11 trends and opportunities in the property sector

The listed-property sector saw an average decrease in property values of roughly 2.8% over the course of 2021, which brings the total decrease in value since the start of the Covid-19 pandemic to around 10.5%. This is according to Ridwaan Loonat, senior property analyst at Nedbank. A broad range of valuation changes were evident across the listed-property sector.

As in 2020, the South African Property Owners Association (Sapoa) all-property capitalisation rates continued to move upwards in 2021 (0.4% in the first half of the year) but, here too, sectors were impacted differently, which contributed to the broad range of adjustments referred to above.

Claire Denny of Nedbank Property Partners

Valuations are expected to steady in 2022 and reductions will become more property-specific over the coming year. However, there is still uncertainty and downside risk evident in the market, particularly for offices where vacancies increased significantly over the course of last year. That said, there are definite indications that office-based working remains important to many employers and employees alike; so, a wholesale move to remote working is not on the cards. In addition, some of the existing vacant space is also being used for office-to-residential conversions.

Trends and opportunities

Claire Denny of Nedbank Property Partners has noted the following trends and opportunities in the various property sectors:

1. Locally listed property funds continue to dispose of non-core assets, with this clearly still being regarded as an opportunity by various private sector players.
2. Locally listed property funds also continue to show an interest in offshore acquisitions and developments (more recently in the logistics space), due to the perceived growth potential in some of the offshore jurisdictions, underpinned by the benefit of diversification and net operating income growth.
3. Hospitality property prices have been extremely hard hit by the pandemic. Increased supply in this sector has been muted and, if optimism improves, it could see a recovery – a potential situation that is prompting interest among some investors.
4. A number of office-to-residential conversions are being planned, or are in progress, with continued interest expected in well-located and reasonably-priced residential units that offer access to various facilities and amenities. Interest in these assets is linked, however, to affordability.
5. The industrial sector has proven to be the darling for developers and investors, with a particularly large degree of interest and activity around logistics. This trend is likely to have legs in the longer term, but the question is whether assets have already priced this in.
6. Student accommodation has been significantly impacted by Covid-19 from a cash flow perspective. This is generally regarded to be temporary in nature, with a shortage of supply expected over the longer term. Again, there is keen interest in this sector, with parties investing resources in the development of innovative approaches to address supply shortages.
7. Convenience, rural and township retail have generally proven resilient through the pandemic, with a fair amount of activity around, and investor interest in, these assets being evident.
8. The environmental, social and governance (ESG) theme has picked up steam over the course of 2021. From an investor point of view, ESG-investing is a growing topic of interest for board members and trustees who want to see the impact that their funds are having on society. There is a general consensus that this is a fast-growing area that will

become increasingly important, particularly given the acceleration of regulation and shareholder activism in the space. In addition, savings and supplemented property revenue are increasingly being seen from innovative funding and energy-saving installation structures. Also noteworthy in this space is that the minister of the Department of Mineral Resources and Energy has introduced new regulations on Energy Performance Certificates for buildings in South Africa in December 2020. These regulations require certain privately owned buildings and government-owned buildings to obtain an Energy Performance Certificate before December 2022.

9. Digitisation is also gaining momentum in the property market. For example, online marketing and sales of residential properties picked up in spectacular fashion since lockdown regulations were announced in March 2020. Loyalty applications are being used in student accommodation, rewarding positive payment and other behaviour with various benefits. Nedbank is making use of new technology called OpenSpace to track and monitor progress on building sites for the shared benefit of the bank and its clients.
10. Investment in data centres is expected to grow significantly over the next few years, and South Africa is no exception. Accelerated digitisation, edge computing, increased data traffic and collection, are all driving an urgent need to manage, store and protect these escalating volumes of data.
11. Finally, from an offshore perspective, global transactional volumes have rebounded recently, with figures in 2020/21 well above those seen in 2008. According to Loonat, investors continue their search for stable cashflows that offer growth, which has seen healthcare, self-storage, multi-family and logistics real estate investment trusts trading at premiums to net asset value. Investment into the retail sector has been showing signs of improvement, with some investors calling the bottom on valuation declines given the recovery in footfall and tenant turnover.

All in all, Denny believes that commercial property will see increased activity in 2022. However, she emphasises that strong property fundamentals, as well as innovative, hands-on asset management, will continue to be key going forward, with economic growth also being a critical driver of this sector.