

Commercial Property Finance



Property Insights

FNB Commercial Property Broker Survey – 1st Quarter 2022 broker near term sales activity expectations strengthen noticeably in all 3 Commercial Property classes.

Near Term Market Activity Expectations

The FNB Commercial Property Broker Survey surveys a sample of commercial property brokers in and around the 6 major metros of South Africa, namely, City of Joburg and Ekurhuleni (Greater Johannesburg), Tshwane, eThekweni, City of Cape Town and Nelson Mandela Bay.

Given FNB Commercial Property Finance’s strong focus on the “Owner-Serviced” market, a pre-requisite in selecting broker respondents is that they at least deal in owner-serviced properties, but a portion will also have dealings in the developer or investor markets as well as in the listed sector.

This report discusses the survey component where respondents are asked to provide their expectations of sales activity levels in the 6 months ahead of the survey. The question asks whether the respondents anticipate a decline, increase or no change in activity levels compared in the 6 months ahead.

From these results we compile an index, allocating a score of +1 to each percentage points’ worth of “increase” responses, zero to that of “unchanged” responses and -1 for that of “decrease” responses. The index is thus on a scale of +100 to -100.

The 1st quarter 2022 survey shows a noticeable increase in optimism over future strengthening in sales activity levels in all 3 property classes. The respondents as a group are most optimistic about Industrial Property Market Activity’s direction in the near term, returning a positive reading to the tune of +38.46.

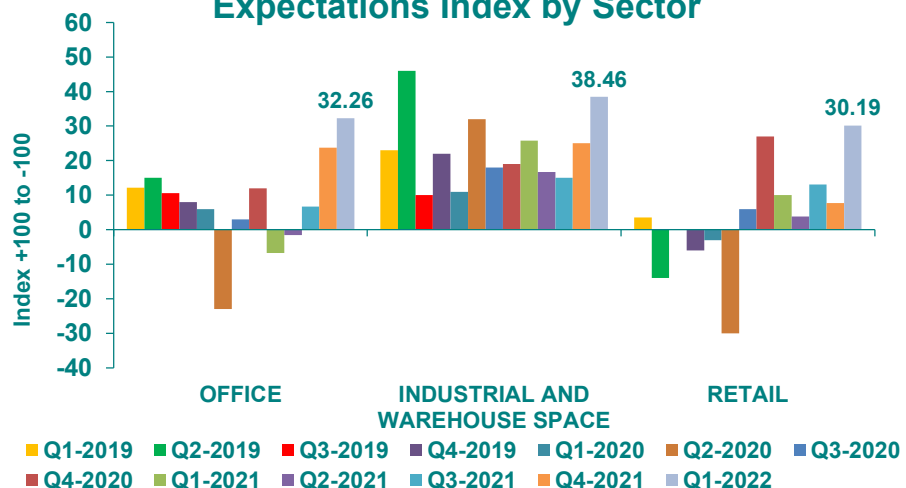
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Property Sales Activity Near Term Expectations Index by Sector



It is interesting that the optimism level in all 3 property classes has improved significantly from the prior quarter. This happened despite the onset of interest rate hiking late last year. We sense from the responses that this surge in confidence has much to do with a general feeling that the Covid-19 pandemic risk is receding as vaccines are rolled out, lockdown regulations have eased further, and that 2022 is likely the year in which economic activity and human interaction “normalize”, whatever the “new normal” might mean.

the Industrial Property Market’s positive near-term direction reading of +38.46 is up from +25 in the prior quarter. The Office Property Market’s expected direction has improved quite significantly to record a positive reading of +32.26, up from the prior quarter’s +23.73.

The brokers as a group are least optimistic about the Retail Market by a small margin, but this property class, too, has a strongly improved positive reading of +30.19, up from the prior quarter’s +7.69.

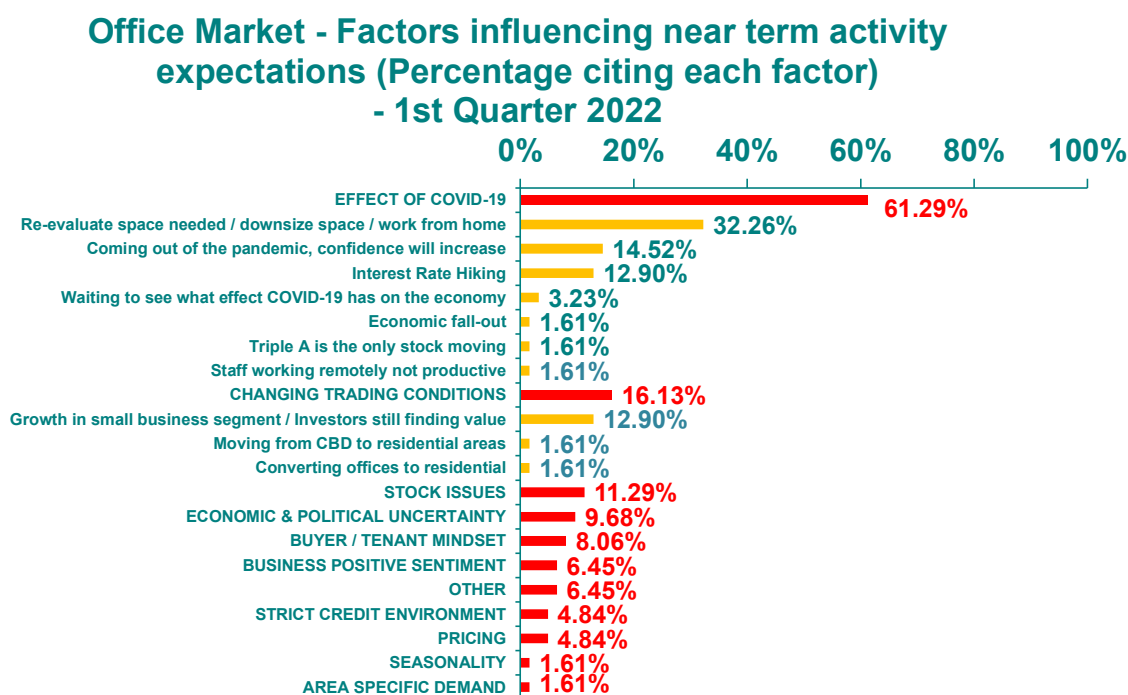
Factors cited by brokers as important influences on their near-term sales activity expectations.

The open ended follow up question to the brokers, after asking them for the expected direction in sales activity, allows them to list the factors that influence their thinking around future market direction. While the brokers as a group are biased towards “strengthening sales activity direction” in all 3 markets, there remains a significant amount of negativity regarding the state of the economy.

- The Office Market –Work from home impact on office space downscaling is still very significant.

In the 1st quarter 2021 survey, the Office Property component showed 61.29% of respondents citing some form of “Effect of COVID-19” as a key factor driving their activity expectations. However, it is becoming increasingly difficult to link unfolding economic and policy events with Covid-19. For example, interest rate hiking has been to a significant degree an indirect consequence of Covid-19 via its inflationary impact caused by supply chain disruptions across the globe. But as time goes by, economies recover, and other inflation drivers such as the Ukraine conflict emerge, the link between Covid-19 and interest rate hiking diminishes. But for the time being we have, for example, an interest rate hiking component under the broader “Effect of Covid-19” category of responses.

Looking at the sub-components of this key factor is perhaps more insightful though. A still-very significant 32.26% of brokers perceive companies to be re-evaluating their office space needs, and in many instances downscaling on office space, thus a key factor influencing their near-term expectations of market activity in this segment. While it is still a near term negative for the Office Market’s size, this motive for selling can boost sales activity should the demand to purchase, often for repurposing, exist.



The “Work from Home (WFH)” surge during the Covid-19 lockdown period features prominently in these space requirements revisions. However, job losses in the Finance, Real Estate and Business Services Sector may have also played a significant role.

Then, “interest rates” have been cited by 12.9% of brokers as a key factor, and the overwhelming majority point towards the expectation of interest rate hiking.

But within the broader “Covid-19 effects” response category, we can see increased positivity emerging, with 14.52% of brokers expecting confidence to re-emerge in the near term as the country “comes out of the pandemic”.

A further noticeable factor cited was that of “Changing Trading Conditions”, which was mentioned by 16.13%. The majority here are pointing to a renewed growth in the smaller business segment, and investors finding value in the Office Property Market, as drivers of demand.

- **The Industrial and Warehouse Market –Popularity due to relative affordability and perhaps adaptability.**

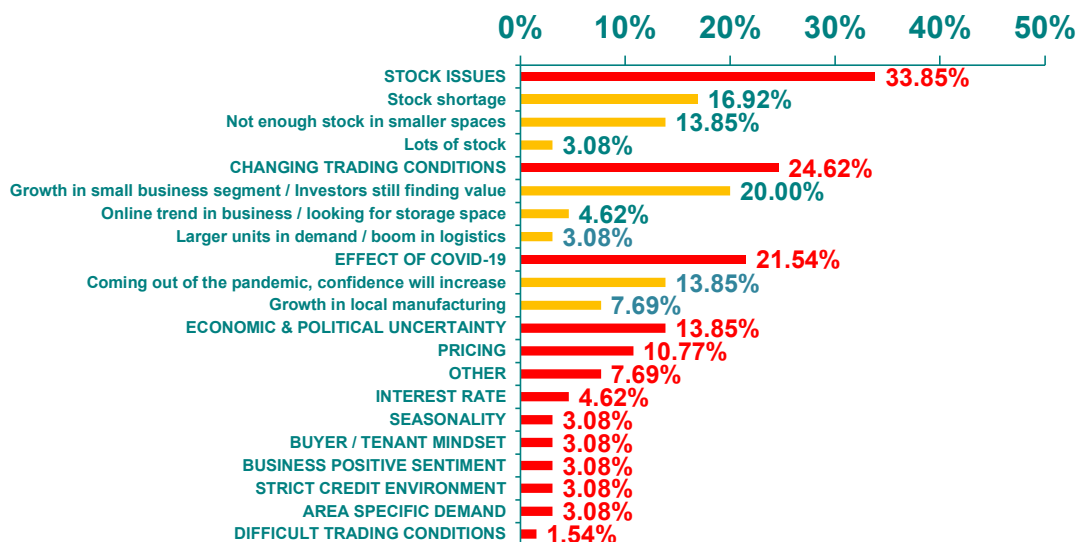
In the relatively strong Industrial and Warehouse Property Market, “Stock issues” were the major factor, with 33.85% of survey respondents pointing to this, the overwhelming majority indicating stock shortages.

The category of motives known as “Changing Trading Conditions” is 2nd in importance, with 24.62% of respondents pointing to factors within this category as an issue. The largest portion of respondents here points in effect to the benefits of Industrial Property being the most affordable property class, claiming investors to still be finding value here while also being appealing to small businesses, a segment that they perceive to be growing. A further significant factor cited under this category is the emergence of a greater level of online retail, although this factor is surprisingly cited by a very small percentage of brokers, driving increased logistics and warehousing demand.

Covid-19-related issues are still significant, being cited by 21.54% of brokers, but they have become more positive regarding the pandemic, with most of them expecting a recovery in confidence as we come out of Covid-19, as well as a Manufacturing recovery.

Thereafter comes the category “Economic and Political Uncertainty”, with 13.85% of respondents citing this factor as a key potential negative influence on sales activity, so the factors are not all to the positive side. Nevertheless, the Industrial Property classes’ broker sample remains the most upbeat of the 3 property classes in terms of the factors it cites as key issues influencing near term expectations.

Industrial Market - Factors influencing near term activity expectations (Percentage citing each factor) 1st Quarter 2022



- **The Retail Property Market – A weak economy still trumps the challenge of online retail by far.**

The Retail Property Sector has arguably been the one most directly impacted by Covid-19 lockdown, many retail outlets losing all or a major part of their revenues during those harder lockdowns of 2020. This sector’s tenant population also appears to have been experiencing the most difficulty in recovering financially, if one views their weak rental payment performance according to TPN data.

Not surprisingly, therefore, while the percentage of brokers pointing to Covid-19 related factors as an issue has receded to 16.98% from higher percentages in prior surveys, a large percentage, i.e., 28.30% cite “Economic and Political Uncertainty” as a key issue influencing their expectations. Not all brokers are pessimistic about the economy though, with 13.21% citing “Positive Business Sentiment” as a factor.

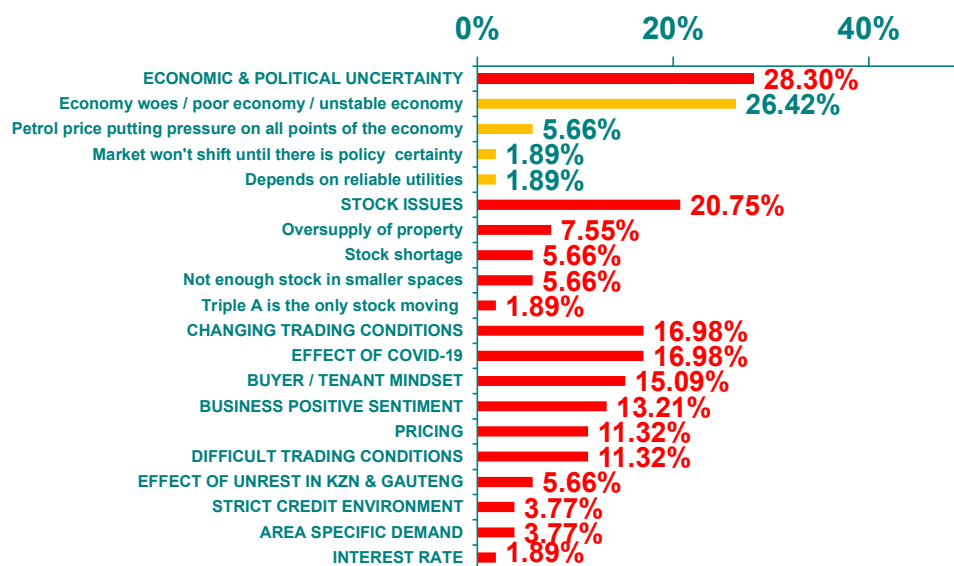
Within the 16.98% of brokers pointing to Covid-19-related issues, 7.55% are optimistic of rising confidence levels as economic activity normalizes. Therefore, while the general state of the economy still bothers brokers, Covid-19 is seen as a diminishing issue.

“Changing Trading Conditions” is a key category of factors, cited by 16.98% of brokers. Here, too, more brokers lean towards the optimistic side, with 11.32% of brokers perceiving a resurgence in the opening of small retail businesses.

“Stock Issues” are still a significant factor cited by 20.75% of brokers, but it would appear now that slightly more brokers lean towards a “lack of supply” compared to those perceiving an “oversupply” on the market.

15.09% of brokers point to “buyer/tenant mindset”-related factors, with the biggest portion here pointing to hesitation to buy and a greater desire to rent, while “Pricing” is cited by 11.32% of brokers, with a bigger portion perceiving “unrealistic expectations” amongst sellers within this category.

Retail Market - Factors influencing near term activity expectations (percentage citing each factor) - 1st Quarter 2022



Conclusions.

The 1st quarter 2022 FNB Property Broker Survey showed improved optimism regarding near-term property sales activity in all 3 major property classes, i.e., Retail, Office and Industrial, compared with the prior quarter’s expectations survey response.

Unsurprisingly, the Industrial Property class continued to be the one where brokers were most optimistic regarding near term activity, with demand for this class of property having been the strongest for some time

already. In the Industrial Property Market, greater affordability (and perhaps adaptability too) is implicitly seen as a benefit over the other classes, with significant growth in small businesses seen as a benefit to demand in this market.

The respondents in the Retail Property Sector have become markedly more optimistic in the most recent survey, but are still the least optimistic of the 3 property classes, with many brokers citing the poor state of the economy as a key issue.

The Office Market's result is interesting. While broker optimism has jumped in the most recent survey, many still point to businesses revising their office space needs and often downscaling, a function of greater levels of working from home. This would suggest that increased sales activity could be increasingly about repurposing of office buildings, notably to residential space,

Across the 3 sectors, "Economic and Political Uncertainty" continues to be a significant negative

factor for sales activity, despite improved optimism. Nevertheless, it would seem that brokers are more optimistic based on an implicit assumption of an improved, albeit still weak, economy largely on the back of a normalization of activity as lockdowns are rolled back and Covid-19 risk appears to recede.

Finally, mild interest rate hiking to date does not appear to feature heavily in their thinking. This survey was completed in February, after the 2nd 25 basis point interest rate hike of the SARB.

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