



Q1 2020: South Africa Commercial Property Monitor

Outlook for property downgraded amid coronavirus shock

Respondents to the RICS South Africa Commercial Property Monitor indicated that conditions remained downbeat to start 2020. The Occupier and Investment Sentiment Indices, composite measures of market momentum shown in Chart 1, declined to -48 and -42 respectively. This is a clear indication of a contraction in the market.

The global outbreak of Covid-19 and subsequent economic shock appears to have quashed any potential for a market recovery in the short-term. In net balance terms, respondents expect both rents and capital values to decline over the next three months (Chart 2). The decline is seen to be spread fairly evenly across all segments of the market (office, industrial, retail) in the short-run.

The share of respondents who view the market as being in the early stages of an upturn fell from 20% in Q4 to 6% in Q1. Chart 5 shows that half of

respondents now see the market as being in some phase of a downturn, with another 38% believing that the market is near the bottom of the cycle.

Supply and demand fundamentals also continue to drag rents and capital values lower. Charts 3 and 4 show that demand from both occupiers (Chart 3) and investors (Chart 4) continues to decline, while the supply of properties to rent and purchase continues to increase. Notably, the gap between the increase in the supply of properties to lease and decline in occupier demand is the widest since Q3 of 2009.

As can be seen in Charts 7 and 8, the one-year outlook for rental and capital values was revised sharply lower. In what appears to be a fairly global trend, industrial properties appear more resilient than office and retail property. Johannesburg also is expected to slightly outperform the national market. A full breakdown can be seen on page 4.

Chart 1: RICS OSI and ISI

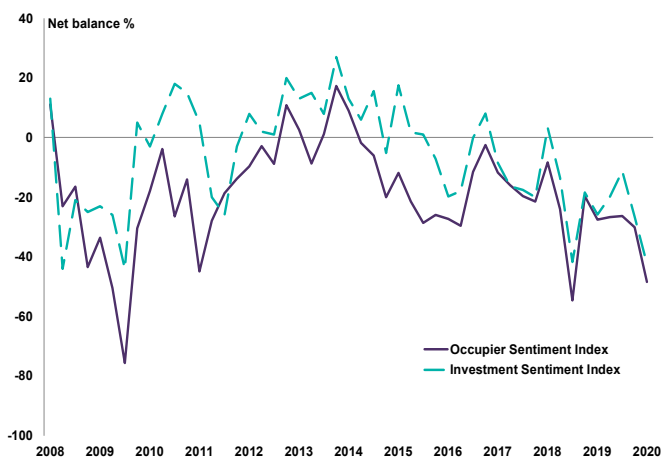


Chart 2: Three Month Rents, Capital Values

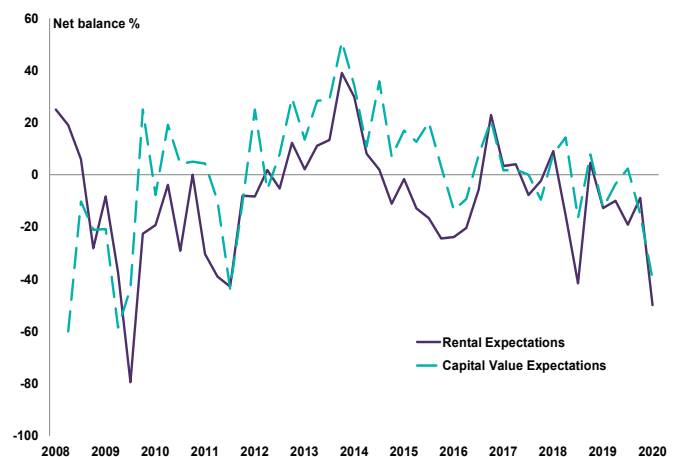


Chart 3: Occupier Market

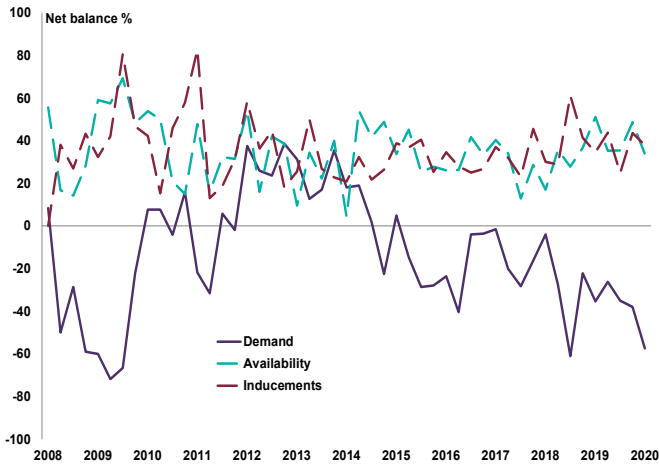


Chart 4: Investment Market

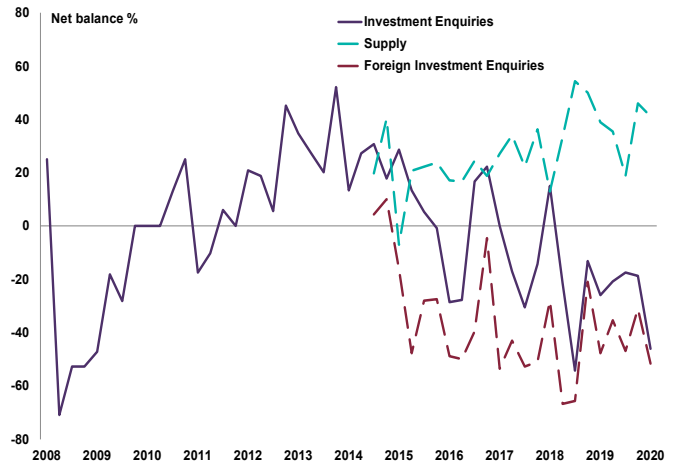


Chart 5: Credit Conditions

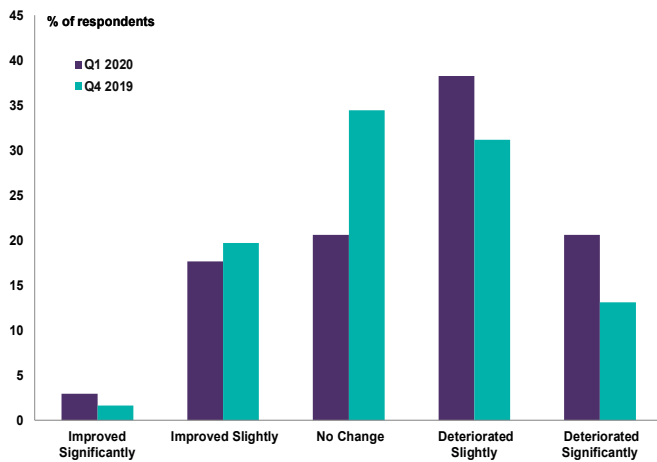


Chart 6: Stage of the Cycle

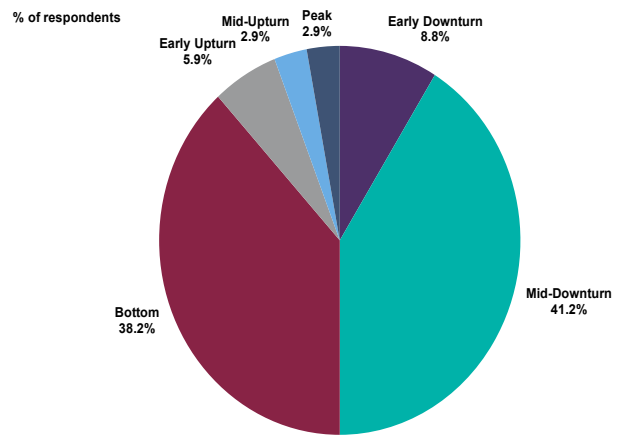


Chart 7: Twelve Month Capital Value Projections

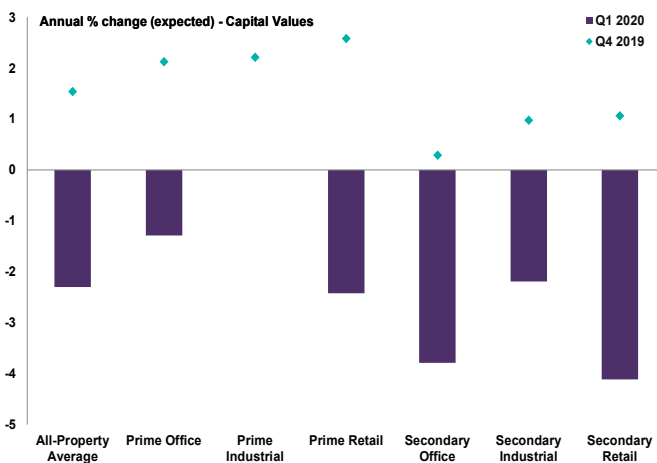
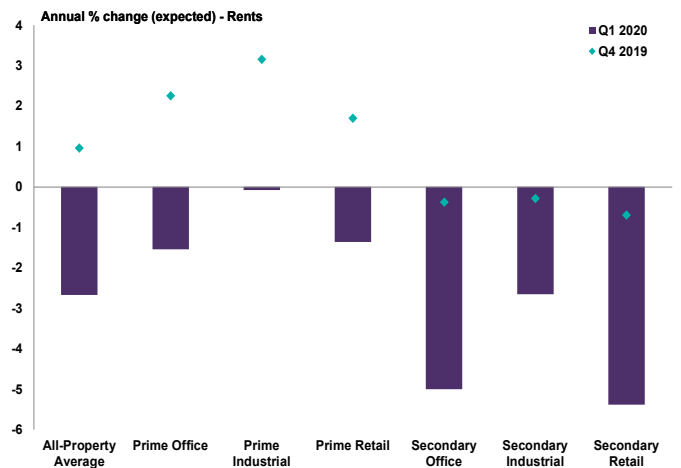


Chart 8: Twelve Month Rental Value Projections



Comments from Survey Participants in Australia



"Covid-19 poses a major risk to our industry in South Africa. We are currently in the midst of a 5 week National Lockdown during which no retail trading (other than essential items) is allowed and all construction sites are at a standstill. This poses unprecedented economic risks to a country that was already in recession prior to the pandemic. Generally the industry is extremely worried about the short terms impacts, but we remain hopeful that we will survive.."

- Johannesburg



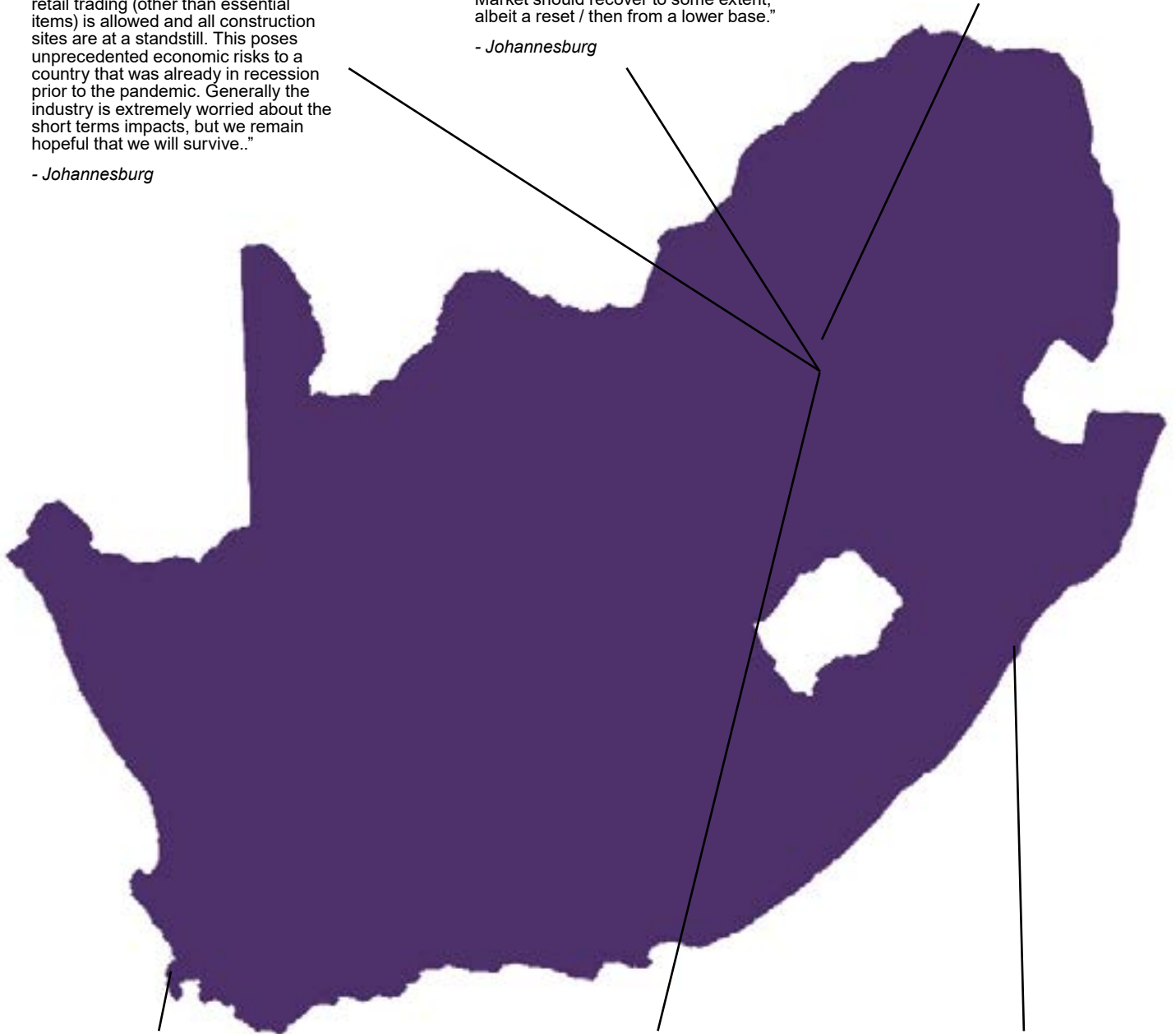
"Covid 19 disruption and recent downgrade of country will put further pressure on persisting weak fundamentals in local property market. Market should recover to some extent, albeit a reset / then from a lower base."

- Johannesburg



"Committed developments proceed, otherwise it is "wait and see"."

- Pretoria



"These are extremely uncertain times that are having a profound effect on the levels of economic activity. Coupled with an uncertain regulatory environment, investor confidence is presently very low."

- Cape Town



"The COVID 19 situation (on top of all the other problems this country faces) has devastated business in South Africa and recovery will take 6 to 12 months."

- Johannesburg



"Coronavirus is going to have a major affect on property no one can currently predict what is going to happen."

- Durban

RICS Consensus 12-month Expectations

Rents							
	All Sector Average	Prime			Secondary		
		Office	Industrial	Retail	Office	Industrial	Retail
MEA	-2.6%	-2.2%	-1.6%	-2.3%	-3.4%	-2.6%	-3.6%
Middle East	-4.5%	-4.4%	-3.3%	-4.7%	-4.9%	-3.9%	-5.6%
Bahrain	-3.7%	-4.3%	-2.5%	-2.5%	-3.6%	-4.3%	-4.8%
Oman	-6.7%	-6.0%	-6.3%	-9.0%	-4.8%	-5.8%	-8.5%
Qatar	-3.2%	-5.2%	-2.7%	-3.5%	-3.9%	-1.8%	-2.1%
Saudi Arabia	-0.7%	+0.7%	+2.1%	-0.5%	-2.3%	+0.2%	-4.3%
Riyadh	-0.7%	+0.2%	+3.0%	+0.0%	-3.0%	+0.0%	-4.3%
UAE	-5.4%	-4.4%	-4.7%	-5.4%	-5.3%	-5.6%	-7.1%
Abu Dhabi	-4.2%	-5.0%	-3.8%	-4.6%	-2.8%	-3.5%	-5.7%
Dubai	-5.9%	-4.2%	-5.1%	-5.7%	-6.2%	-6.3%	-7.6%
Africa	-0.4%	+0.4%	+0.4%	+0.6%	-1.6%	-1.2%	-1.2%
Kenya	-2.3%	-1.4%	-0.6%	-4.2%	-2.5%	-1.1%	-3.9%
Mauritius	-4.0%	-2.1%	-4.0%	-4.2%	-4.0%	-5.8%	-3.8%
Nigeria	+1.5%	+1.8%	+2.2%	+1.9%	+0.8%	+1.0%	+1.5%
Lagos	-0.8%	-1.1%	+0.8%	+0.3%	-2.8%	-1.3%	-0.9%
South Africa	-2.7%	-1.5%	-0.1%	-1.4%	-5.0%	-2.7%	-5.4%
Johannesburg	-1.3%	+0.4%	+1.4%	+1.9%	-4.4%	-3.0%	-4.1%
Uganda	+5.4%	+9.7%	+5.0%	+7.8%	+3.4%	+2.2%	+4.4%
Capital Values							
MEA	-1.7%	-0.5%	-0.7%	-1.4%	-2.4%	-2.3%	-2.9%
Middle East	-3.0%	-2.0%	-1.6%	-3.1%	-3.6%	-3.2%	-4.5%
Bahrain	-3.3%	-3.0%	-2.8%	-3.4%	-3.6%	-3.3%	-4.1%
Oman	-6.7%	-4.2%	-4.6%	-9.6%	-6.6%	-6.5%	-8.5%
Qatar	-1.3%	-0.7%	-0.2%	-0.6%	-2.0%	-2.0%	-2.3%
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Africa	-0.2%	+1.3%	+0.3%	+0.7%	-1.0%	-1.3%	-1.0%
Kenya	-2.2%	+2.5%	-0.8%	-0.3%	-4.7%	-5.6%	-4.2%
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Nigeria	+1.7%	+3.2%	+1.5%	+2.3%	+1.7%	-0.1%	+1.3%
Lagos	+0.1%	+1.1%	-0.4%	+1.3%	+0.1%	-1.4%	+0.1%
South Africa	-2.3%	-1.3%	+0.0%	-2.4%	-3.8%	-2.2%	-4.1%
Johannesburg	-2.0%	-1.3%	-0.5%	-1.6%	-3.4%	-1.9%	-3.2%
Uganda	+5.5%	+7.5%	+1.3%	+7.8%	+5.9%	+5.6%	+5.0%

Information

Global Commercial Property Monitor

RICS' Global Commercial Property Monitor is a quarterly guide to the trends in the commercial property investment and occupier markets. The report is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity and the rural land market.

Methodology

Survey questionnaires were sent out on 11 March 2020 with responses received until 13 April 2020. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 2604 company responses were received, with 592 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland. Responses for Spain and Portugal were collated in conjunction with Iberian Property.

Responses have been amalgamated across the three real estate sub-sectors (offices, retail and industrial) at a country level, to form a net balance reading for the market as a whole.

Net balance = Proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100.

A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline. The RICS Occupier Sentiment Index (OSI) is constructed by taking an unweighted average of readings for three series relating to the occupier market measured on a net balance basis; occupier demand, the level of inducements and rent expectations. The RICS Investment Sentiment Index (ISI) is constructed by taking an unweighted average of readings for three series relating to the investment market measured on a net balance basis; investment enquiries, capital value expectations and the supply of properties for sale.

Contact details

This publication has been produced by RICS. For all economic enquiries, including participation in the monitor please contact: economics@rics.org

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