

## Chapter 4: Buyer profiles

# Typical buyers of low-priced buildings less easy to call

Different categories of buyers place different weights on the value-forming attributes of a property. Put differently, some buyer types tend to buy at lower capitalization rates than others — i.e. they tend to pay more for the same property. Thus, because the valuer's job is to simulate and report on market behaviour, the identification of the typical buyer of a property becomes an important part of his research.

Take the case of an owner-occupier of an industrial property. Unlike the institutional investor, whose focus is purely on the income-generating ability of a property, the owner-occupier is more focused on the efficacy of the premises for his business. Return is not all-important, a degree of emotional attachment comes into play and a sitting tenant has to consider relocation costs. Hence it is common for owner-occupiers to pay more for a property than a return-driven investor. Another example is the lower capitalization rates applied by syndicators relative to those applied by listed funds in calculating the value of a property. Syndicators can 'afford' to pay more for a property than professional investors because their investors have different investment criteria and a different investment time-horizon to that of listed fund investors.

**Table 4.1** summarises our latest survey on the most typical buyers of the main property categories.

The reader will note that the most likely buyers of small shopping centres seem to be private investors, syndicators, and listed funds, in that order. The more expensive shopping centres still seem to be the privilege of listed funds and institutions.

Although the most likely purchasers of an office costing less than R10 million are private investors and owner-occupiers, other investors are also very likely to purchase such buildings, according to our panel of experts. Buildings in excess of R100 million are most likely to be purchased by listed funds.

Not surprisingly, owner-occupiers and private investors are the most likely buyers of less-than-R10-million industrial properties buildings, whereas listed funds once again dominate the more expensive category.

The reader must remember that **Table 4.1** reports on typical buyers, and not typical owners. Hence, one may find that the most prominent buyers of, say, large shopping centres are presently listed funds, although most of these centres could very well still be in the hands of institutions.

This concludes our section on the composition of South African property purchasers. ■

**Table 4.1**  
**Typical buyers by property type and size**  
**Means for quarter 2005:3**

|                         | Purchase price below R10 million |       |    | Purchase price above R10 million |      |    |
|-------------------------|----------------------------------|-------|----|----------------------------------|------|----|
|                         | Mean %                           | SD    | n  | Mean %                           | SD   | n  |
| <b>Shopping centres</b> |                                  |       |    |                                  |      |    |
| Institutions            | 14,5                             | 11,11 | 6  | 23,0                             | 11,3 | 6  |
| Syndicators             | 25,7                             | 16,9  | 12 | 18,9                             | 11,8 | 11 |
| Listed funds            | 23,9                             | 18,3  | 9  | 50,9                             | 18,7 | 11 |
| Private investors       | 47,3                             | 25,0  | 13 | 14,0                             | 12,9 | 11 |
| Owner-occupiers         | 11,4                             | 8,5   | 7  | 3,3                              | 2,9  | 3  |
| <b>Offices</b>          |                                  |       |    |                                  |      |    |
| Institutions            | 16,7                             | 10,8  | 6  | 20,7                             | 10,2 | 7  |
| Syndicators             | 21,5                             | 16,7  | 10 | 20,0                             | 11,5 | 9  |
| Listed funds            | 23,9                             | 13,9  | 9  | 49,5                             | 22,7 | 10 |
| Private investors       | 35,0                             | 22,0  | 13 | 12,5                             | 5,9  | 10 |
| Owner-occupiers         | 29,5                             | 18,4  | 11 | 18,3                             | 12,6 | 3  |
| <b>Industrials</b>      |                                  |       |    |                                  |      |    |
| Institutions            | 7,0                              | 8,4   | 5  | 22,9                             | 10,3 | 6  |
| Syndicators             | 17,1                             | 13,5  | 7  | 18,3                             | 10,3 | 6  |
| Listed funds            | 18,0                             | 21,4  | 10 | 42,8                             | 18,6 | 9  |
| Private investors       | 32,9                             | 7,5   | 14 | 22,0                             | 14,6 | 10 |
| Owner-occupiers         | 46,5                             | 17,0  | 13 | 14,4                             | 10,9 | 4  |

n = Number of respondents  
N/A = Not available – fewer than two respondents  
SD = See Glossary of terms and abbreviations in Annexure 1.

Note that the capitalization rates reported on in *Rode's Report* are mainly driven by institutional investors (e.g. Old Mutual, Sanlam) and listed funds (e.g. Sycom, Grayprop and Spearhead). These investors generally use long-bond yields as a basis for determining an applicable capitalization rate. There are two reasons for this. Firstly, property is a more risky investment than government bonds, hence investors would require a capitalization rate in excess of long-bond yields. Secondly, in the case of listed funds, the cost of borrowed funds plays a role in how much they can pay for properties without diluting earnings. This latter factor did not play a role during the heyday of institutional dominance.

Syndicators, on the other hand, normally have investors that are happy with call-deposit-beating returns, which might permit them to outbid institutional investors and listed funds.

On the other extreme of the buyer spectrum is the owner-occupier, for whom the overriding factor is normally the parameters within which a bank will grant a loan (viz. interest rate, deposit, period, etc.) and the alternative of renting.