

No quick recovery expected for the commercial real estate sector

By [Michelle Dickens](#)

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Commercial tenants showed signs of recovery in the first quarter of 2021, mirroring the better-than-expected GDP figures revealed for the same period by Statistics South Africa. A recovery in the commercial real estate sector relies heavily on business recovery. Constraints to business productivity, including the continued work-from-home trend, has had a significant impact on the sector.



Michelle Dickens, CEO of TPN

According to [TPN's Commercial Rental Monitor for the first quarter of 2021](#), nationally, the percentage of commercial tenants in good standing reached 62.52%. This is a small improvement on the 61.62% of tenants who were in good standing in the fourth quarter of 2020, but still significantly below the pre-pandemic levels of 77.85% in the first quarter of last year.

Tenants in good standing include those who have paid on time (45.89%), grace payments (4.56%) and paid late (12.07%) and whose account balance is fully settled with no arrears being carried forward.

Recovery in the non-payment category stalled

Tenants in the partially paid (24.65%) or did not pay (12.83%) category are classified as delinquent. During the hard lockdown in the second quarter of 2020, one-in-two tenants were delinquent. These figures improved in the last three quarters from a high of 19.73% to 12% of tenants categorised as did not pay. Recovery in the non-payment tenant category appears to have stalled at this figure.

Tenants in the partially paid category doubled in the hard lockdown from 14% prior to the pandemic, to one-in-three tenants unable to make full payments of rent. This segment has seen only muted recovery as tenants slowly catch up with deferral arrangements, dropping to 26.09% by the end of 2020 with further improvements to 24.65% in the first quarter of 2021.

Although landlords provided a whopping R3bn in rent relief between April and June 2020, significantly reducing the number of tenants who were more than three months in arrears with their rent, tenants in arrears continued to grow in the first quarter of 2021.



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Managing tenant arrears

Managing tenant arrears is an ongoing challenge for landlords. Of particular concern will be the 13.5% of delinquent tenants who are now more than six months in arrears. Overall, delinquent tenants more than two months in arrears have increased from 54.5% to 63.6%. Of less concern are the 26.4% of tenants who are less than a month in arrears. This will

be an important metric to keep an eye on in the months ahead to ascertain whether partially paid tenants are paying down their arrears.

Retail tenants have experienced the biggest recovery in the commercial real estate sector. In May 2020, just 40% of retail tenants were in good standing. However, by the first quarter of 2021, 61% of retail tenants were in good standing. Industrial and offices segments were less affected by the hard lockdown, recovery muted never-the-less with only 66% of industrial tenants and only 69% of office tenants in good standing.

Breaking these figures down to look more narrowly at provincial performance, the Western Cape boasts the best performing commercial tenants with 72.92% in good standing, Gauteng's commercial tenants lag behind at 59.79%, while only 59.79% of KwaZulu-Natal tenants are in good standing.

From a national perspective, commercial tenants in the smaller space category below R10,000 per month are the most stressed, with only 60.73% in good standing. Those paying between R10,000 and R25,000, and between R25,000 and R50,000 per month are faring marginally better at 63.44% and 63.77% respectively. Of those paying more than R50,000 per month, 64.64% are in good standing.



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Business liquidations

For the pandemic period so far, 442 businesses have entered business rescue with the rent often renegotiated as part of the business rescue plan which has added additional pressure to the commercial real estate sector. Business liquidations, perhaps not surprisingly, have spiked during the pandemic period with 2,275 failed businesses liquidating since the shock of the hard lockdown in April 2020. The expectation is that there will be more failed businesses in the coming months.

Electricity constraints are limiting the ability of the commercial property sector to recover, given the impact on productivity. The biggest risk to the sector's recovery is the ongoing Covid-19 pandemic as South Africa battles the third wave of infections. Although the extension of the Covid-19 vaccine to teachers and the over-50 age group is a step in the right direction, the high vacancy rate is likely to persist in the next quarter as work-from-home trends continue. The expectation is that rental payment indices will flatline and that the sector's recovery will be slow.

Download the full report [here](#).

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