

## **South Africa Commercial Real Estate Market - Growth, Trends, Covid-19 Impact, and Forecasts (2023 - 2028)**

Market Report | 2023-01-23 | 150 pages | Mordor Intelligence

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### **Report description:**

The South African commercial real estate market is anticipated to register a CAGR of more than 5% during the forecast period.

Before the COVID-19 pandemic, the commercial real estate sector was facing difficulties. These will probably last for a while due to changes in work practices brought on by the pandemic. These will probably worsen as the impact of "shadow vacancies" becomes more evident, leading to an increase in the number of vacant properties. Many businesses want to downscale their physical workplaces in favor of the smaller office spaces required for hybrid workforces.

On the plus side, most urban centers are demanding affordable residential housing. Since many of these pre-existing commercial buildings have services, repurposing them is generally simple and affordable. This tendency is already well established in many cities, and as more offices fall empty in the upcoming months and years, it will pick up speed. Aside from saving money, repurposing a building also eases the burden on governments which are already under strain to provide services and utilities. The fact that these converted buildings are already situated within cities further reduces the need for inhabitants to commute, decreasing traffic and the strain on public transportation infrastructure.

While the current state of the global economy is putting pressure on investors in most segments of the domestic real estate market, Makhosini Ndlovu, product head at FNB Commercial Property Finance, claims that those who have invested in student housing continue to see strong returns. Yields remain very good for some universities, such as the University of Cape Town (UCT), and regardless of how many approvals are given for the construction of student housing near UCT, domestic and international demand for study opportunities there will probably maintain demand for housing in the upcoming years.

Shoprite, a South African supermarket chain, announced the sale of its 25 locations in Nigeria in 2021. It has also stopped doing

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business in Uganda, Kenya, and Madagascar. Additionally, the Walmart-owned Massmart company disclosed its plans to open five-game stores around the continent. Along with Mr. Price, Truworths, and Woolworths, other South African retailers have abandoned various markets north of Limpopo. Some have questioned the practicality of huge retail malls in many African markets because of inflation, greater import costs due to the strong US dollar, and the persistence of informal trading.

#### South Africa Commercial Real Estate Market Trends

##### Low Office Vacancy Rates Creating Less Demand for Office Segment

South Africa has seen its historically robust office fundamentals erode significantly over the last year. Vacancy rates have steadily risen as corporate consolidations and the rise in work-from-home result in more space being given up in the market. At the end of the second quarter of 2021, Johannesburg had the highest office vacancy rate across all major metropolitans. Office demand dynamics have shifted considerably as many corporates continue to scale down on space requirements in line with the new work-from-home and the office rotational hybrid model.

Office demand dynamics have continued to soften as corporates look to scale down on space requirements in line with new work-from-home and office rotational hybrid models. The net effect is that office foot count has declined significantly from pre-pandemic levels. While office fundamentals are expected to continue softening over the foreseeable future, qualifying tenants may find great opportunities to secure favorable long-term lease arrangements.

##### Increased Industrial Segment Growth Creating Opportunities for the Market

South Africa's industrial sector has seen little change in activity from the first quarter of 2021. Landlords have started firming up their rentals. The resilience in industrial fundamentals (particularly amongst specialized quality assets) has been driven partly by the local market beginning to run into stock issues as various tenants pursue up-scaling operations.

Industrial distribution and multi-parks have outperformed all segments, driven by a rebound in retail trade volumes and a surge in e-commerce activity. Many traditional retailers have introduced online sales platforms in response to trade restrictions and reduced foot traffic, further driving the demand for storage and distribution space. Interestingly, big-box industrial space exceeding 25,000 square meter experienced a significant spike in vacancy rates, likely caused by larger operators scaling down and seeking consolidation and efficiency benefits. Subsequently, 10,000 - 25,000 square meter box sizes have shown a firming up in occupancy levels over the same period.

#### South Africa Commercial Real Estate Market Competitor Analysis

The South African commercial real estate market is fragmented with the presence of local and global players. Developers are more inclined to spend money on reinventing property rather than building on new land. Some of the country's major commercial real estate players include Growthpoint Properties, Amdec Group, Pam Golding Properties, Excellerate JHI, and Chas Everitt Property Group.

It is also noted that South Africans are migrating to invest in properties outside Africa, mostly in Europe, due to its robust economy and growth. South Africa's REIT sector is outperforming in terms of returns to investors. There is a need for investment in all sectors to foster further development in commercial real estate in South Africa.

#### Additional Benefits:

The market estimate (ME) sheet in Excel format

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