past auction saw some of the best properties taken to auction in years. Two high profile residential blocks comprising student accommodation and situated in Braamfontein and Parktown in Gauteng sold for R17m and R13.25m respectively, while a retail centre in Dundee in KwaZulu-Natal attracted tremendous interest and competitive bidding akin to that of yester-year, when properties such as these seldom found their way to the market and opportunities were as scarce as hen's teeth, with this prime retail property with national anchor tenants selling for R31.3m. Notably at this auction, the average price for student accommodation on the Parktown border and Braamfontein fetched R200,000 and R300,000 per residential unit. It was just a short time ago when the same apartments seldom achieved more than R100,000 per unit."

Residential a robust investment

Raad says residential property is and will continue to be the most robust investment if well managed. The new funds have already emerged and snapped up a lot of the larger residential buildings, but as for the emerging residential investors, they are aggressively starting to bulk up, understanding the need for high demand residential urbanisation.

"The property market experiences continuous changes across the different sectors, but one sector that will remain in strong demand is the affordable housing market. Accommodation in South Africa is slowly become a privilege as the demand increases and availability and development is limited or lagging behind. There are just not enough apartments or homes to satisfy the existing and growing needs of our country - and especially close to or within the greater metropolitan areas.

"The likes of Afcho (now owned by SA Corporate Real Estate Fund) alongside City Property, which was led by the late and great visionary Alec Wapnik, identified opportunities and pioneered the purchasing of empty commercial buildings which they would convert into residential apartments to satisfy the growing demand and need in the Johannesburg and Pretoria CBDs. New market entrants competing for the same opportunities have driven the price up beyond anyone's expectations. Quality conversions are yielding far lower returns than historically, however the rental market which is supported by the emerging business sector workers remains increasingly strong."

Opportunities will surface

Raad says investing in bricks and mortar will remain on everyone's radar, and even though the REIT (Real Estate Investment Trust) sector has made capitalising on property returns easier and very profitable, owning property is always a great long-term investment. Retail centres and residential buildings are still attracting very low yields. The Dundee Shoprite Centre recently sold on auction fetched sub-9% and was a target even for smaller REITs.

"As the economy becomes more constrained for multiple reasons, the opportunities will begin to surface. What may seem expensive and a difficult decision to buy property in this economy, it doesn't take a lot for market sentiment and conditions to change and then for commercial property to find some real growth again.

"I firmly believe that it is never the wrong time to buy good properties. Over time, properties always increase and it is the one asset that will always retain an inflation hedge. Our advantage is that we are well positioned and have direct access to the current property market to know what is being sold and what yields are being achieved."