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Property Insights



Property Broker Survey – Market Balance Q2 2021

Brokers continue to see all 3 major commercial property buying/selling markets as substantially oversupplied, but the perception is that the Industrial Property Market’s oversupply is the least significant

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We continue with the 2nd quarter 2021 results of our FNB Commercial Property Broker Survey, which surveys a sample of commercial property brokers in and around the 6 major metros of South Africa, namely, City of Joburg and Ekurhuleni (Greater Johannesburg), Tshwane, Ethekewini, City of Cape Town and Nelson Mandela Bay.

Given FNB Commercial Property Finance’s strong focus on the “Owner-Occupied” Property Segment, a pre-requisite in selecting broker respondents is that they deal in owner-serviced properties, but a portion will also have dealings in the developer or investor markets as well as in the listed sector.

In this report, we deal with questions relating to the perceived balance/imbalance between demand and supply of properties being transacted in the main markets. Market “strength” refers to a relatively strong demand level relative to supply, and vice versa for market “weakness”. These questions include estimates of average times of properties on the market prior to sale, as well as perceptions of whether demand exceeds supply or vice versa.

Key themes that emerge from the results are:

- The Industrial Property Market is still perceived to be the strongest of the 3 major commercial property sectors, i.e. Industrial, Retail and Office, in terms of demand-supply balance.
- However, a perceived oversupply in all 3 property classes has continued in the 2nd quarter survey, but with the Industrial Property Market oversupply being the lowest.
- In the area of Industrial Property, it appears to be the 3 coastal metros, i.e. Cape Town, Nelson Mandela Bay and Ethekewini, are where the relative market strength lies, with Gauteng metro regions being the area of relative weakness, Johannesburg being especially weak.
- Given a major bias towards “oversupply” in all 3 major commercial property markets, we remain of the expectation that 2021 will see a continuation of a decline in average values on commercial property, following significant value declines in 2020.
- The Office Property Sector is seen as the weakest of the 3 major property classes, with a significant proportion of survey respondents perceiving many companies to be re-assessing their office space requirements.

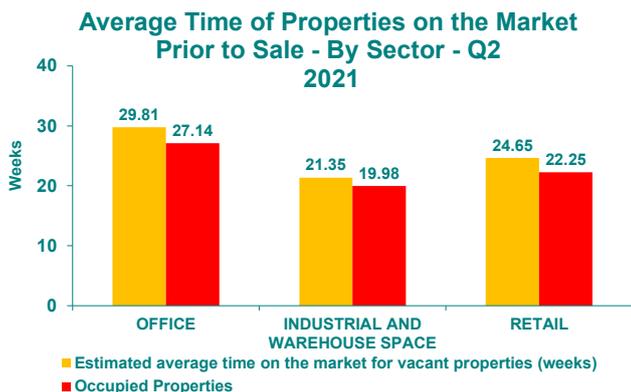
MAIN SURVEY FINDINGS:

2nd Quarter 2020 Survey respondents perceived average time of properties on market as having increased in 2 of 3 property classes, although significantly less so than previous.

From our residential market survey, we found the movement over time in the estimated average time of properties on the market prior to sale to be a useful indicator of changes in the balance between supply and demand, with an increase in average time of properties on the market prior to sale signaling a deteriorating demand relative to supply and vice versa.

We have attempted to apply this same questioning to our commercial property broker survey, splitting the survey by the 3 main property classes, namely Office, Industrial and Retail, and splitting it further by “Vacant Properties” vs “Occupied Properties”

In all 3 property classes, the occupied properties are reported to sell faster.



The relative picture between the 3 major property sectors in the 2nd quarter 2021 survey is still one where brokers perceive the Industrial Property Market to be the strongest of the 3 classes, with an average time on the market for occupied industrial properties of 19.98 weeks. This is quicker than the 22.25 weeks in the case of retail and 27.14 weeks for office space.

Vacant industrial properties, too, averaged the shortest average time on the market of the 3 segments, to the tune of 21.35 weeks, compared to 24.65 weeks in the case of retail space and 29.81 weeks in the case of office properties.

In the FNB Commercial Property Broker Survey, it is more difficult to estimate average time on the market than is the case in the FNB Residential Property Estate Agent Survey, given a far smaller sample size when it comes to number of transactions, so from quarter to quarter the different groups of respondents can perceive average time quite differently, and the data can be more volatile.

However, in an easier-to-answer follow up question as to whether the past 6 months has seen average time of properties on the market increase, decrease or remain unchanged, brokers appear better able to assess the direction in average time as opposed to the actual average time itself.

- Perceptions regarding the direction in “average time on market” over the past 6 months

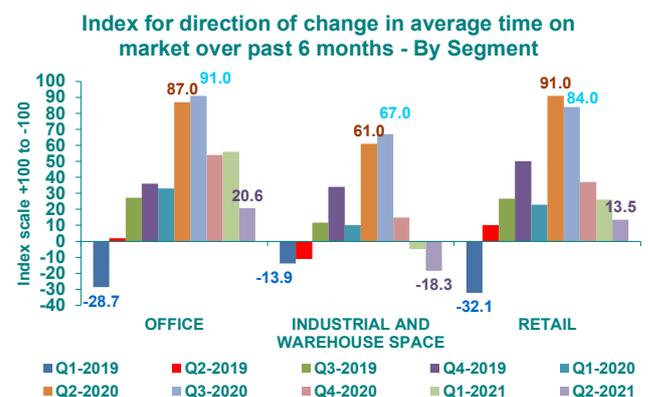
The follow up question to the average time on the market estimate, is asking respondents whether they believe that the average time on the market has increased, decreased or stayed the same since 6 months prior (i.e. since the 4th quarter of 2020).

Out of the responses we create an index by allocating a +1 score to an “increased” response, a zero to an “unchanged” response and a negative -1 to a “declined” response.

The scale of the “Index for direction of change in time on the market over the past 6 months” is thus from +100 to -100. A score of +100 would imply that 100% of respondents perceived an increase in time on the market over the past 6 months (market weakening) and -100 would imply 100% of respondents perceiving a decline, while a zero level would mean that those providing an “increased” response equals those responding with “decline”.

2 of the 3 property classes returned a positive number, i.e. Office and Retail, implying that the aggregate of responses points towards an increase (market balance weakening) in average time of properties on the market in those markets compared to 6 months prior, with the relatively strong Industrial Property Market being the exception. The Industrial Market was the only one of the 3 to see a negative number.

Industrial Property recorded a negative -18.3 reading in the 2nd quarter of 2021, down from a negative of -4.84 in the previous quarter.



The Retail Index still showed a positive reading of +13.5 in the 2nd quarter, but this was an improvement on the +26 of the previous quarter.

The Office Index, too, showed a positive reading but

also improved, from +55.9 in the 1st quarter to +20.6 in the 2nd quarter.

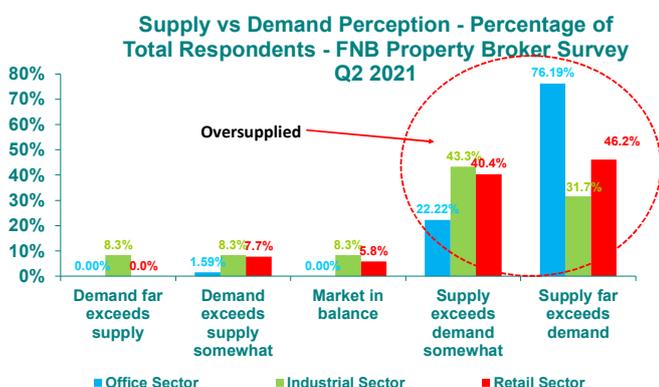
Therefore, the “increasing time on market” bias has dissipated in the Industrial Market survey, and become less pronounced in the Retail and Office Property Markets, with the Office Market reading remaining the highest (weakest).

The fact that the brokers still have a bias towards lengthening average time on market in 2 of the 3 major sectors continues to reflect South Africa’s economy not being entirely out of the recessionary economic times in which it has found itself in recent times.

Demand vs Supply Strength Perceptions

An additional supply-vs-demand question is asked, where the respondents are asked whether they perceive “demand far exceeds supply” (option 1), “demand exceeds supply somewhat” (option 2), the market is in balance” (option 3), “supply exceeds demand somewhat” (option 4) or “supply far exceeds demand” (Option 5).

All 3 property sectors have the majority of respondents pointing to “supply exceeding demand”, either “somewhat” or “far”. The Industrial Market possesses the lowest percentage of respondents, i.e. 75% perceiving supply to exceed demand, whereas 86.6% perceive supply to exceed demand in Retail Property and 98.41% in the case of the Office Property Market.

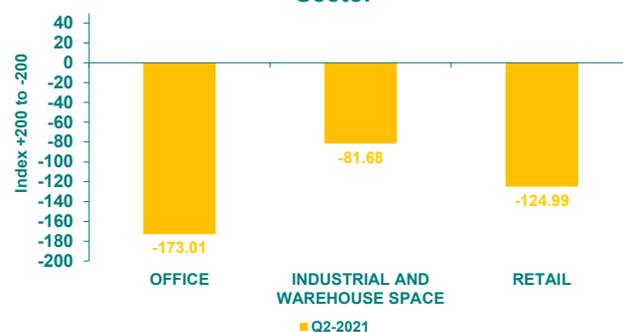


Once again we create an index from the responses, option 1 receiving a score of +2, option 2 a +1 score, option 3 a zero score, option 4 a -1 score and option 5 a -2 score.

The index is thus on a scale of +200 to -200, where +200 would imply 100% of respondents choosing option 1, and -200 meaning a 100% option 5 response.

All 3 sector indices were negative (i.e. oversupplied bias) in the 2nd quarter 2021 survey, with the Industrial Property Market least so on a -81.68 reading, followed by Retail at -124.99 and Office recording the weakest -173.01.

Supply vs Demand Perception Index by Sector



In short, respondents strongly perceive all 3 markets to be significantly oversupplied, but with the Industrial Market believed to be the least oversupplied, followed by Retail and then Office.

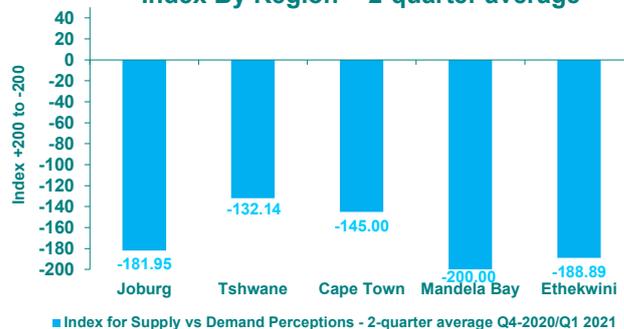
Provincial Comparisons - Demand vs Supply Strength Perceptions - On balance, the Coastal Metros appear stronger than Gauteng

We view the major metro regions’ different market balance survey responses.

Due to smaller sample size at individual metro region level, we are concerned with volatility in the surveys, and therefore opt to use a 2-quarter average of survey responses for the Demand-Supply Perceptions Indices for individual regions.

Examining the perceived market balance by major metro region, the Office Space survey points to severe weakness across the board, with Nelson Mandela Bay having the most negative index reading of -200, but Ethekwini (-188.9) and Greater Johannesburg (-181.95) are not far behind. Tshwane is least weak of the major metro regions, with a -132.14 negative reading, followed by Cape Town on -145.

Office Supply vs Demand Perception Index By Region - 2-quarter average



In the Industrial Property Market survey, the 3 coastal metros come out noticeably stronger than the Gauteng Metros, with Ethekwini having a positive reading of +33.52, followed by Nelson Mandela Bay with +0.01 and Cape Town with a mild negative of -42.22. Tshwane at -74.41 and Greater Joburg recording -124.56 were both more significantly negative.

Industrial Supply vs Demand Perception Index By Region - 2-quarter average



In the area of Retail Property, the survey points to oversupply across all 5 metro regions.

Joburg is the weakest market, with a negative reading of -167.1, followed by Nelson Mandela Bay with -165. The “least weak” of the 5 was Ethekweni with a -65 reading, followed by Cape Town with -91.08.

Retail Property Supply vs Demand Perception Index by Region - 2-quarter average

(Source: FNB Property Broker Survey)



Conclusion

Despite market activity levels having picked up in recent quarters, perceptions relating to demand relative to supply remain weak when viewing the FNB Property Broker Survey results for the 2nd quarter of 2021.

All 3 major commercial property markets are perceived to be significantly oversupplied still, even Industrial Property despite its stronger demand fundamentals than the other 2 markets.

In the question regarding perceptions of demand relative to supply, the broker group is tilted strongly towards oversupply. This is most severely the case in the Office Property Market.

Some recent surveys have shown a diminished bias by brokers towards “oversupply” in the Industrial Property Market. However, this is not the case in the Retail and Office Property Markets, with both of their

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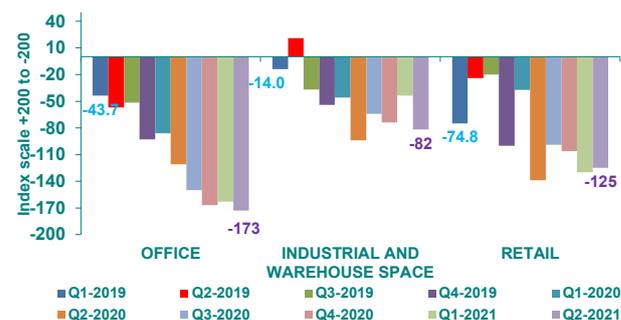
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oversupplied biases remaining very strong. At least, though, recent quarterly surveys in Retail and Office Property show oversupply perceptions indices starting to move more sideways rather than weaker, suggesting some possible early signs of future moves towards “stabilization” in these markets approaching.

But at this stage, the perceptions of significant oversupplies in all 3 markets leads us to the belief that our projections of further average value declines in 2021 remain justified by weak fundamentals.

Supply vs Demand Perception Index - By Segment



The fact that the survey still shows an oversupplied bias in all 3 major commercial property markets, with very significant ones in Retail and Office, appears largely reflective of the recent deep recessionary conditions that South Africa’s economy has still not fully recovered from.

The oversupply comes as little surprise, given that the economy had been stagnating over some years prior to COVID-19, and then saw a massive -17.78% year-on-year contraction in Real GDP (Gross Domestic Product) in the 2nd quarter of 2020. Despite some rebound thereafter, it was still recording negative year-on-year growth of -3.2% as at the 1st quarter of 2021.

That is almost undoubtedly an economic environment driving weak demand and strong supply in property on the market, and the broker survey continues to reflect this, albeit noticeably less so in Industrial Property.

Finally, it appears increasingly likely that Office Property will be the weakest of the 3 major property classes in 2021, challenged by both major services sector job losses along with escalated work from home employees, dampening demand for this property class.

