

Trends driving the commercial property sector's resurgence

Despite the economic volatility and ongoing load shedding, the commercial property sector is experiencing heightened demand, according to Justin Thom, director at Galetti Corporate Real Estate. This resurgence, he says, is being fuelled by workers returning to the office and the resumption of normal operations across industries.



Justin Thom, director at Galetti Corporate Real Estate

With this in mind, Thom says that commercial landlords need to keep pace and adapt to the shifting demands of tenants in a post-Covid-19 era.

What's trending in the office sector?

Looking to the office sector, Thom says: "Johannesburg was the economic node that suffered the most during the pandemic, but we're now seeing tenants who previously downscaled or terminated their leases heading back in search of prime real estate to accommodate their fully-fledged workforce."

He adds that continued load shedding has played a key role in bringing people back to the office. "While some employees do have long-lasting alternative energy backups at home, many still don't largely due to affordability."

In areas where there is heightened demand for A-grade space, such as Rosebank, Johannesburg and the Cape Town CBD, landlords have the upper hand due to a scarcity of supply.

“This has given rise to a natural progression in the price of rentals, offering landlords some reprieve post-Covid-19 and given the rising costs that we currently face. Tenant incentives previously offered are also starting to fall away.”

Speaking to sectors driving demand for office space, Thom comments that the financial, legal, insurance and healthcare sectors are some of the major players taking up ‘space’ across the country.

“The Johannesburg prime office market has been regaining significant ground over the past three quarters with vacancies dropping substantially. The finance, legal and insurance industries are heavily reliant on in-person work for regulatory and security reasons, hence the need for spaces large enough to accommodate many employees.”



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What’s trending in industrial property?

Industrial property continues to crank as the commercial real estate frontrunner in South Africa. This property sector reported the least amount of vacancies during the pandemic due to the increased focus on logistics, supply chains and warehousing.

Thom explains that the company has seen an uptick in demand for spec-build properties in areas such as Linbro Park, Longmeadow, and Jet Park. “The vacuum left by landholders not developing in the Covid years has created demand for good quality distribution centres coupled with the rise of e-commerce”.

“Prominent Reit (real estate investment trust) Fortress has completed 20,000m² worth of spec-build properties in the area, while Equites and Zenprop have completed 8,300m² and 3,000m² respectively,” he adds.

Tenants are driving demand in this Gauteng hotspot with the majority seeking A-grade warehouse space. “The demand for industrial property means that landlords have the upper hand in this property class,” he continues.

“Developments are being built and tenanted in strategic positions for long-term growth. Here, tenants can easily upgrade from mini units to mid-sized units and thereafter free-standing buildings, making it an attractive area for investment.”

Thom concludes by noting that the prices of rentals have jumped considerably, with build costs increasing by over 50% in the last few years. “This property class has essentially outpriced itself and cannot compete with the price of existing properties.”