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Property Insights

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4th Quarter 2021 FNB Property Broker Survey – Commercial Property Broker Survey Respondents continue to perceive easing in levels of financial pressure.

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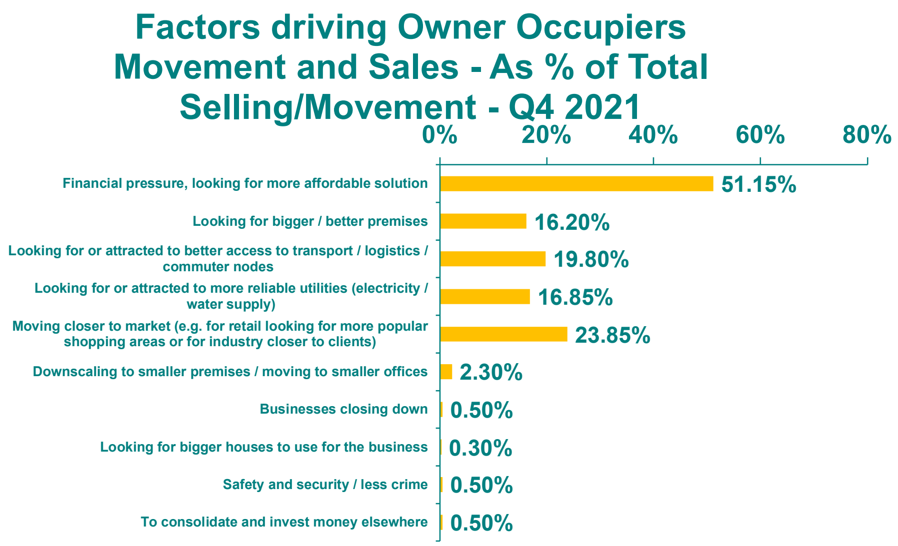
In this note, we continue with the 4th quarter 2021 results of our FNB Commercial Property Broker Survey, which surveys a sample of commercial property brokers in the 6 major metros of South Africa, i.e., City of Joburg and Ekurhuleni (Greater Johannesburg), Tshwane, eThekwini, City of Cape Town and Nelson Mandela Bay.

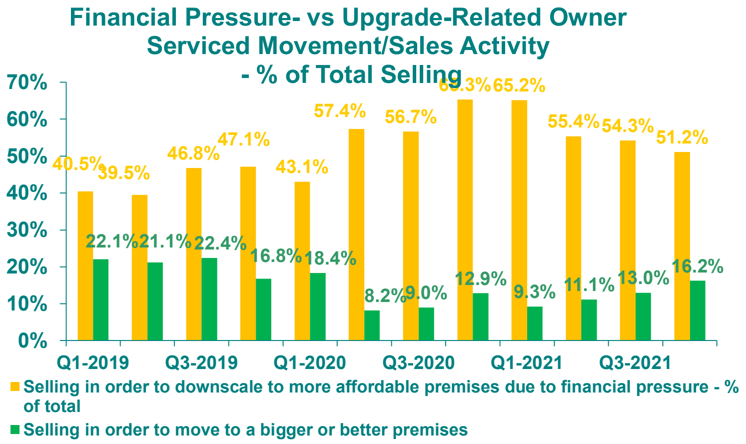
Focusing on the key drivers of movement and sales activity in owner-serviced properties, the survey results show financial pressure to still be by far the biggest single driver. Nevertheless, the latest quarterly reading pointed to a slow continuation of the declining trend, a sign that financial pressure is gradually alleviating as the economy slowly recovers from the deep lockdown-driven recession of 2020.

We ask respondents for their perception of the major drivers of "movement and sales activity" in the Owner-Serviced Property segment. They estimate the percentage of movement and sales that they believe would take place for a particular reason. The total percentage of all the reasons can add up to more than 100%, because businesses can be selling or relocating for more than one reason. It isn't an exact science, therefore, but gives a broad picture, and what comes out of it yet again is that by far the highest percentage of owner occupiers are still perceived to be selling or relocating influenced by financial constraints/pressures, i.e., 51.15% in the 4th quarter 2021 survey. This is only slightly down from the previous 54.3%, but more noticeably down from the post-hard lockdown peak of 65.3% reached in the final quarter of 2020.



The level of financial pressure-related selling thus continues its improving (downward) trend.

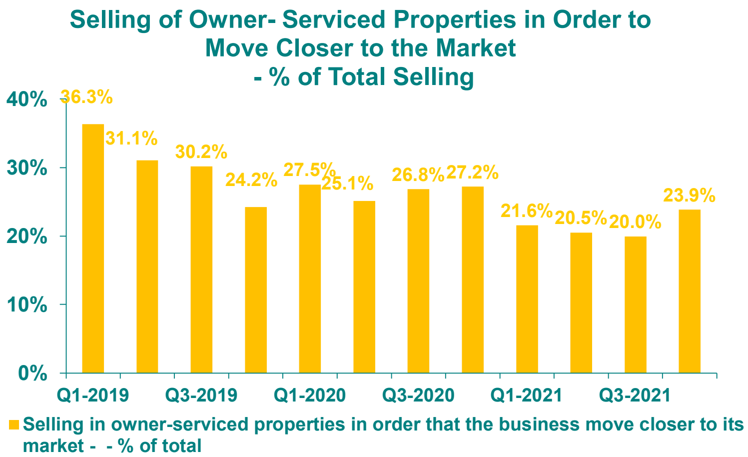
- Levels of upgrade-related selling also point to an improving financial environment



Also possibly reflecting financial constraints, sales in order to relocate to "bigger and better premises" remain lower than pre-lockdown 2019 levels at 16.2%, the pre-lockdown 1st quarter of 2020 having recorded an 18.4% estimate. However, this motive too has shown some improvement from the previous quarter's 13.0%.

This percentage has been significantly lower since the start of hard lockdowns in the 2nd quarter of 2020. It had admittedly already declined in prominence as economic and financial times toughened prior to COVID-19 lockdown, but then declined far more noticeably in the 2nd quarter of 2020, to an 8.2% low, as lockdown caused the recession to go far deeper. The most recent percentage of 16.2% thus resembles a considerable improvement from the lockdown period, but perhaps still a more constrained financial environment compared to pre-lockdown days.

- Relocating to properties closer to the market starts to increase in priority

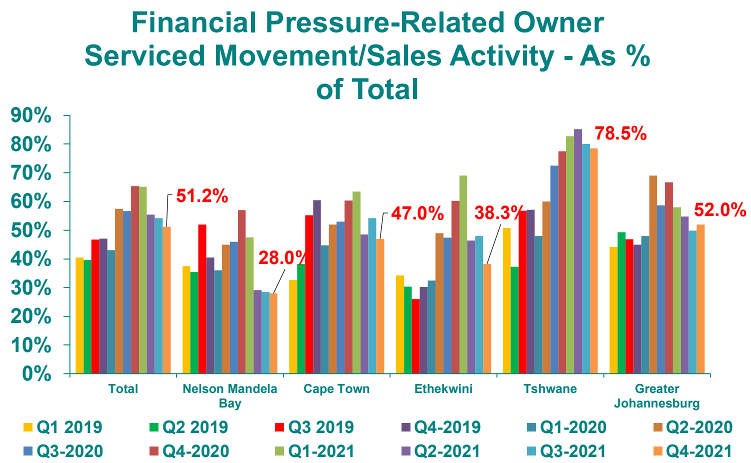


A further key reason for selling, which may reflect both current financial pressures on businesses as well as risk aversion due to uncertainty regarding the economic future, is the estimated percentage of sellers selling to move closer to their market. This percentage rose for the 1st time in 4 quarters, to record 23.9% in the 4th quarter 2021 survey, up from the prior quarter's 20%.

The level remains low, however, when compared to the 36.3% recorded at the beginning of 2019.

Relatively low estimates regarding this motive for selling in 2021 suggested a "wait and see" approach by an increased portion of aspirant sellers, compared to prior years. While it may often make sense to incur the cost of relocation closer to one's market, in weak economic times less relocating and more "staying put" for the time being is the likely outcome. However, the latest survey's increase may just point to the start of a more confident approach by owner occupiers in this regard.

- Coastal metros appear to "outperform" Gauteng metros on average in terms of (lower) financial pressure-related selling.



Examining where, by region, the greatest level of financial pressure-related selling or relocation is perceived to be, Gauteng appears on average to have higher (worse) readings due largely to Tshwane region. Tshwane was the highest in the 4th quarter 2021 survey at 78.5% of sellers, while Greater Johannesburg was a significantly lower 52%.

Of the 3 coastal metros, the highest (worst) percentage was recorded by Cape Town, i.e., 47%, eThekwini 38.3%, and Nelson Mandela Bay the lowest percentage of 28%.

Conclusion – Financial pressure continues to ease, but remains "elevated" compared to pre-lockdown levels

The 4th quarter 2021 FNB Property Broker Survey points to financial pressure amongst property owner-occupiers remaining higher than pre-lockdown times, but it did point to the continuation of a recent improving trend.

The improvement comes on the back of an economy slowly "normalizing" its activity as lockdowns have been gradually eased.

However, the fact that the survey still points to financial pressure levels being higher than pre-lockdown levels is reflective of an economy that is still not quite 100% "normalized" following lockdown. A portion of the production capability of the economy shut down permanently during the severe recession of 2020, and replacement for that capacity takes a while to return. So, as at 2021, Real GDP (Gross Domestic Product) was not yet back to 2019 levels, implying a still-tough environment for many businesses.

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