

Commercial property: a long recovery, but opportunities for some

By [Rick de Sousa](#)

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Having worked in the commercial property sector for many years, let me state a truth universally acknowledged, but often overlooked: we will come through this, and the sector will recover from the significant knocks its faced recently as a result of the Covid-19 pandemic.



Image source: Gallo/Getty

Historically, and despite the odds, property is an asset class that has always managed to beat the market. We can only hope that this time is no different – although the journey may be as long as three years, I believe.

Based on my experience and recent research from some of the best minds in the sector, I expect that the next three years will be critical to our recovery, and that we should expect an upwards tick after that. In fact, I believe that the silver lining is that we could be in for a market correction in favour of new entrants.

Our present reality: in the making, even pre-Covid-19

As many offices, shops, warehouses and other commercial properties sat completely closed because of the unprecedented Covid-19 shutdown, the lockdown has compounded the industry's challenges into a stark reality: rental collections are down, financing arrangements are being re-structured at a rate not seen before, and the present economic outlook is so dim that it's sure to worry anyone with capital to invest.

The pandemic has come to an economy that was, even before the Covid-19 lockdown, trading at levels last seen more than a decade ago following the 2008 global financial crisis. It's easy to be worried, if not terrified. It might be hard for us to think back to a pre-Covid-19 world, as we all hunker down in our houses, but if we're honest, the South African economy was already in dire straits long before Covid-19 wreaked havoc.

International studies have suggested that cap rates are under pressure to increase by 50bps, and some large financial institutions such as FNB reported that commercial property growth in real terms, prior to Covid-19, was flat (slightly negative in the case of office) and that upwards risk adjustments were required even pre-Covid-19. Personally, I estimate that between 15% and 20% of rental income will be lost, on average, over a three-year period, as a result of Covid-19, economic downgrades, a likely recession and other economic factors.

The Covid-19 pandemic is said to be the greatest global shift since World War II, and it doesn't look like we're even at its peak yet. Only time will show us the true economic impact of this once-in-a-century pandemic. Another harsh truth is that, as one sector of a market suffers, another one usually flourishes.



Surviving Covid-19 - Can I use my commercial property to unlock value?

Andrew Jefferson 28 May 2020



Office: ripe for re-purposing

Six months prior to lockdown, office property was already bleeding. Estimates put the amount of vacant office space in Sandton at more than 1,000,000m². Add in a global pandemic and an unprecedented national lockdown, and the prospects for office property look even worse.

Under a strict lockdown and fear of infection with a disease that strikes in the most innocuous of places, it's understandable that nobody wants to be in an office right now. In fact, communal spaces could be an indulgence for a long time to come. Property owners are going to be forced to repurpose their property assets. They simply can't sit with indefinite vacancies. The move from office to residential seems like the natural one.



#Level3Lockdown: Uncertainty, risks remain for retailers and retail property owners

John Loos 26 May 2020



Retail: an eye on convenience

Retail has been lingering for some time. Big malls have not been delivering fantastic returns but have always been considered solid properties. South Africa has far too many malls; American investors actually come to South Africa to learn how it's done. As a country, we build more square meterage of malls per head than even the USA – the inventor of mall culture.

As a country, we have over-invested in big malls and without good returns even prior to Covid-19, it's only going to get worse from here. People are going to stay away from congregating in large open areas – a change in behaviour that will remain for a long time to come.

We're going to have to watch big malls very closely. People don't realise that a lot of our pension funds are invested in these malls, so a large chunk of company wealth is stuck here, and it doesn't help that big retailers are abstaining from rent payments. This has a knock-on effect beyond their own staff. It means that even the smaller businesses will take their lead and withhold their rent payments as well.

But where one opportunity falls, another rises.

Convenience retail is the new golden opportunity. This is your smaller local shopping centres with community retailers like grocery stores, hair salons, pharmacies, take-away shops and other smaller shops supplying basic things like airtime, cosmetics, etc. These are the places where people can go in and out with less human interaction and crowding. This is where we will find growth in the foreseeable future.



Lighter side of industrial property showing returns

Johan Piekhaar 20 May 2020



Industrial: set to benefit from government package

Prior to the lockdown, industrial property was already performing better than retail and office with real growth. In a post-Covid-19 market, industrial remains resilient in these times because it is linked to essential services and supply chains. Coming out of lockdown in a phased approach, manufacturing and industrial businesses will be the first to reignite the fires to kick-start our economy.

This is a property market that we should all be keen to fund, given that it poses the most immediate returns. The government's announced R500bn Covid-19 package should filter into the industrial property space more than office and retail, with sectors such as mining, manufacturing, construction, and associated supply chains likely to receive assistance first.

The full re-opening of e-commerce also counts in the industrial sector's favour, providing more certainty for landlords of warehouses and manufacturing facilities, especially if some of the trade that has been lost in the retail space can move online. Innovation in e-commerce could have a potential positive effect on the industrial sector.

The silver lining

As investors, it is incumbent upon us to find the silver lining and that silver lining is growth. Perhaps this pandemic was a levelling of the playing field that the property market needed to become more accessible. I am saddened by the suffering this pandemic will cause, but it's important to consider what the world will look like after we come through this. The interest rates have already gone down, so it will be easier to raise the money. All that's missing is the entrepreneurial spirit.

The problem is, having worked in this sector for some time, it has become apparent that there are very few big players in the market. I wouldn't call the commercial property market broad-based, and that needs to change. Most new entrants to the market simply cannot guarantee the repayments that big players can, especially when tenants leave or withhold rent.

From a Fedgroup perspective, we would favour an investor that gives us more security and has the requisite experience as we need to lend responsibly. Having said that, being entrepreneurs ourselves, we are always open to the ideas of entrepreneurs with different business models. If it fits the commercial property space, we are open to discussing ways of making it work.

The point is, if you can find the funds, seize the opportunity.

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