

Commercial Property Investments Perk Up

Interest rate cuts have made commercial property investments more attractive, and according to an expert, the market is now ripe for investors looking to increase their exposure.

Don't wait until the full effect of the current interest rate cutting cycle has worked its way through the economy, before investing in commercial property, advises Craig Hallowes, spokesperson for the Association of Property Unit Trusts (APUT).

The perspective is that, while South African consumers have already seen a 150 basis points cut, some financial institutions expect another 200 to 300 basis points in the pipeline before the end of 2009. Hallowes suggests that much of this anticipated decrease in interest rates is already priced into the market. He points out that the bond and forward rate agreement market tend to be more efficient than the property market when it comes to pricing because property has a growth and expectation value to it, which is a little less easy to price. However, all the markets are predicting a significant drop in interest rates.

One view held is that investors should be using the so-called 'saving' in interest payments to invest, in equities or income generating commercial property instruments, such as property unit trusts. Add to this, the news from Finance Minister Trevor Manuel in his National Budget speech that there would be moderate tax relief for individual taxpayers, and the picture is more positive than it has been for a while.

That's if consumers have got their debt levels under control, and can afford to invest, says Hallowes. "This is a good time to be looking to enter the commercial property space, and property unit trusts do offer that diversified portfolio spread that investors should be aiming for. It is important however, that each investor carefully considers their appetite for risk and assesses their level of gearing or debt before investing."

Lower interest rates have a material impact on the performance of PUTS. Hallowes explains that in a bearish market, as we currently see, property, due to its yield, tends to trade more like a bond. "In theory a decrease in interest rates means that the values of property counters should go up as their yields are compressed."

Another factor is that as gearing is one of the biggest costs, any decrease in interest rates means that the operating costs at a PUT fund level decrease, making the fund more 'profitable'. "On a more general level any decrease in interest rates positively affects the customer base, and this is especially true in the retail sector. This could lead to increased spending and a better off financial position for tenants."

For those already exposed to commercial property, the market is ripe for investors looking to increase exposure. "While the consensus view is that consumers are under pressure, the cycle will turn and commercial property will continue delivering attractive returns. Investors with a medium- to long-term view of their portfolios should allocate a portion of their investments to property."

Hallowes says that it is always difficult to call the 'bottom' of the market, and this is something that investors should try and avoid. Investors should rather be taking a longer view on property as an asset class, and base their investment view on where they see value in the counters that make up the sector. An initial entry via a property unit trust structure is a good starting point, he says.