

Commercial property market may be strengthening

Sales in the commercial property market show signs of strengthening, say property brokers surveyed by FNB in the fourth quarter of 2023.

Commercial brokers are estate agents who buy and sell industrial, office and retail properties.

Four times a year, FNB samples opinions from a range of brokers based in the six major metros of SA and reflects their sentiments in its Commercial Property Broker Survey.

The FNB report on the fourth-quarter survey focused on the perceptions of brokers regarding the buying and selling of commercial property rather than perceptions of rental demand.

It concluded that brokers perceive a strengthening or at least a stabilising in property sales levels in all three major commercial property markets: office, industrial and warehouse, and retail.

This may point to the market reacting positively to stable interest rates since May 2023 after nine consecutive interest rate hikes.

Most brokers were dissatisfied with current business conditions, with only 44% satisfied but up from 42% previously.

Brokers were asked how they perceived sales activity in industrial, office and retail properties. They remained the most optimistic about movement in the industrial and warehouse property market. Sentiment on retail property activity rose significantly but was flat on office sales.

Office properties in SA have struggled with vacancies since the Covid-19 pandemic allowed a shift to work from home, and demand was worsened by the depressed economic situation. However, increased load-shedding has led to people returning to the office as companies take advantage of backup power at buildings.

FNB says many companies have settled on a hybrid working model. "Therefore, the office market with its high vacancy rate still needs some adjustment in size, [with] a portion of space being repurposed to residential, among other options. Until this structural adjustment is complete, office property likely remains a less popular option for many investors."

Brokers were also asked how they perceived sales activity compared with six months earlier. In this case, there was an improvement in all commercial sectors. The industrial and warehouse activity sector was perceived most optimistically, with the office market showing a positive reading compared with six months earlier, and retail also improving over the period.

FNB explained this by saying that while 2023 had lower growth than 2022, "towards the end of the year there were signs that the economy may be starting to turn the corner as 2024 approached".

These minor improvements in the economy and commercial activity may be due to an apparent peak in the interest rate hiking cycle and electricity supply becoming more reliable in the latter stages of 2023.

FNB says it expects interest rates to start to decline in the latter half of 2024 and GDP growth to strengthen mildly from 0.8% in 2023 to 1.2% in 2024. As a result, “we would expect sales activity levels to be mildly stronger this year compared to last year”.

Source: Katherine Child – Business Day

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