

Real estate sector should strengthen foundations while economy is depressed

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The property sector has seen exceptional growth and expansion over the past ten years, but in keeping with the more recent deterioration of general economic circumstances, it is operating at rather more depressed levels at the moment.



Image source: www.pexels.com

The South African economic outlook is by no means promising and it follows that the real estate market is likely to appear sluggish for the foreseeable future. We believe local companies cannot afford to wait for the cycle to turn – now is the time they should be focusing on ways they can be successful in the future and build sustainable businesses.

Disruption abounds in real estate

There are various types of disruptions in the sector, affecting local and global companies. The question is whether local companies are ready for these.

One of these is the changing profile of investors to an increasingly global and sophisticated market, as South Africa has seen from the changing ownership profile of our real estate market.

International investors are currently looking to selected developed market property investments as a safe harbour, while there is volatility in emerging markets. However, this will not always be the case and companies need to ensure they are ready to take advantage of changes in global sentiment.

Technology is another major factor that will continue to differentiate property businesses. Unfortunately, the local sector has been very slow in embracing technology, and it needs to drastically improve on this if our companies want to ensure they can compete effectively with their global peers.

Manage risks adequately

Fortunately, we have seen a growing trend in the demand for increasingly intelligent buildings. The growth of smart buildings makes the sector more competitive and efficient, as it automates a great deal of functions that would previously have been performed manually.

However, while advancing along with technology is a positive development, automated systems carry significant risks and property owners should give equal consideration to cyber security risks when considering digital innovation.

The past year has seen a number of high-profile cyber attacks globally, and we anticipate that this will continue in the future.

Owners have to be aware that any system is potentially vulnerable, for example when a hacker takes control of a shopping centre's ticket control system and either manipulates it so that the owed amount on the parking voucher increases exponentially, or it could block all entrance and exit booms from opening and trap hundreds of cars.

Aside from the cost of protecting your property against physical threats – such as theft and extreme weather – landlords should employ equal protection against the unseen threats of the cyber world. The cost of not mitigating against these risks is potentially far greater to the business over the long term.

Cyber security has to be a business priority for real estate owners. Aside from discussing it at board level, it is also important that the business identifies a champion who can take ownership in understanding the impact of the risks.

Strength of balance sheets a key asset

Lastly, South African property companies must strengthen their balance sheets to ensure their businesses are built for the long term. They also need to reduce management costs – which are rising beyond inflation currently – if they are to compete for international investors.

The property sector will certainly face major cyclical challenges in the foreseeable future, but it is most important to look through these conditions and ensure that every business is fundamentally strong so that they can effectively attract a new wave of international investors and stay competitive even during downturns.

ABOUT LEE-ANNE BAC

Lee-Anne has extensive experience in research-based consulting in the tourism, hospitality, leisure and property sectors and carries out feasibility studies, economic impact studies, financial evaluations and valuations, strategy development and market research. She holds a BSc and she also has an MBA degree.
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