Property sector starting to show encouraging signs of improvement

According to Bheki Vilakazi, managing director of SVA International, South Africa's property market is starting to show encouraging signs of improvement. This after having been sluggish over the past five years.

Bheki Vilakazi, MD of SVA International

Currently classified under financial and business services, according to the 2021 Property Sector Charter Council (PSCC) report, the financial, real estate and business services sectors accounted for 22% of the country's real value added, generated by producing goods and services.

“In South Africa, according to a PSCC study, the SA property market contributes R5.8tn, thus significantly contributing to GDP. A 2018 South African Reserve bank (SARB) report also estimated that SA’s total fixed capital stock is worth R7.6tn. This means that property accounts for 76% of SA capital stock outside of machinery and transport,” says Vilakazi.

While these are positive figures, the property market has suffered significant losses. There are, however, likely to be improvements in 2022, from commercial to residential property, with industrial showing the most promise.

Navigating the challenges and celebrating the wins

The economy is expected to improve from 2022 onwards, compared to where it was in 2020. The actual average capital values on commercial property will at least halt their decline of recent years, moving back into very low single-digit positive figures in 2022.

The hotel industry took a big hit in 2020 and 2021. Travel bans due to lockdown restrictions reduced the number of local travellers as well as visitors to the country, which dealt a hefty blow to the leisure and hospitality property sector. This, however, is expected to improve in 2022, with increased hotel occupancy levels.

In terms of office space, while occupancy dropped during lockdown and has continued to be low, many workers are expected to return to their offices this year; however, numbers are unlikely to return to those seen before lockdown.

In the retail sector, a significant increase in online shopping has led to reduced footfall in shopping centres and reduced need for retail space. Retail property made something of a comeback in 2021, however, and its total returns last year likely outperformed those of office property but underperformed those of industrial property. In a financially constrained consumer environment, however, retail centres could focus more on high-frequency essentials, and less on luxuries and low-frequency purchases.

The industrial property market remains the relative outperformer of the major commercial property classes and is expected to continue its positive performance. This is amplified by an increased demand for warehousing space due to the online shopping surge.

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The residential rental market experienced a very weak period in recent years, but 2022 is expected to see some strengthening. A mild recovery in the residential rental market is expected in 2022 due to the expectation of further moderate interest rate hiking.

With a greater portion of tenants' income restored following the 2020 lockdown income shock, new household formation in the rental market may be ready to pick up some speed. It is, therefore, expected that there will be a mini surge in residential building activity.

Trends in the property market

"The need for student accommodation has been brought to the fore and is an opportunity that SVA will focus on. It is estimated that the shortage of student accommodation is between 200,000 to 250,000 units nationally," says Vilakazi.

Naturally, with annual increases in student enrolments, coupled with slow delivery in construction of student accommodation over the years, the trend for increased requirement of student accommodation will continue unabated. If this trend is not urgently addressed, it could lead to protests.

Social housing also needs urgent attention. The Social Housing Regulatory Authority (SHRA) has a 2019 to 2024 target of delivering 30,000 units during this period. Vilakazi adds, "To date, they have not been able to achieve these targets and the non-delivery trend emanates from constraints outside their control, for example and per SHRA`s conditions for grant approvals, lack of properly zoned land in government restructuring zones, lack of bulk services and technical skills from some would-be grant recipients, as well as the need for municipal and provincial approvals."

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Why is property still a good investment?

At an individual level, aside from the basic need for shelter, owning property is always a good investment as it means that the purchaser is paying towards something that they will eventually own and be able to resell, usually at a profit. Vilakazi adds, "Property is considered a wealth creator and enables the property owner to leave a lasting legacy."

At a business level, property is a basic requirement for businesses to have operational space. Although technology is fast reducing the need for physical space, not all businesses can run solely online, and many people still prefer to work from offices.

Eskom challenges associated with loadshedding compel employees to work from offices as most businesses have electrical generators; hence, at a business level, property is a basic requirement. The call centre industry is a typical example of operations that require employees to be office-based. Sporadic electricity supply in some African countries also compels staff to go into the office, leading to the basic business requirement of property.

In conclusion, although the property market has experienced its fair share of ups and downs over the past two years, and growth is not happening at record speeds, the improvements in the sector are promising and investing is still a viable option. While challenges still face the industry, new opportunities have emerged for property companies, businesses and individuals to take advantage of.