

Industrial real estate is in high demand, here's why

Following the implementation of Level 3 lockdown, one particular property sector is making waves and has seen a noticeable spike in activity, and that's industrial real estate, according to Clint Marais, regional head of Galetti Corporate Real Estate Western Cape.

"This uptake can be attributed to both the stringent hygiene measures now required in the workplace and the changing nature of retail," says Marais.

"Many businesses have wisely capitalised on the increased reliance on e-commerce from consumers who are choosing to do their shopping from home, by discarding brick and mortar storefronts in favour of virtual ones. Other businesses have pivoted to focus on manufacturing personal protection equipment (PPE), wisely anticipating the massive consumer demand once the wearing of PPE outside of the home was mandated by law."

Logistics, warehousing forging ahead

According to a recent study, e-commerce fulfilment requires more than three times the space of its predecessor, traditional retail sales.

Marais notes that both e-commerce retailers and PPE manufacturers require distribution centres and makes special mention of two recent independent requests from large pharmaceutical businesses looking for significant distribution centres in the country's major port metropolises.

"While it is clear that the logistics and warehousing sectors are forging ahead, we predict that the real impact of Covid-19 on the manufacturing sector will only be seen in the coming months," he says.

"Adding to the demand is the fluctuation of exports and the depreciation of the rand. Here, manufacturers are scaling up local production to mitigate the possibility of disrupted supply chains in future."



Clint Marais, regional head of Galetti Corporate Real Estate Western Cape



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Key areas for industrial property investment

Marais predicts a major uptake in recently developed industrial areas such as Midrand and Pomona in Gauteng, Riverhorse Valley in KwaZulu-Natal and Bellville South, West Coast and Central Nodes such as Airport Industria and Epping in the Western Cape.

"These areas are on the rise, and we predict a significant increase in industrial real estate development once stakeholders realise their profitability," he says.

Marais says that landlords looking to 'cash-in' on this sector must consider various important and unique factors associated with owning and leasing out an industrial property.



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Compliance is key

“A building must be fully compliant with the Operational Health & Safety (OHS) Act. It should be a fully functional space that meets all the standards, is correctly wired, with ceilings in, sufficient ventilation, the floor in and so on - essentially fully finished

“Following these steps will make the space more attractive to prospective tenants who are looking to pivot their business models and meet the fast-changing demands of the ‘new normal’,” says Marais.

A ‘lock-up-and-go’ space is most attractive

Marais adds that the warehouse component of the building should be as accessible and secure as possible to meet the logistical requirements of manufacturers and distributors. “A lock-up-and-go (or ready to go) space also increases the possibility of reducing cashflow pressure through sub-letting - a trend quite popular in the industrial real estate market,” he explains.



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Consider flexible lease terms

Marais urges landlords to consider the long-term benefits of flexible lease terms. “We are seeing an improvement in tenant incentives, as some are being offered up to four months rent-free at the beginning of the lease. The wide-spread adoption of more flexible lease terms in the industrial real estate sector will definitely come at a premium to existing market rentals, but will give the tenant the flexibility to reduce their footprint at short notice.

However, he cautions that there is no ‘one-size-fits-all’ approach for Covid-19-era regulations and that many landlords are sticking to their guns to retain a property's initial rental value. “As the market's response to Covid-19 evolves, we're seeing that the initial willingness to drastically reduce rentals is not a clear representation of the whole market,” Marais concludes.

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