Retail market holding up relative to other Property Sectors

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Strong demand for more space from national retailers aiming to grow revenue and market share will drive retail property performance according to Emira Property Fund CEO James Templeton.

Retail property market has continued to hold an upbeat view on its performance and certainly expect property returns to be significantly superior to the other South African commercial property sectors in 2014.

SA Commercial Prop News reported earlier this year that the drive to revamp existing malls and opening new ones will continue this year, potentially leaving listed property stocks over exposed to retail.

"Strong demand for more space from national retailers aiming to grow revenue and market share will drive retail property performance," says Emira Property Fund CEO James Templeton.

Responding to this demand, Emira is growing its exposure to retail property by expanding its largest property asset, Wonderpark Shopping Centre in Pretoria, and several other of its shopping centres.

Over the past two years, there has been a wave of new shopping-centre development across the country, supported by retail expansion and backing from banks creating intense competition among shopping centres.

In a normal year, one or maybe two major shopping centres break ground, but last year proved to be extraordinary with several large developments planned.

"Consumers have been getting above inflation wage increases and are also benefiting from relatively low inflation as well as a buoyant equity market, creating a wealth effect. This is enticing retailers,"

points out Templeton. “Also, employment in Pretoria has been robust due to the expansion of both local and national government in the city.”
Some analysts have warned that an oversupply of shopping malls could lead to declines in profitability for the listed property sector. However, historically shopping centres have been defensive and delivered solid returns for listed property counters.

Templeton notes that the industrial and office sectors will follow retail’s performance.
“Industrial property should also perform well, given the sector’s comparatively low vacancies stemming from a limited supply of space. The weaker Rand should also benefit exporters,” explains Templeton.

He explains that office vacancies have risen in the six years since 2007. “If the current property cycle lasts the typical seven to ten years, then we are approaching its tail end and can expect office vacancies to improve markedly at some stage in the future.”

Templeton says the direction that office vacancies take will be critical for the listed property sector. However, he cautions activity in the first few months of 2014 may not be indicative of a trend as office leasing is likely to be slow with companies deferring significant leasing decisions until the national elections have taken place.

“The challenge for listed property in 2014 is going to be increases in interest rates and a rising cost of equity, as has been evidenced in recent weeks” says Templeton. “That said, property returns are healthy with a high income-yield relative to other investments, including cash and bonds. There is likely to be healthy growth in distributions from the sector in the coming year.”