WRITTEN BY: Bartlett Communications

Hi there,

Before the onset of the pandemic, the office sector was booming with ongoing development in the CBD and surrounds and small to medium industrial units were in short supply although there was very little demand for big box industrial properties.

Two years on and the office sector is under considerable pressure with the exception of just a few nodes, demand for large industrial properties far exceeds supply and, for the first time ever, qualifying lease clients have been eclipsed by qualifying buyers.

Below, a veteran property professional takes a closer look at this sector, what has shaped it, what has changed, what continues to influence it, what the future holds. He also offers investors sage advice.

Caption: COMMERCIAL REBOOT: Savvy investors are making hay whilst the sun shines as, for the first time ever, qualifying lease clients are being eclipsed by qualifying buyers

Significant market shifts in Cape Town's commercial property landscape

Several key factors have precipitated a number of emergent trends and market shifts in the commercial sector since the advent of covid, not least the fact that for the first time ever, qualifying lease clients have been eclipsed by qualifying buyers.

This is according to Brent Townes, Commercial Property Chief Operating Officer in Cape Town for Lew Geffen Sotheby's International Realty, who says: "Although this has largely been within the industrial sector which was already dominant before the pandemic, we are also seeing more buyers in the retail segment as well as vacant land for development.

"The majority of sales have been warehousing, retail malls and smaller industrial units for owners to run their businesses and most are local buyers."

Townes adds that this is despite the fact that rental prices have consistently dropped for the past three years as have the lease periods, from five-years, down to three and sometimes even two years.

The beleaguered office sector which bore the brunt of the pandemic, resulting in a massive over-supply of stock, is once again showing signs of revival, but only in certain areas, according to Townes.

"The areas in which we are seeing the most movement are precincts like Century City, Westlake and Tygervalley because they are essentially live/work/play nodes that require little or no travel time and offer the convenience of an array of on-site amenities.

"And, with rental prices remaining constant for the time being, more people are encouraged to take their businesses back into the workplace."

Another notable shift is the growing demand for 'big box' industrial spaces which were not as sought-after as small-to-medium sized properties prior to the pandemic.

"These are currently in very short supply and even non-existent above 35 000m²," says Townes, adding that the industrial park take-up along the N7 is going well with the development of medium to larger-sized units.

For a number of years now, e-commerce has been eroding the retail sector and prior to the pandemic, smaller neighbourhood shopping centres were thriving whilst many larger malls were coming under pressure.

However, although Covid may have further dampened this sector during lockdown, it's now driving growth as many people have moved out of formal employment and are trying to start new businesses.

In November 2021, South Africa's retail trade surged by 3.3% from a year earlier, up from an upwardly revised 1.9% rise in the previous month and the third consecutive month of growth in retail activity and the strongest since June.

"Retail is actually growing across most shopping centre types and we are now seeing a large volume of tenant applications for churches, car washes, gadget and electronic shops, pet care, personal grooming and bakeries/pie shops.

"In fact, we have now created a dedicated team called the Retail Focus Group within our commercial office which specialises in selling, buying, developing, funding, insuring and advising in this segment."

This revival not only bodes well for the sector, but also investors and Townes recommends two distinct investment opportunities in the current climate.

"Retail land for development has been taken up, and other malls already dominate most markets, so local convenience stores are sought after, as are single tenant retail buildings.

"In the larger centres, franchises now start to play a role, as landlords like branded stores and the security of a lease backed by the Franchisor's selection process.

"Mini industrial units in secure parks and storage units are worth looking at as are warehousing units, especially those with a tenant with a good payment track record and a three years lease in place, preferably to run for five years with further option to renew, escalating from 7% to 8% per annum."

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