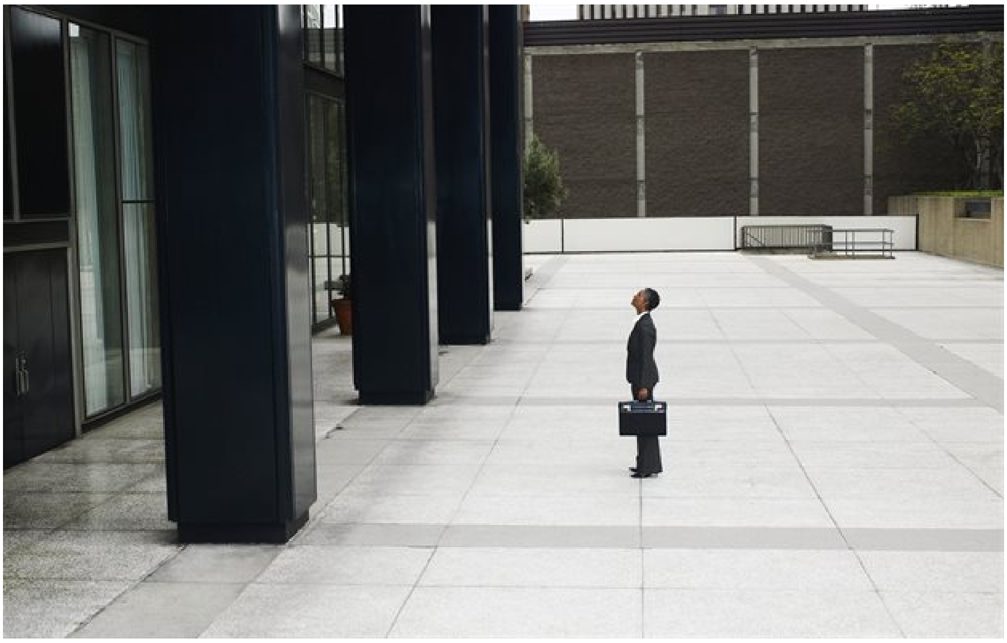
High levels of financial pressure-related selling perceived in commercial property sector - FNB survey

By John Loos

8 Apr 2021

We continue with the first quarter 2021 results of our FNB Commercial Property Broker Survey, which surveys a sample of commercial property brokers in the six major metros of South Africa, i.e., City of Joburg and Ekurhuleni (Greater Johannesburg), Tshwane, eThekwini, City of Cape Town and Nelson Mandela Bay.



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Focusing on the key drivers of movement and sales activity in owner-serviced properties, the survey results show financial pressure to still be by far the biggest single driver. This factor became noticeably more prominent in the second quarter 2020 survey as Covid-19 lockdowns hit, and rose significantly up to late-2020.

We ask respondents for their perception of the major drivers of “movement and sales activity” in the owner-serviced property segment. They estimate the percentage of movement and sales that they believe would take place for a particular reason. The total percentage of all the reasons can add up to more than 100% because businesses can be selling or relocating for more than one reason. It isn’t an exact science, therefore, but gives a broad picture, and what comes out of it yet again is that by far the highest percentage of owner occupiers are still perceived to be selling or relocating influenced by financial constraints/pressures, i.e., 65.2% in the first quarter 2021 survey. This is almost unchanged from the previous 65.33%, but 22.1 percentage points higher than the 43.1% recorded in the first quarter of 2020.

This most recent level of financial pressure-related selling remains very significant, albeit not having risen further in the most recent survey.

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Low levels of upgrade-related selling also point to financially constrained environment

In another sales motive also possibly reflecting financial constraints, sales and relocation for “bigger and better premises” remain very low at 9.3%. This is down from the prior quarter’s 12.9% and from a far higher 22.1% as at the start of 2019 when the survey was launched.

This percentage had already declined in prominence as economic and financial times toughened prior to the Covid-19 lockdown, but then declined far more noticeably in the second quarter of 2020 as lockdown caused the recession to go far deeper. In the fourth quarter of 2020, a mild increase was thought to perhaps be reflective of economic and property market trading activity, largely normalising following the second quarter hard lockdown, but the most recent first quarter 2021 decline suggests that financial constraints emanating from the hard lockdown period are still very much with us.

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Relocating to be better positioned relative to market is also less of a priority at present

A further key reason for selling, which may reflect both current financial pressures on businesses as well as risk aversion due to uncertainty regarding the economic future, is the estimated percentage of sellers selling in order to move closer to their market. This percentage declined to 21.6% of total sellers in the first quarter 2021 survey, the lowest percentage since the survey started, down from 27.2% in the prior quarter and 36.3% at the beginning of 2019.

This suggests a 'wait-and-see' approach by an increased portion of aspirant sellers. While it may often make sense to incur the cost of relocation closer to one’s market, in such severe recessionary times less relocating and more “staying put” for the time being is the likely outcome.

Coastal metros no longer show a clear “outperformance” to Gauteng metros in terms of (lower) financial pressure-related selling

Examining where, by region, the greatest level of financial pressure-related selling or relocation is perceived to be, Gauteng no longer appears to clearly hold that dubious honour, as was the case not so long ago. Tshwane was the highest in the first quarter 2021 survey at 82.8% of sellers, but Greater Johannesburg has seen some perceived decline, recording 58% in this most recent survey.

Two of the three coastal metros are now slightly higher than Joburg, Cape Town recording 63.5% of sellers perceived to be selling for financial pressure-related reasons, eThekwini having climbed noticeably to record 69%, while Nelson Mandela Bay recorded the lowest percentage of 47.5%.

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Conclusion – Some easing of financial pressure may be at hand, but don’t over-expect

The first quarter 2021 FNB Property Broker Survey points to financial pressure amongst property owner-occupiers remaining high, even after lockdown has been eased, following the hard lockdown of the second quarter of 2020. The estimated percentage of sellers selling in order to downscale due to financial pressure remains relatively high compared to the pre-lockdown surveys, although it did not rise further in the most recent one. The unchanged percentage, read in conjunction with other key data, may point to a peak in the level of financial pressure-related selling being reached, and possibly some mild decline in the coming surveys.

We anticipate this in part because in the tenanted part of the commercial property market we have already seen noticeable improvement in tenant payment performance since the end of second quarter 2020 hard lockdowns.

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Improvement in tenants in good standing

We have observed some noticeable improvement in the percentage of total tenants in good standing with their landlords regarding rental payments, from a low of 50.36% in the second quarter of 2020 to 61.62% by the fourth quarter of 2020, according to TPN figures. This improved level, however, remains very low compared to the 77.85% level recorded just prior to lockdown in the first quarter of last year.

The tenanted market data may thus suggest that we should anticipate some decline in financial pressure-related selling in the owner-serviced market in the near term, but that we should nevertheless not over-expect, with financial pressure likely to remain significant for some time.

In other economic data, we had also witnessed elevated pressure through much of 2020, notably a surge in the number of business liquidations as per Stats SA data. For the six months to February 2021, total liquidations were 20.27% up year-on-year. However, this growth rate, too, was slightly down on the 23.94% year-on-year growth rate for the six months to January, also hinting at a peak in the liquidations growth rate possibly having been reached for the time being.

Liquidations data also tells us that while the recent growth rate was significant, it was far lower than the 45.7% year-on-year growth at a stage of the Global Financial Crisis Recession back in 2009.

Interest rate cutting cushioned the blow

We believe that sharp interest rate cutting this time around has cushioned the blow for businesses, whereas the 2009 recession was preceded by significant interest rate hiking. Financial pressure-related selling of owner-serviced properties could have thus been far worse in this 2020 deep recession should interest rates not have been cut significantly to cushion the blow.

The percentage of owner-occupiers believed to be selling in order to upgrade to a better property remains very low compared to pre-lockdown surveys, and declined in the first quarter 2021 survey. This, along with a low estimated percentage of sellers doing so to move closer to their market, reflects perhaps not only financial constraints still being high.

It is also possibly reflective of perceived high uncertainty regarding future economic and market performance, encouraging a 'stay put' and 'wait-and-see' approach by a portion of aspirant movers.

The latest survey results thus point to lagged economic and financial impacts of the Covid-19 lockdown period persisting in the owner-serviced property market, but other data related to business financial pressure in other markets points to some easing of late, providing some mildly encouraging signs of things to come for the owner-serviced market too.

ABOUT JOHN LOOS

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