

Location remains focal point for commercial property

By  Simon Black

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2015 saw many interesting trends and developments - particularly that of commercial property developers looking at ways to "go green". It also saw a boom in development of Africa's richest mile, Sandton, where commercial property space is more in demand than ever because of its prime location.



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Looking at the year ahead, I anticipate that location will still be a focal point within the commercial property space, along with the following other trends:

Collaborative workspaces

The trend of open-plan, collaborative workspaces has been around for a while - and it looks set to continue. Flexible work environments with moveable facets such as mobile furnishings, breakaway booths, informal meeting areas, and outdoor spaces are becoming increasingly desirable, because they allow for a more collaborative, relaxed work environment. Employers are also now focused on attracting and retaining talent with the millennial generation who demand a more creative, interesting and efficient space in which to work.

In order to meet this demand, building owners and developers need to reposition, rethink and upgrade their existing property portfolios. Offices that can be easily reconfigured to cater for various social interactions while embracing new technologies to produce efficient, effective work conditions are ideal.

Location, location, location

Location is an extremely important consideration when it comes to deciding on office premises. As society becomes increasingly environmentally conscious, the demand for green buildings in prime locations is increasing. Being close to suppliers and customers is also important, as is access to highways and transport infrastructure. In most cases, businesses will pay a premium for a good location that should, as a pay off, improve efficiencies and retain key personnel.

Investment in prime commercial property nodes should secure stable, long-term returns, and green, efficient developments will continue to be taken up by blue-chip occupants.

Economic challenges

Due to the current economic constraints in South Africa, 2016 is in all likelihood going to be another tough year from a commercial property perspective. Stable economic fundamentals are required to reignite business confidence, and the country is falling short in most respects. Consumers are tightening their belts amid rising interest rates, higher energy costs and the first income tax hike in over a decade.

The SA Reserve Bank recently downgraded growth forecasts, mainly due to contractions in agriculture, manufacturing and mining sectors. Nevertheless, an environment of higher interest rates will translate into higher yields for the property sector. A tenant market looks set to continue where pressure on rentals will continue and vacancies are still likely to increase throughout the country. The rand will be vulnerable particularly when interest rate cycles in developed economies countries start to rise.

Property finance

A healthy supply of credit remains the biggest factor in driving market growth. Recent credit rating downgrades will put pressure on lending appetites. These factors, coupled with onerous banking compliance regulations, make traditional property facilities harder to come by.

The first port of call for funding for private commercial property investors is still the big banks. Due to the slow economic recovery, funders are now often lending at higher interest rates and are demanding larger security guarantees from commercial property owners and developers.

Legislation

Another factor compounding the current difficult business environment is the tough legislation affecting property practitioners. The proposed bill advocating 50% black ownership of all property companies goes against free market principles and could be met with significant resistance. At the same time, transformation is a non-negotiable progression for the local property industry. The answer lies in managing it with more strategic, practical and sustainable policies. In short, property companies that react best to the new legislation are likely to have a significant competitive advantage.

ABOUT SIMON BLACK

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