PROPERTY OVERVIEW

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Industrial
The industrial sector, a perennial outperformer, is still predicted to do well. It is mainly warehousing and logistics/distribution (not manufacturing nowadays) and linked to the retail sector.

Retail
Lower interest rates will help boost consumer spending and the retail sector in general. Township and rural retail are likely to continue trading better. This market segment has a big informal economy and benefits from government aid, such as social grants.

Office
The office market is likely to see vacancies stabilise and improve. However, rental growth will only happen after a meaningful decline in vacancies. This will depend on the grade of properties as well as the location.

Type of office properties
P-grade and A-grade properties are doing better than B- and C-grade properties.

Location of office properties
The Cape Town office market has been strong. Since the pandemic, Cape Town offices have benefitted from strong growth in the Western Cape region, driven by semigration, tourism, and strong demand for space to set up call centres/BPOs (Business Process Outsourcing operations) from global companies. This has led to vacancies falling from a peak of just under 14% in 2022 to 6.5% at the end of 2024, according to the South African Property Owners Association (SAPOA) Q4 2024 Office Vacancy Survey. In comparison, Johannesburg office vacancies peaked at 19.5% in 2022 and stood at 16.7% at the end of last year.

Residential
Though very small in the listed property sector (with most rental assets largely unlisted), the residential sector will likely remain resilient, with very low vacancies and arrears as demand exceeds supply. The ability to absorb rent and utility increases remains an issue, but this could improve if the economy picks up.

Upside risks for the listed property sector

- Positive sentiment around the government of national unity continues and improved economic growth prospects.
- Further interest rate cuts resulting in lower cost of funding and extra disposable income.
- Withdrawals from the two-pot retirement system filtering into the economy.
- Fundamentals continue to improve across all sectors.
- Positive dividend growth attracting income-seeking investors; and
- Property weighting in indices increasing, resulting in balanced fund managers/generalists deciding to own some property stocks

Downside risk for the listed property sector:

- GNU does not work out as expected, economic growth stalls and investor sentiment shifts back to offshore investments.
- Profit-taking and short-term volatility and uncertainty around the policies of US President Donald Trump.
- Fewer than expected interest rate cuts.
- Municipal charges continue to increase at above-inflation levels.
- Water outages worsen, and load shedding resumes.
- Poor service delivery, decaying infrastructure, and crime, with landlords compelled to assist where possible, but at their own cost in most instances; and
- Countermeasures to some of the risks by property owners:
    - Lack of service delivery – most landlords continue to invest in backup water facilities, less water usage, solar power, and greener buildings and help to invest in infrastructure around their properties (such as some taking over the running of traffic lights and fixing potholes).
    - Power – most landlords have invested in backup power.
    - Water – most landlords are investing more in backup water facilities from two to three days' supply to five days and are finding innovative ways to use less water; and
    - Security – most landlords are improving security systems and presence in and around their buildings/neighbourhoods.