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Emerging trends show improved commercial property fundamentals

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In a staunchly competitive commercial leasing market, helping businesses manage cashflow is a key factor in attracting and retaining tenants for a well-managed property portfolio.

Emira Property Fund CEO James Templeton says: "The aggressive leasing campaigns witnessed in the [commercial property](#) arena are a function of the market."

JSE-listed Emira Property Fund owns a diversified portfolio of office, retail and industrial properties. Its assets comprise 146 properties valued at R9,1 billion and listed investments of R500 million. Emira has a market capitalisation of R7,5 billion.

Emira, currently a collective [investment](#) scheme in property (CISP) or more commonly known as a property unit trust (PUT), is likely to be one of the first listed property companies to become a SA REIT (Real [Estate Investment Trust](#)) when it comes into effect this month. The new SA REIT structure brings the entire listed property sector in line with leading international standards.

Templeton reports that Emira is achieving improved leasing metrics with 92.8% of its portfolio occupied from 92.2% in December 2012 and more than 37% of its leases expiring in 2016 and beyond. In the second half of 2012 alone Emira secured leases with top-notch tenants accounting for some 135,000sqm of commercial space. These leases have an average period of five years.

Tightly managed leasing is a priority for listed property entities because leases provide certainty of income and are an indicator of what investors can expect from future investment performance.

When it comes to leasing, Templeton notes that after the location and condition of a building, cost is the most important factor for signing tenants.

"Cash flow management is imperative for businesses in this market," says Templeton. "It is hugely attractive if property owners can aid new tenants to reduce pressure on cash flows with incentives like rent-free installation periods. This helps accommodate expenses like moving costs. Landlords offering these incentives are likely to prevail in the present aggressive market."

Templeton believes that South African business is adapting to tough market conditions.

"In the Emira property portfolio, although concluding new lease agreements is taking longer and longer, we are seeing fewer business failures and interest from new tenants," says Templeton. "Engineering and mining consultants, professional firms and businesses advising on government infrastructure projects are noteworthy among these."

Industrial property is experiencing relatively strong demand at the moment. This reflects in Emira's industrial portfolio which shows an occupancy level of some 97%. "While demand in the office sector remains soft, the downward correction for rentals to revert to market is narrowing," says Templeton. For retail property, he notes the quality and size of assets dictate performance, with larger and dominant shopping centres continuing to perform well, while national tenants are intent upon increasing their footprint.