

How the repo rate hike will benefit Cape Town's commercial property sector

The recent repo rate increase is likely to drive investor movement towards Cape Town, which is currently seeing the strongest rental growth of the major industrial conurbations and is widely regarded as a well-run city and largely free of national tenders.



Image: Supplied

This is according to Brent Townes, commercial property chief operating officer for Lew Geffen Sotheby's International Realty in Cape Town, who says: "Nominal rentals for prime industrial space of 500m² grew by 7.2% year-on-year in Cape Town during the second quarter of 2022, remaining above pre-Covid levels, as the demand for space exceeds supply.

"This was the strongest rental growth seen in the country with the Mother City's vacancy factor continuing to decline, reaching 2.8 on Rode's vacancy scale, which implies a vacancy percentage of below 5% compared with areas like Wits which saw a 5.8% increase.

"A-grade offices in Cape Town also increased in nominal terms during same period, with Tygervalley and Century City increasing by 2% and 3.2% respectively whilst Gauteng counterpart Sandton declined by 1%."

Townes says that capitalisation rates are declining in Cape Town due to the growing demand which is driving up prices.

“The city traditionally trades from 0.75% to 1% below the national cap rates but in Cape Town we currently have specific dynamics at play.

“Firstly, there is a shortage of specific types of property for sale, most notably retail malls and large distribution centres, thus holding prices higher than Gauteng.

“And because of the scarcity of land, investors are therefore not keen to offload because they face the issue of how to replace the asset that they are selling, when they have, to a large extent, de-risked their investment.”



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Challenges

Townes adds that there are also a number of challenges that the city needs to tackle, including policing to tackle social unrest and contact crimes and improved rail commuting for better worker movement.

“Exporters are also being impacted by port container congestion and cold room access and securing a DC/logistics chain is problematic as zoned vacant land parcels of sufficient size are simply not available, which will drive radial expansion along the N7.

“Energy supply remains an issue especially for process-driven manufacturing tenants, but that is a national rather than regional problem, and the city has been faring better with fewer outages and is already working on future alternatives.”

Sales comparison

When comparing sales Q1 and Q2 in Cape Town, the number of freehold and sectional title registrations declined in the second quarter, however there were a number of significant increases.

The total value of freehold property sold increased by 5% and the average selling price by 66%. With sectional title units, the average selling price increased by a nominal 4.02%.



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“Also of interest is that eight out of 61 areas account for 75% of the value of these transactions, namely Airport Industria, Brackenfell, the CBD, Milnerton, Montague Gardens, Ottery East, Parow and Salt River. They also account for 80% of all sectional title registrations.”

Impact on landlords

Regarding the impact of the rising rates on landlords, Townes says this argument only holds water when the property is geared by the owner – and then usually at a maximum of 70% Loan to Value Ratio (LTV), which this softens the blow to the owners.

“Many owners have held their properties for long periods of time and also learnt not to over-gear (lessons learnt from the crash). Tenants are then not duly affected as they are not accountable for any additional payments over and above their lease covenants.

“However, it must be remembered that a property investment is only secured via good tenants who pay regularly and on time and who conduct business in an ethical and honest manner.

“Landlords should look beyond the lease covenants to their business growth potential and whether the space they provide can include their growth projections – in other words, growth alongside tenant.”

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