

6 trends set to define commercial real estate in 2023

2022 has been a defining year for South Africa's commercial real estate sector which is on a slow yet steady journey to recovery. The industry breathed a collective sigh of relief when most restrictions were lifted mid-way through the year, allowing many employees to return to in-person work. However, it faced additional challenges in the wake of the six successive interest rate hikes in 2022, bringing the current rate to 10.5% as of December 2022.



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"In spite of the pressures brought on by interest rate hikes, we are confident that the recovery reflected in the commercial real estate sector in 2022 will continue into the new year," says John Jack, CEO of Galetti Corporate Real Estate. "The growth indicators are strong, and the latest increase rate is still far off from all-time highs. The commercial sector is less affected than residential because many investors have wisely stored capital rather than paying dividends."

Looking ahead, Jack predicts that most trends to emerge in 2023 will follow from the market shifts that have begun in the post-pandemic environment of 2022, with continued recovery across all sectors as the priority.

His six major trend predictions are as follows:

1. Logistics will continue to outperform the rest

The industrial sector was the strongest commercial property performer in 2021 and 2022, reporting the highest rental growth rate and lowest vacancy levels in comparison to office and retail. The sector's growth has stemmed from the logistics segment due to high demand for warehousing and vacant land in industrial areas.

"We expect this trend to continue in 2023 due to continued high demand and low supply for these kinds of properties, particularly in sought-after areas such as the Western Cape," comments Jack. "This has created a Seller's Market with spacious and well-located properties expected to be snapped up almost instantly."

2. Retail sector expected to return to pre-Covid levels

The retail property sector is expected to continue its recovery in 2023, with South Africa's commercial landlord Growthpoint Properties reporting a 5.8% retail vacancy rate and a 82.7% renewal success rate in its latest Shareholder Update. This recovery is especially stark in comparison to Growthpoint's office vacancy rate (21.4%) and renewal success rate (61.2%)

The Investor Update states that the company expects continued improvement in key retail metrics, reporting that turnovers at most of its shopping centres are at pre-COVID levels as are consumer footfalls.

Jack says that Galetti has seen this recovery trend reflected in smaller 'strip malls' as well as the township retail sector. "An estimated R150 billion in cash is spent at spaza shops in the informal economy every year and we expect to see more retail landlords realising the opportunities available in the informal sector by funding smaller retail developments in these areas."

3. In-person auctions regain popularity

The Covid-19 pandemic briefly put a stop to in-person property auctions, resulting in the industry pivoting to online with auctions conducted via the web or game-changing mobile apps. Now that the immediate health risk has passed, in-person auctions are expected to dominate once again.

"The energy and excitement of an in-person auction experience creates a competitive bidding environment which often results in a better-than-expected outcome for the seller," says Jack. "Auctions also help properties realise their true value – sometimes selling for 10 to 20% more than what the traditional market would pay."

4. Space as a service

The continued high office vacancy levels in South Africa have forced landlords to become more innovative, resulting in many changing the traditional office space as we know it. "Today there is a lot of talk around 'space as a service' and this is set to gain further momentum in 2023."

Historically, offices were viewed as merely 'four walls' to work in, however, today landlords are breathing new life into their buildings. Spaces are being repositioned and reinvigorated as a service.

"Landlords are attracting and retaining tenants by elevating their space through exciting amenities such as on-site coffee baristas, relaxation areas, canteens and break-away areas."

5. Demand for B-grade office spaces

Another trend that has emerged is centred around B-grade office space. This classification refers to buildings that are generally smaller, older and with fewer amenities.

"There is a massive opportunity in B-grade space and for investors to revamp vacant buildings and bring them to market. Most A-grade spaces standing empty have failed to attract tenants despite already catering to their wants and needs. In

contrast, many B-grade buildings have unrealised potential and savvy landlords are breathing new life into these neglected spaces.”

6. Increased emphasis on aligning to ESG requirements

Tenants are increasingly opting for buildings that align to their ESG (Environmental, Social and Governance) requirements and this is set to continue in 2023. “They are looking to buildings that have been built to ensure a positive impact on both the environment and the communities in which they are located,” he says.

“In recent years we have seen an increase in tenants prioritising the ‘E’ in ESG by requiring landlords to implement green building standards such as solar energy, carbon reduction measures, LED lighting, recycling, and recycling wastewater,” says Jack. “This is a positive trend that we expect to be increasingly in the spotlight in the coming years,” he concludes.

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