Property winners and losers may shift in second half of the year

By Gary Palmer

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The last 18 months have seen some clear winners and losers in the property industry. However, things may not stay the same in the next six months, especially if we experience an extended period of high levels of Covid infections and even more shutdowns.

Gary Palmer, CEO of Paragon Lending Solutions

Residential property

The big winners have been residential properties under R1m, which have done exceptionally well. With record-low interest rates, a lot of people, especially young professionals, have been priced into buying. This has had a spill-over effect on bond originators, conveyancing attorneys and estate agents, keeping them busy, whereas at the beginning of Covid, they were really concerned about what the future held for them.

Properties of around R3m continued to tick over in the last year and a half. Although we have seen a small correction in rentals, if interest rates remain on the lower end, we will see continued pressure on the rental market.

The real losers have been luxury and rental properties. Luxury properties saw a big drop off in demand and with more people being able to afford to buy, that hit rentals and landlords lost tenants. Similarly, those who invested in student property faced many months without rental income during Covid last year when universities were forced to close. In addition, we saw many buy-to-rent investors buying off-plan based on projections that looked wonderful at the time, and who are now in very tight positions.

Industrial stock

A standout winner in the last year and a half has been industrial property. This was spurred on by the boom in e-commerce - with a massive uptick after the initial lockdown. As this new way of shopping is likely to continue, the need for warehousing is unlikely to drop off. The one drawback could be the Post Office winning its fight to regain a monopoly on small parcel delivery, which could see some contraction in the e-commerce market in general.

South Africa's love for property is still there. I think people have been sitting on a lot of cash during this period. Not only have prices dropped in terms of people being more willing to negotiate - and I think that will continue - but I think sellers are now also leaving money in deals to make them work.

Reit properties

The big, listed funds are still offloading properties to abide by their loan-to-value ratios in line with the debt requirements for real estate investment trusts (Reits). Especially the office space valuations at the top end have come off, with people working from home, seeing many Reits putting non-core commercial properties on the market. There is still a lot of action in the market as the big funds continue to offload. Auctions are still busy and there are certainly deals to be had.

Retail sector

When it comes to retail property, big malls are only now beginning to recover from the knock they took in the initial lockdown period. In the months ahead, however, the third wave is likely to have a negative impact as people shun high-traffic destinations.

Convenience neighbourhood centres and township retail are unbelievably resilient and have remained mostly unaffected. As a best-case scenario, this should continue especially as we are in a third wave with a largely unvaccinated population. One thing to watch in the retail space is the mismatch between long-term leases and market-related prices. Renewals are likely to happen at lower prices, i.e., rent reversions and so valuations will need to be scrutinised.

Hospitality industry

With travel and tourism coming close to a complete standstill, the hospitality industry has taken a real knock. Hotels have been repurposed where possible, but the continued lag in local vaccine delivery, as well as the fear factor surrounding new variants of Covid-19 will continue to drag the sector down. The accelerated vaccine rollout is, however, a positive step.

Office space

Office space all over the world has taken a big knock. The continued uncertainty and move towards shorter leases is already making it difficult for landlords. As more companies look towards a hybrid work-from-home regime, investors will continue to look at lifestyle and micro-living conversions.

While the banks really came to the party in the beginning of the pandemic, choosing not to call in non-performing loans, they are now relooking those arrangements.

We have seen a few instances where banks have accepted payment plans, but only if they were given power of attorney, or they could market the property to their database, or if the client gave a signed consent to judgement. Meetings at the banks are no longer just with your relationship manager, you will have the credit and legal departments in the room with you as well. The reality is that banks cannot afford to take a holding position anymore. More than ever, having access to a big network of independent and alternate lenders is good business.

ABOUT THE AUTHOR

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