Are Commercial Properties a Good Hedge Against Inflation? Evidence from Selected Commercial Centres in Lagos

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Abstract

The paper examined the inflation hedging capacity of office and shop properties in Lagos Metropolis from 1998-2008 using data from registered Estate Surveyors' and Valuers' firms. Five locations were selected for the study based on the pace of commercial activities. A total of 35 firms that operated above 20 years were used as sample size to capture the trend in practice. The study used descriptive statistics to show the trend of returns on commercial real estate investments in percentage against the change of inflation during the period under review. Rental values were used due to the difficulty in obtaining evidence of sale as at the time of the study. The results reveal that in the short run, office property does not provide a good hedge against inflation but, does so in the long run; while shop property does not hedge against inflation both in the long and in the short runs. Investors who are into direct real estate investment should look more at office properties and, if location is anything to go by, those locations that have shown better prospects are recommended to be sought after.

Keywords: Commercial property, Hedging, Inflation, Rental value

Introduction

Since the seminar paper by Fama and Schwert in 1977, the relationship between real estate return and inflation has been a subject of extensive empirical research in the real estate literature for various reasons chief amongst which is investment performance evaluation.

Following the collapse of investments and capital markets as a result of the US Subprime mortgage lending debacle, many investors are being forced to re-strategize their and revise their choices as regards portfolio mix. In traditional portfolio management according to Glascock, Feng, Fan and Bao (2005), real estate assets have long been recognized as a good hedge against inflation. This view was also supported by Downs (2009) who perceived real estate as one major investment option which possesses some attributes that give investors confidence. Karley, (2009) in aligning with this view also affirmed the attributes that real estate investments have especially commercial real estate investments such as shops, offices, industrial properties and ware housing. However, residential investments have, in addition, featured prominently under the scrutiny of investors and investment advisors both at the local and the global levels.

As the global economic crunch takes its toll on other economies of the world, Nigeria is no exception. Many authors such as Andrew, 2009; Allen, 2009; Akinseye, 2011; and Catherine, 2010 seem to have unanimously agreed that the country has had its own fair share of the impact of the meltdown which has affected the financial sector especially the banking sector, the capital market, and by extension, the entire economy. This has led to investors' loss of confidence regardless of whether they are risk proof or risk prone investors (Downs, 2009; Karley, 2009). Hence, the implication is that choices in terms of options and portfolio mix should be made with sound information and knowledge on the overall index of portfolio management and mix within a particular economy in more general terms.

Inflation is an economic phenomenon that every country and their governments try to address through various economic policies and programmes. Since the new world order is based on capitalism, inflation cannot be completely eliminated but it can only be managed to be at its barest minimum. An inflation hedge is provided when the return on an investment increases at a commensurate or higher rate than general price levels or increase (Glascock et al., 2005). According to Martin (2010), an investment could be expected to hedge against inflation through the income produced, capital appreciation or the combination of both. This is predicated on the fact that there are basically two reasons why an investor would want to hedge against inflation; the first reason is to match future liabilities which are linked to the inflation; and the second reason is to protect the real value of an investment.

In developed economies such as the United States of America, Germany, Canada and emerging economies such as Hong Kong, Japan and China, the level of awareness of the populace on inflation is factored into investment decision criteria. This is basically due to their high literacy level and technological advancement. Unfortunately, the same cannot be said of Nigeria or third world countries. Besides the characteristically low level of literacy and technological advancement, the developing economies have over time shown the trend of higher inflationary figures and inflation shocks compared to the developed economies that are more industrialised and export oriented hence having a highly competitive balance of trade and Gross Domestic Product (GDP). The currency supremacy of advanced economies and the debt level of developing countries are peculiar factors which put them in a very tight corner while worsening the effects of inflation generally.

A lay man who has interest in land and landed properties believes that it can hedge inflationary trends with the rent he collects from the tenants in the properties he owns as investment. However most of these investors usually make simple longitudinal comparisons of their earnings from the property as against what they used to get in the past, measuring the level of returns against inflationary trend, as that to them is a factor that affects all forms of investments and investors' returns. Thus, the study empirically looked at the inflation hedging capacity of real estate with particular emphasis on commercial real estate in selected areas of Lagos state, the commercial nerve centre of Nigeria.

Nigeria's Economy and Inflation Trend from 1998 to 2008

The sharp decline in oil prices, economic mismanagement, and continued military rule characterized Nigeria in the 1980s. Expected international commitment of $150 million in assistance to Nigeria, from 1993 to 2000 were interrupted by strains in US-Nigerian relations over human rights abuses, the failed transition to democracy, and a lack of cooperation from the Nigerian Government on anti-narcotics trafficking (Wikipedia, 2011). Nigeria however received massive support and aid from other developed nations for her various sectors. In 2007 she received a net inflow of US$5.2 billion of foreign direct investment (FDI) much of which came from Nigerians in the diaspora (Akinseye, 2011). This was reportedly directed at improving the energy and banking sectors. In 1999 the country embraced democracy, midwifed by the then Abdusalami Abubakar administration. This time Nigeria made significant progress towards sustainable growth and macroeconomic stability taking advantage of the general acceptability of her civilian regime and confidence of the developed countries to partner with her.

Just as the civilians took over affairs of governance in 1999, Nigeria's inflation rate fluctuated, showing immediate improvement and, dropping from 10% in 1998 to 6.6% in 1999; and between 2000 and 2001 it went up further than 6.9%. It however dropped the following year but continued to rise again until 2007 and 2008 when single digit inflation rates were recorded. This affected the general economy, coupled with the high interest rate the Central Bank of Nigeria (CBN) directed all commercial banks to charge, thus making the cost of borrowing and the cost of doing business to go high too.

Relatively, the country's economy has been unstable experiencing peaks with respect to single digit inflation figure and lows with respect to double digit inflation figures within the period under review.

Outcome of Studies in other Countries

The relationship between real estate returns and inflation often features as a research subject because one of the critical issues pushing up the prices of real estate is its perceived inflation hedging capacity. Using conventional Ordinary Least Square (OLS) models and co-integration and causality models to examine regional markets in the United Kingdom over a period of 30 years, Stevenson (2000) found strong evidence to support the hypothesis that house rents and inflation are co-integrated and that house rents lead inflation.

Green in Stevenson (2000) concluded that policies to correct over investment in housing and improve resource allocation in the long run should be pursued with caution because doing so would have undesirable consequences in the short run especially as it affects inflation.

The situation was however different in Ireland (Stevenson and Murray, 1998) where they examined the inflation hedging capacity of commercial real estate using the conventional Fama and Schwert (1977) approach with the co-integration and causality tests and the result did not agree with the hypothesis or show any strong evidence of hedging capacity. Further tests were conducted and the result was still the same. These results however agree with Liang's (1997) study of the United States in which the cause of the outcome was hinged on the oversupply situation experienced in the US property market in the 80s and early 90s.

Recently, Kim (2004) investigated the relationships among housing price, consumer spending, and inflation in the Korean economy. Particular attention was paid to the debate over house price bubbles, housing wealth effects on consumption, and the relationship between house price and inflation as portrayed by the Consumer Price Index (CPI). In other words, not only does house price index provide useful information on inflation on monthly basis but also, inflation tends to lead to higher prices with the same time lag (Kim, 2004).

Various authors have prescribed different curative strategies as investment options which can curtail the profit or high return eroding effects of inflation on real estate. Some authors see the tilting of the investment portfolio towards stocks as the best strategy, measuring it against other stocks such as bonds with its characteristics of fixed coupons and principal payments (Davies, 2006).
Conversely, Cooper (2006) investigated real estate's inflation hedging capacity in Dubai investment environment from both local and international perspectives. His argument is based on the premise or expectation that as inflation soars, so also would the value of property increase. The property value would have more than doubled, while mortgage payments will be slightly higher. Invariably, the effect of inflation would also cause rental values to surge.

A further explanation offered by Cooper (2006) is that, while the debt of a property remains fixed, as inflation increases, the value of property increases and so does the equity element. Meanwhile, rental values rise with inflation while prices remain largely unchanged, although interest rates do tend to rise with inflation, albeit they do so more slowly than rentals.

Petrove (2008) held a view similar to that of Davies (2006) that though real estate can be said to be a hedge against inflation, it is a poor hedge. This conclusion emanated from the analysis of the matured property markets in Japan and the US.

Recently, Demary and Voigtländer (2009) researched into inflation hedging capacities of real estate investments in nine (9) developed countries namely Canada, USA, Finland, France, Germany, Ireland, Holland, Sweden and the UK and the result of the study showed that investment in equities including real estate equities do not protect the investor against inflation. The study also brought out the fact that direct investments perform better in protecting against inflation. Their degree of performance however varied with retail property performing worst in inflationary conditions.

Canadian real estate has been shown to provide a hedge against, expected and unexpected inflation (Newell, 1995a; and Li, 2001). Using quarterly data over the 1985-1993 period, Newell (1995a) found that most Canadian real estate sub-indices hedge against both expected and unexpected inflation. However, the relatively short data series makes it difficult to tease out any statistically significant effects. Using yearly data over the 1974-1999 period, Li (2001) concluded that the aggregate real estate return hedged against expected and unexpected inflation and helped to hedge the rest of a portfolio against expected inflation as well.

Various studies in some Asian countries have shown mixed reaction to the concept of real estate hedging against inflation. Examples based on experience in Singapore show that commercial class of real estate hedges against inflation (Sing and Low, 2000). In Taiwan, Fang, Wang and Nguyen, (2008) showed that within hetero-risk and asymmetric information framework, Taiwan's real estate returns are unable to hedge against inflation.
The situation is however different in Hong Kong. In the short term, real estate was shown to hedge against both expected and unexpected inflation (Glascock et al., 2010) and this agrees with the study of Fama and Schwert (1977).

However, Hartzell and Webb (2010) in their study in the United States zeroed in on commercial real estate and inflation with particular emphasis on periods of high and low vacancy rates. The outcome of this study shows that in periods when real estate markets are in balance, real estate tends to provide a hedge against the expected component of inflation, but there is little relationship between returns and unexpected inflation. Their study was primarily focused on commercial real estate.

Studies relating to this subject in Nigeria are few. However, results of Amidu and Aluko's (2006) study correlate with Cooper's view point that investment in Real Estate offers an eroding power over inflation and consequently, a good protection of investors' funds.

Regardless of these divergent views and opinions about the hedging capacity especially of commercial real estate, a major issue that has to do with inflation lies in the fact that like stock market returns; economic growth; or interest rates, inflation is one of those variables or phenomena which are inevitable and which must therefore be managed. Hence, rather than grouse about the prospects of high inflation figures, risk prone investors are better advised to focus on the things they have control over, one of which is the selection of the right investment option.

There are several authors who have treated the issue of inflation hedging capacity of commercial real estate in developed economies. Studies of this sort on developing economies are however scanty.

Newell (1996) examined the inflation-hedging characteristics of Australian commercial property over a ten year period (1984-1995). Schofield (1996) investigated the inflation hedging of the UK commercial property sector while Newell and Razali (2009) looked at the impact of the global financial crisis on commercial property investments in Asia. Chauhan (2010) compared real estate investment and stock market investments, amongst other authors.

Commercial property is an important asset class for major institutional investors especially in developed economies where they have robust and matured property markets interacting with virile capital markets that offer a good number of options of stocks to buy into.

The importance of this is made more prominent by the quantum of transactions that commercial assets command which is put at $19 trillion investable globally (EPRA, 2009). Also, with international property investment having taken on increased importance in recent years, this has seen institutional investors such as REITs, pension funds, private equity funds and sovereign wealth funds acquire significant commercial property portfolios in both mature and emerging property markets (Newell and Razali, 2009). These options are adopted mainly because of the perceived capacity of real estate to hedge against inflation.

Above conjecture is the thrust of this study in Nigeria, which empirically looked at the inflation hedging capacity of commercial real estate drawing comparison between the increase in rental values over a period of 10 years and inflationary rates in the economy.

Commercial Real Estate

Although the ownership of commercial property (i.e., office buildings, shopping centres, industrial properties, and hotels) does not offer any tax shelter like residential property, it can offer greater security to the investor (Saft, 2004). Commercial properties are characterised by long term lease arrangement owned by firms or companies that are usually financially stable. A long-term lease with a financially stable corporation provides the owner with an assured (albeit limited) return, the basis for additional mortgage financing, and higher resale price. Usually, lenders who are aware of the security of good leases, increase the loan value of a property leased to a credit worthy tenant, thereby enabling the owner to utilize the appreciated value of the investment without necessitating its sale or disposal.

The fact that the property has a particular rental stream does not mean that the income from the property hedges against inflation and therefore the value of the property cannot be improved. Income can be increased by carrying out improvements on the property and by developing the under-developed portions of the land adjacent to the portion of the property that is rented. Additionally, income can be increased by better management of the property, which could have the effect of reducing the operating expenses on it. Operating expenses can be reduced by a number of methods, including challenging the real estate tax assessment, by improving the monitoring of the expenses, by planning maintenance of the structure and parking facilities rather than waiting for the deferred maintenance that will often require a major infusion of capital to keep the property operational, or by improving security and avoiding repairs necessitated by damage. Generally, there are certain variables that influence consumer behaviour especially as it has to do with their purchasing power and the way it reflects on the demand for commercial property. Consumer purchasing power is usually affected by the general economic outlook and the supply of cash in the economy. Opening up of a new town also has its effect on demand for commercial property.

As it is being experienced in the city of Lagos, most areas are changing residential property to commercial use largely because they command high rental and a property owner is always inclined to that use that will command highest and best value. Hence, the trend in some selected areas in Lagos like Ikeja, Lekki- Epe expressway, Victoria Island, Surulere and Obalende to mention only a few, have been characterised by change in land use from residential to commercial.

Methodology

The Study area

Lagos was used as study area because of the relative vibrancy of the property market in the city compared to other cities of the federation. However, while Lagos is seen as highly urbanised and commercialised, not all locations in the city are commercialised as there are zoning laws and ordinances which regulate the sitting of different land uses. The zoning laws have, to some extent, guided the sitting of certain activities within the metropolis. Based on the fact that the research focused on commercial real estate, a location where there is high presence of commercial activities was of prime importance to it. Also, the classification of commercial properties investigated by this study were offices and shop properties as they constituted the highest in terms of demand and concentration as indicated by the interviews conducted. The study was able to identify various locations earlier enumerated, which are prime areas and are noted for high commercial activities. James (2008) defined a prime area as a location that is first in excellence, quality and value, based on which the following locations were selected for the study: Lekki Epe expressway; Ikoyi; Surulere; Ikeja; and Lagos Island.

The study surveyed estate surveying firms in LekkiEpe expressway; Ikoyi; Surulere; Ikeja; and Lagos Island (especially those that have commercial properties in their management portfolio). The selected firms have been in practice for at least twenty (20) years and have sizeable management portfolios. In all, questionnaires were administered to a total of 35 estate surveying and valuation firms capturing questions such as property management specialisation, rent review pattern, and rental change indices. The results got from the empirical survey were processed along with data on average rental value per square meter. The 35 sample size amounts to about 8.02% of the total number of estate firms in Lagos (436) as a whole but for the requirement of the study only the 35 firms were considered satisfactory and adopted.

Although the period under review was 19982008 but, for purpose of comparison, 1997 was adopted as base year. The pilot study earlier carried out showed that more information was handy from 1997, amongst the firms visited. Series method was applied in the analysis of the data that were generated for the study.

Results and Discussion

As shown in Table 1, of the 35 firms that were used in the course of the study, the least number of Estate Surveying firms was recorded in Lekki-Epe Expressway as 2 (5.7%). This can be attributed to the fact that the area is relatively new and a lot of the firms prefer to be located centrally due to the nature of the business. The next in ascending order was Ikoyi 5 (14.3%). This is also due to the fact that Ikoyi is home to residential apartments, more than commercial properties. Surulere 8 (22.8%) was next and, coming tops jointly were Ikeja and

Lagos Island 10 (28.6%). These locations have the highest concentration of commercial activities and they serve as good locations for estate surveying and valuation firms, as reflected in Table

Table 1: Characteristics of Responding Firms

Location of firms	Ikoyi	Surulere	Ikeja	Lagos	Lekki-Epe	Total
	5(14.3%)	8(22.8%)	10(28.6%)	10(28.6%)	2(5.7%)	35(100%)
Membership status of respondents	Graduate 2(5.7%)	Associates 26(74.3%)	Fellows 7(20%)	Past President		35(100%)
No of years in practice	(20)15 5(14.3%)	20 -25 19(54.3%)	26 – 30 10(28.6%)	31 – 35 1(2.8%)	36 above -	35(100%)
Areas of practice	Management 35(36.8%)	Agency 26(27.4%)	Valuation 30(31.6%)	Development 4(4.2%)	Others -	95(100%)
Core area of practice	Management 35(33.3%)	Agency 35(33.3%)	Valuation 30(28.6%)	Development 4(3.8%)	Others -	105(100%)
Size of property mgt portfolio	Small(1-10) 2(5.7%)	Medium (11-50) 24(68.6%)	Large (51-100) 4(11.4%)	Very large (100 above) 5(14.3%)		35(100%)
Frequency of rent review	Annually -	Bi-Annually 28(80%)	Every 3 years 7(20%)	landlord's dictate NIL		35(100%)

Results from Table 1 show that majority of the respondents are those who are elected Associate members of the Nigerian Institution of Estate Surveyors and Valuers (ANIVS) 26 (74.3%); 7 (20%) respondents are Fellow members of the Institution (FNIVS) while only 2 (5.7%) of the respondents are either graduates or probationer members of the institution. The above statistics show that the respondents were well grounded and knowledgeable in the property industry and would be able to give objective response to the commercial market trend that was sought after.

The period that the respondents' firms have been in practice was also sought after as this would ensure that the firms have reliable records reflecting the practice trend and not just comments based on guess work. Thus a good number of the respondents' firms have been in practice spanning over 15 years and engaged in almost all aspects of practice of the profession. Furthermore, in addition to management of properties, all the firms held this aspect of practice as one of the core competence areas, satisfying the fact that they are appropriate to answer the questions that have to do with the trend of rentals in the areas under consideration.

Thus, factoring other circumstances, rental reviews are mostly done bi-monthly and not annually while in some other cases, reviews are done every three (3) years. The last scenario happens mostly when the tenant of such commercial properties are corporate organisations who, most times, prefer to enter into medium and long term leases as against private individuals who most times change business locations.

Karley (2009) had expressed the view that property demand generally is not merely a function of the level of per capita income, but also of income distribution. Furthermore, income distribution is a direct expression of the state of the economy and also the per capita income of the citizens and buoyancy of the economy as a whole. The implication is that goods and services would also be priced based on the inter play of the forces of demand and supply.

Table 2: Parameters used in fixing rent during renewal

Parameters	Number	Percentage	Cumulative Percentage
Inflationary trend	4	11.4	11.4
Forces of DD & SS	7	20	31.4
Current market trend	22	62.9	94.3
Dictate of Landlord	2	5.7	100
Total	**35**	**100**	**100**

Table 2 depicts the basis upon which rent reviews are hinged. The current market trend 22 (62.9%) determines the basis of renewing rent. It is worthy of note that renewals are not significantly based on the dictate of landlords who may lack an idea of market trend and therefore may base renewal on personal needs. The average investor would be favourably disposed to rent increment just to be able to meet up with current economic reality.

Table 3: Trend of percentage change in rental value of shop against change in inflation.

LOCATION	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Average
L/ISLAND	10.5	14.4	11.2	0	10.7	17.6	10.5	5	16.7	20	16.7	**12.1**
IKEJA	4.3	4.2	7.7	7.1	26.3	5	11.1	6.3	25	5.9	8.1	**10.1**
S/LERE	10	13	8	10.7	12.5	3	2.9	2.9	16.7	4.5	0	**7.7**
IKOYI	5	26.9	7.1	0	3.4	3.3	0	6.3	11.1	10.0	0	**7.1**
L/EPE	3.6	0	6.7	6.3	6.3	5.6	7.7	11.4	2.2	4.3	9.6	**5.8**
INFLATION	10.0	6.6	6.9	18.0	13.7	14.0	15.0	17.9	8.2	5.4	11.6	**11.6**

While the impact of inflation remains uniform in the selected study areas, the same cannot be said of its impact on the different commercial properties studied, as reflected in Table 3. For the period under review, it is obvious that only one location showed an evidence of hedge on the average against inflation and that was Lagos Island. The difference was however not a strong hedge, at 0.5% difference. This is weak because cost of management and maintenance was not factored into rental values that were gotten from the field as this would eventually constitute major outgoings that the property owner would undertake. For the other locations which also experienced lower percentage change in rental value the weakest was the Lekki-Epe Expressway, which would definitely cause investors to be wary of investing in the area. (Lekki-Epe Expressway can however be explained as an emerging area where housing estates are predominantly springing up). Ikoyi was next with an average percentage change in rental value of 7.1 (Table 3) and followed by Surulere. (Ikoyi is a location that is noted for being home to the very rich in the country, aside from its serenity and almost absent feature of nuisance activities). Surulere on its part is an evolving location that was earlier zoned for residential purpose. However, as the demand for commercial properties continued to outstrip the supply of same, most of the residential properties in Surulere were converted to commercial properties. The same was the situation in Ikeja.

Table 4: Trend of percentage change in rental value of offices against change in inflation.

Location	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	AVG
L/ ISLAND	0	0	37.5	11.1	0	14.3	30	25	0	20	21.9	**14.5**
IKEJA	6.7	6.3	5.9	15	0	28.6	9.7	8.8	15	23.1	10.3	**11.8**
S/LERE	11.1	10	16.7	25	11.1	18.2	21.4	3.4	19.4	5.3	5	**13.3**
IKOYI	8.6	12.5	2.4	4.5	8.3	0	17.2	17.2	17.1	2.8	2.7	**7.1**
L/EPE	30	0	16.7	0	7.7	7.1	26.3	0	20.8	20	6.3	**12.3**
INFLATION	10.0	6.6	6.9	18.0	13.7	14.0	15.0	17.9	8.2	5.4	11.6	**11.6**

Table 4 however revealed a trend different from what Table 3 (shops) gave as virtually four (4) out of the five (5) locations were able to hedge against inflation with the Lagos Island ranking the highest (14.5). This when viewed against inflation revealed a 2.9% which is stronger than the value (0.5%) recorded in shop property for the same location. Lagos Island (14.5%) was closely followed by Surulere (13.3%) with a 1.7% difference against inflation. This was followed by Lekki-Epe Expressway (12.3) with a 0.7% difference against inflation. Ikeja provided a weak hedge at just 11.8% which is 0.2% difference against inflation. Ikoyi once more did not show any hedging capacity in office properties and the earlier explanation given in the case of shop properties suffices.

Generally, while it can be said that there has been increases in the rental values of the properties from the data above, which apparently is the parameter of judgement of most property owners, the issue of outgoings such as sinking fund, insurance, management, repairs and maintenance costs amongst others had not been factored into the parameters used for this study as another key factor in the inflation hedging capacity of commercial real estate. Be that as may be the situation, the study outcome has been able to show that Lagos Island holds the ace for both shop and office properties in Lagos metropolis as the location has been able to hedge against inflation in both property types as reflected in Table 4.

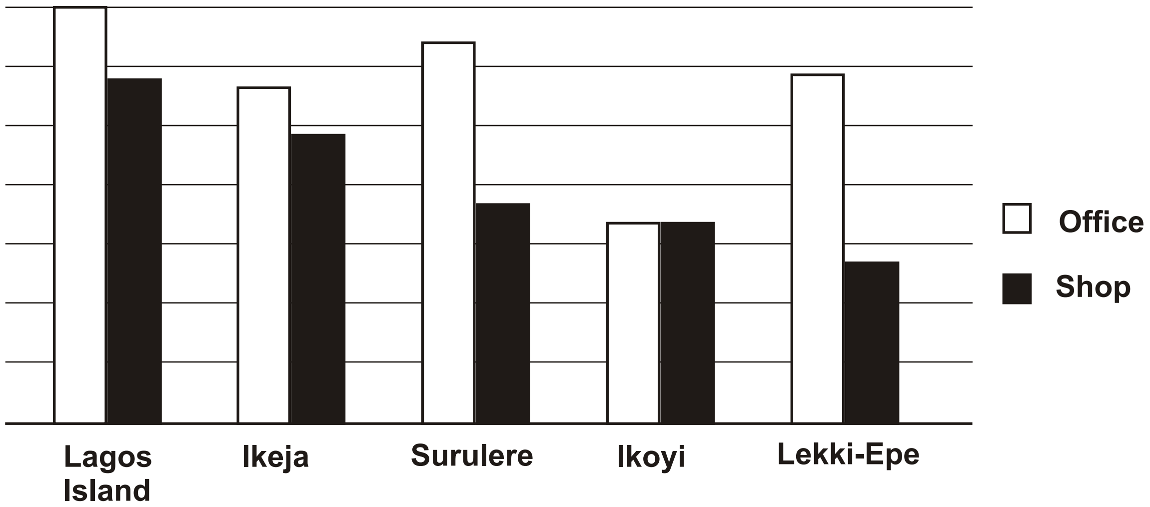

Figure 1. Composite growth rate for office against shop property

A broad overview of the composite growth rate of both property types from the histogram in Figure1 shows that office properties are a better option to invest in than shops as shown for Lagos Island, Ikeja, Surulere and Lekki-Epe Expressway. For Ikoyi, a low density area the outcome for both real estate types is the same as the location proved to be one in which residents and property users appreciate serenity which is a major feature in low density residential areas like it. The study confirmed this in agreement with Glascock et al. (2011). Various studies on inflation hedging capacity of real estate would vary significantly once the data used are from different sampling periods.

Conclusion

The various Tables and Figures have summarized the inflation hedging capacity of commercial real estate with emphasis on shop and office properties. Taking a period from 1998-2008 (a ten-year period), the results so far show that commercial real estate in Lagos possesses that attribute of hedging against inflation in the long run; the same cannot be said of it in the short run. Office property showed the most prospects than shop and the level of hedge varied considerably from one location to another with Lagos Island being the most viable.

It was noteworthy that, while inflation rate showed great fluctuations, within the period under review, rental values for both classes of commercial property were relatively more stable. This goes to suggest that the purchasing power of the consumer determines the rental value. This being the case, the investors would also demand what similar properties in the same location is going for.

The gap in this study would be in terms of the occupancy rate which would have elicited the supply profile of these classes of property against the demand level. This would have been able to establish whether or not the price trend is the “buyers' world” or “sellers' world“ situation. Also, outgoings in percentage were not sought from the respondents which would have given a clearer picture of the actual income of the investor after all deductions have been made.

Commercial real estate in Lagos metropolis possesses hedging capacity in office properties in the long run while the situation is different in shops both in the short and long run. This position may however be different when the trend duration is longer. Hence, investors who are into direct real estate investment should look more at office properties and, if location is anything to go by, those locations that have shown better prospects should be further explored.

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