

Confidence in current property market

The latest *Broll Annual Property Market Report*, published in October 2010, shows that the previous 12 months' capitalisation rates for premium offices were between 8.25% and 8.50%, with A-grade offices at 8.75% to 9.50% and B-grade offices at 9.50% to 10.50%.



According to the property services company's Carl von Düring, in the last 12 months, prime commercial properties' capitalisation rates have remained largely unchanged, signalling a good level of confidence in the current market.

"This trend is primarily evident in Premium or A Grade properties with single tenant, longer term leases," he says.

"This limits investors' concerns about rental declines. Capitalisation rates are sensitive to risk and properties with short-term leases, especially where rentals exceed current market rentals, are considered high risk. Capitalisation rates on these properties, which were between 9.5% and 10.5% a year ago, are now 0.5% to 1% higher," explains von Düring.

Capitalisation rates for shopping centres vary over the last 12 months, with community centres (12 000m² to 25 000m²) faring at 9,5%; small regional centres (25 000m² to 50 000m²) at 8.75%; regional centres (50 000m² to 100 000m²) at 8% and super regional centres (larger than 100 000m²) at 7.5%.

"Capitalisation rates are an excellent indicator and they reflect the confidence in well located and managed buildings where sound leasing management is in place. Importantly, they highlight vulnerable investment areas too," he adds.

International, African trends

The report also states that the stability of the South African property investment and leasing market puts it ahead of scores of other economies, with many other global economies experiencing a 'bumpy, but improving' climate, with gradual strengthening only forecast for 2011.

Capitalisation rates for office properties in other developing countries in Africa are 10% for Ghana, 9% for Kenya, 8% for Malawi and 10% for Namibia and 14% for Nigeria, while rates for retail properties in these countries are at 8%, 11%, 7%, 9% and 9% respectively.

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