

Companies look at converting offices to residential property

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Office vacancies remain static, which may prompt more companies to convert some of their offices into residential or other property types.



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Emira Property Fund intends to convert some of its office buildings in Rosebank into residential buildings. Other funds could soon follow suit.

The South African Property Owners Association (Sapoa) reported a national office vacancy rate of 11.1% at the end of the first quarter of 2017.

"A significant factor driving the excess demand has been the amount of space left behind by large corporations which have consolidated into larger offices. This backfill risk has already contributed to an increased vacancy rate in certain nodes with the potential for more as several large development projects come on line in the short term," Sapoa said.

The likes of Discovery, law firm Webber Wentzel, consulting and accounting advisory PwC and Redefine Properties have all moved into larger premises or announced that they will.

Areas such as Rivonia, Sunninghill, Woodmead and Randburg are under pressure, as they have fallen out of favour with prospective office tenants.

Evan Robins, listed property manager of Old Mutual Investment's MacroSolutions boutique, said some office conversions were already under way.

"Yes, we are already seeing this trend. The demand for residential space is meeting an office market with obsolete stock and high vacancies. In some, but not all cases, the numbers show that converting a property is the best thing to do to make that property work.

"The conversion trend is happening in Cape Town's central business district. Residential property in the mother city demands very high rentals," Robins said.

Growthpoint Properties MD Estienne de Klerk said the owners of older B-grade offices were struggling to sign up new tenants. "We have been able to bring our office vacancies down quite considerably but we are operating in P-, or premium, and A-grade space, which has helped us, as many of our deals have been for large corporates. The B-grade space is meanwhile proving to be really difficult."

MD of Octodec Investments, Jeffrey Wapnick, said last week there was strong demand for properties with rentals of between R4,000 and R7,000, a sweet spot for landlords.

Source: Business Day

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