# BIZCOMMUNITY

# Commercial property shows recovery, not back to prelockdown levels - FNB 1Q2021 survey

By John Loos

25 Mar 2021

The <u>first quarter 2021 FNB Commercial Property Broker Survey</u> component that surveys broker perceptions of buying/selling market activity by major commercial property class continued to show rising activity ratings in all three classes, i.e., the industrial, retail and office property classes.



Image source: www.pixabay.com

The industrial property market recorded the highest activity rating to the tune of 5.44 on a scale of 1 to 10, the retail property market 4.18, while the beleaguered office property market was the weakest with a lowly 3.39 rating.

In all three markets' cases, the activity ratings in the first quarter represented a further strengthening on the previous quarter's readings, but in all three cases, the levels have not yet recovered to the pre-lockdown levels recorded in the first quarter of the 2020 survey.

#### Activity ratings reflective of recent economic data

The fact that the activity ratings are rising but not yet back to "fully recovered", i.e., pre-lockdown levels, appears more-orless reflective of recent economic data. Real GDP (gross domestic product) growth remained negative in the final quarter of 2020 at -4.13% year-on-year, which is significantly better than the -17.78% second quarter 2020 drop, but at the same time also not "fully" recovered.

Interest rates are very low, having declined by 300 basis points last year, but unlike the interest rate-sensitive residential property, the commercial property market typically tracks the economy's movements more closely, and this appears to again be the case.



## Greater optimism in industrial property

There are some extra factors over and above the economic cycle which may explain the differences in strength between the three major commercial property sectors. The brokers perceive all three sectors to have been heavily impacted by lockdown and the resultant deep recession. However, they implicitly explain their greater optimism in industrial property as due in part to its greater affordability compared to the other two property sectors. In addition, they believe that an additional source of demand for industrial emanates from a greater move to online retail, necessitating increased warehousing and logistics space.

They don't, however, perceive retail property to be as challenged by technological progress and online retail as what they perceive office space to be from the lockdown-induced surge in working from home (WFH) and the great success thereof.



Next step in remote working likely to be a new hybrid workspace model Anthony Orelowitz 11 Mar 2021

#### Companies revising office space needs

Over 40% of brokers surveyed see office-bound companies revising their office space needs and in many cases downscaling. The planned downscaling is not only due to greater levels of work-from-home, however. Office space demand is also heavily influenced by employment trends in the finance, real estate and business services (FREBS) sector, and this sector's employment dropped by a massive -7% year-on-year in the second and third quarters of 2020, and this alone is likely to translate into a significant drop in office space required by the sector.

Looking ahead at the near term, the brokers are most upbeat about industrial property, and this is the property category whose market activity they, on average, expect to increase the most in the next six months. A more mild positive increase is expected for the retail property market and a decline in office market activity.



Another recession unlikely for now, but we still need to take our medicine to achieve sustainable growth

Maarten Ackerman 11 Mar 2021

<

<

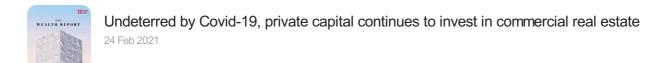
## Economic recovery slowing

Moderate expectations for the commercial property sector overall seem appropriate. High frequency economic data in recent months points to the pace of economic recovery slowing. Month-on-month growth in the OECD's version of the leading business cycle indicator for South Africa slowed consistently from a June 2020 high of 2.9% to a virtually insignificant +0.06% in January 2021, suggesting slowing economic growth acceleration to come.

And indeed, we saw the large manufacturing sector's year-on-year growth negative in January 2021 (-3.4%) once more, after its first positive growth rate since early-2019 in December 2020. Real goods retail sales remained in negative territory in January (-3.5%), as did electricity production (-2.4%).

These weak economic numbers are reflected in weak national business confidence. The RMB-BER Business Confidence Index recorded only 35 on a scale of 0 to 100 in the first guarter, down from 40 in the prior guarter, while property broker business confidence is also a lowly 26 on a scale of 0 to 100.

<



#### Office property market becoming underperformer

Recent economic numbers, therefore, suggest little further recovery progress early in 2021. Achieving further strengthening in commercial property market activity levels could thus be tough going, especially in the office market with its recent major employment decline along with the big work-from-home structural change.

With regard to relative performances of property sectors, the brokers now appear to see the office property market as becoming the underperformer of the three markets, with the retail property market recovering more noticeably after a very poor 2020.

#### ABOUT JOHN LOOS

John Loos is Property Sector Strategist: FNB Commercial Property Finance

- Tough times for retail property as April sales show continued declining trend 15 Jun 2023
  A tough year ahead for commercial property key themes to look out for in 2023 24 Jan 2023
  Real commercial property capital grow th expected to return to negative territory 2 Dec 2022
- Interest rate hike likely to add to commercial property market "cooling" already underway 23 Sep 2022
  Property brokers still perceive retail, office markets to be oversupplied FNB survey 14 Sep 2022

View my profile and articles...

For more, visit: https://www.bizcommunity.com