

Covid-19 sees 'overvalued' commercial property market correction

By [Norman Raad](#)

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Covid-19 has pushed the restart button on almost every sector of the property market. The question: "When will the commercial property sector return to pre-Covid-19 levels?" keeps being asked. I believe that the sector may have been overvalued to start off with and that this correction was much needed and overdue.



Norman Raad, CEO of Broll Auctions and Sales

July appears to have been something of a crossroads for many commercial property owners around South Africa, as the continuing Covid-19 crisis, struggling economy and the realisation that the landscape has changed for the foreseeable future – perhaps indefinitely - forced hard decisions.

Adapting to flexible working

The global health pandemic has meant that businesses have had to adapt to new, more flexible ways of working, and as a result, have become accustomed to needing less resources, including office space, to operate. This means that the demand for commercial offices will continue to decline or at best, remain flat for the next couple of years.

Commercial offices face a reality of either having to reduce their asking rentals, being mothballed or being converted for an alternative use. Here, Broll Auctions is seeing young, forward-thinking entrepreneurs seizing the latter opportunities, as competition in this market is minimal.

The resurgence for opportunistic buyers is similar to the 2008 and 2009 period, only this time, interest rates are at unprecedented lows and values have decreased drastically as a result of the struggling economy.

Supply vs demand

Valuations for both rentals and selling prices should be determined by what someone is prepared to pay, and the old adage of supply versus demand. Covid-19 has decimated some industries and one cannot assume that the rental going forward will be anything close to what it was previously.

You cannot rely on historical property values, as these simply have no relevance. The hospitality industry has been all but destroyed, and trying to get tenants to continue paying something is a challenge. Every business owner's objective is to make money, and if this is not being achieved, eventually they will close as it will be cheaper not to be in business. This spill-over effect has property owners running to find replacement tenants to help with their utility and bond costs.

Broll Auctions has seen an increase in the number of registered buyers as well as demand at our recent auctions for service stations, residential blocks, outlying retail centres and convenient industrial or logistics warehouses - the buyers are there and competing, perhaps driven by the lower values and evident value to be had in an otherwise closed and expensive sector to penetrate.

We are seeing a resurgence in demand for smaller convenience centres in outlying areas and suburbias. It will always be convenient to be able to buy one's basic necessities without driving to the big malls.

Buyers spoilt for choice

Well-located properties with good tenants and yielding good income will always be in demand, and we are experiencing that now more than ever, as buyers are spoilt for choice.

Fortune certainly favours the brave, and in recent months, we have seen property investors snap up properties on the auction platform that would previously rarely have been seen for sale.

Without a crystal ball, no-one can predict where this will end, but just like every other difficult period every economy has gone through, South Africa will also come through this, just maybe the levels of recovery will be lower.

The fact remains that the buyers will present themselves, and bricks and mortar may be the one hedge which has proven its longevity globally.

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