

Unpacking the commercial real estate landscape, rising trends for 2021

By [John Jack](#)

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While 2020 will forever be remembered as a year of unprecedented challenges and uncertainty, 2021 promises to bring exciting shifts and investment opportunities to the fore. Not without its share of disruption, the property sector has pivoted to meet the changing demands of both landlords and tenants. Collaboration between landlords and tenants is at an all-time high, and it's truly a fascinating time to be involved in our sector.

As the country looks to rebuild its economy, investments are now ripe for the picking. Showing signs of promise, the JSE continues to build on its momentum from Q4 of 2020, as we see main index figures reaching levels not experienced since 2017.

Investors bid low to reap big rewards

A low interest rate environment coupled with excess commercial property supply makes for a dynamic investment landscape.

We are seeing quite significant international interest in the commercial property sector and where the listed market may still be fairly mercurial and hard to predict, long term lease covenants offer far more certainty, provided the underlying tenant is secure.

While 2020 saw many moving away from business hubs, a new trend is bringing people back to the city.

Vacant commercial space is fuelling a surge in residential property developments. Property units are smaller in nature and can be used as a second property during the week, while a primary residence may be out of the city, allowing for travel between the two when not required to be in the office.

However, commercial property still has its place in the market. Investors are taking note of vacant office space and are buying up properties at significantly reduced rates. Of course, the office still has its place and we do anticipate that many will head back once things start to settle. People's recollection is short-term, and we saw this toward the last quarter of 2020 already.

Areas of keen interest include Illovo, Rosebank, Sandton, Cape Town CBD, and Midrand.

Industrial property remains a hot commodity. We've seen a demand for industrial real estate since mid-last year and this is set to continue. It's largely driven by the need for on-site manufacturing and a rise in e-commerce.



John Jack, CEO of Galetti Corporate Real Estate



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Emerging trends

1. Restructuring of deals

With the financial year-end fast-approaching, tenants and landlords are working together to optimise space and restructure contracts. For instance, a tenant will request a restructured, flexible rental agreement for a portion of their lease in which they occupy 60% of their space on a long-term lease and 40% on a more flexible contract with a break clause.

2. Seller financing

Seller financing, otherwise known as vendor financing, is a rising trend for 2021. This is an unconventional financing model which meets the needs of both buyer and seller. In simple terms, a buyer, usually a corporate (current tenant), purchases their property for an agreed amount. They then raise normal senior debt with one of the banks and pay the balance off to the seller over a two to three-year period. This is essentially a second bond on the property granted by the seller.

3. Investors are driving long-term leases

Investors are paying a premium for long-term leases in excess of 10 years which will help to minimise the impact of negative reversions in the short-term; on the other hand, shorter leases under five years are 'oversold' with an easy 300-basis point spread between that and a 10-year lease. Historically, this would have been closer to 100-basis points.



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4. Small to medium businesses are more agile

Taking the cautionary approach, most large corporates will continue to work from home to avoid the risk of Covid-19 infections among its employees. On the other hand, small to medium-sized companies are coming back to the office on a rotational working schedule. This is driven by a need for collaboration and reduced risk among smaller teams.

5. Smaller provinces to take a hit in the short term

Businesses are looking to streamline their operations, and this could mean the closing of smaller branches in outlying areas. Here, we could see businesses in the likes of the manufacturing sector scaling up their production lines to produce more products in Gauteng and centralising their service base to reduce costs.

Interesting to note, the mining sector plays a key role in driving property performance in Gauteng.

We need to be realistic in 2021 and look to where the demand is. I believe that this year will be defined by new opportunities and collaborations to find mutually beneficial avenues for growth. It is critical to understand the market in detail before concluding any commercial property deal so you should always make sure you have the best information at hand.

ABOUT THE AUTHOR

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