FNB Commercial Property Finance – Property Insights

18 September 2024

John Loos:
Property Strategist

FNB Commercial Property Finance

Email: john.loos@fnb.co.za

FNB Commercial Property Broker Survey

3rd Quarter 2024 Property Sales Activity Survey –Brokers point to higher business confidence, possibly in anticipation of better things to come on the back of a seemingly business-friendly election outcome, along with expected interest rate cuts. But they don't perceive a meaningful rise in sales activity just yet.

The Methodology

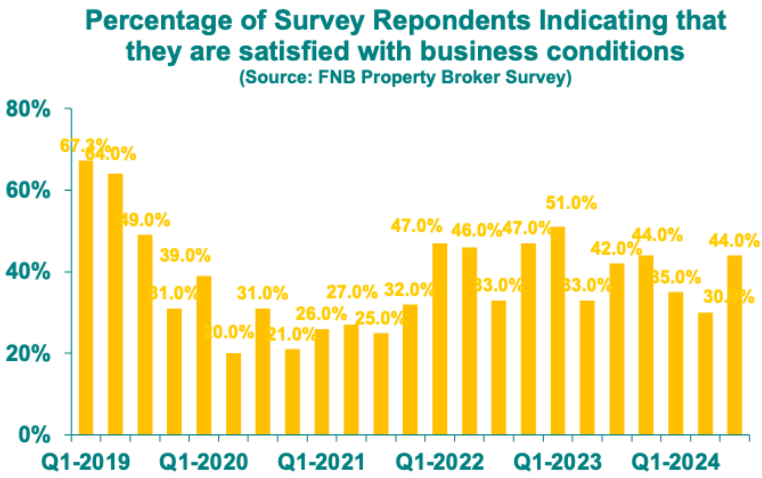
The FNB Commercial Property Broker Survey assesses a sample of commercial property brokers in and around the 6 major metros of South Africa, namely, City of Joburg and Ekurhuleni (Greater Johannesburg), Tshwane, eThekwini, City of Cape Town and Nelson Mandela Bay.

Given FNB Commercial Property Finance's strong focus on the "Owner-Serviced" market, a pre-requisite in selecting broker respondents is that they at least 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 focus on the part of the survey where we ask respondents to rate their perception of the buying/selling market's (i.e., not rental market) activity levels on a scale of 1 to 10, 10 being the strongest activity level rating.

Broker Business Confidence increases in 3rd quarter of 2024.

Before we survey activity level perceptions, we ask all respondents to tell us whether they find business conditions "satisfactory" or not in the form of a simple "yes or no" answer. In the 3rd quarter of 2024, the percentage of respondents experiencing conditions as satisfactory was significantly higher than the previous quarter, rising from the prior quarter's 30% to 44%.

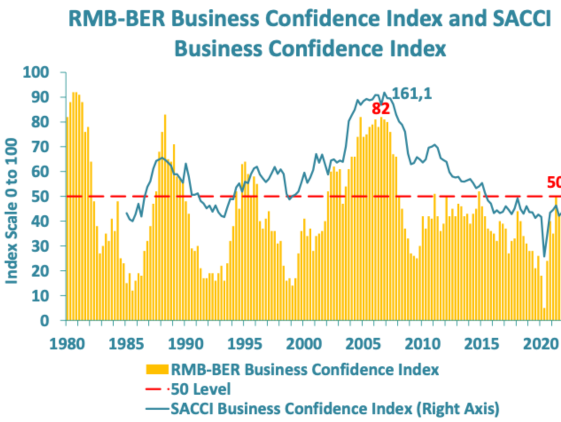

Percentage of Survey Repondents Indicating that they are satisfied with business conditions
(Source: FNB Property Broker Survey)
80%
60%
40%
20%
0%
67.2%
64.0%
49.0%
31.0%
39.0%
20.0%
31.0%
21.0%
26.0%
27.0%
25.0%
32.0%
47.0%
46.0%
33.0%
47.0%
51.0%
33.0%
42.0%
44.0%
35.0%
30.0%
44.0%
Q1-2019
Q1-2020
Q1-2021
Q1-2022
Q1-2023
Q1-2024

This noticeable increase comes in a survey that was undertaken in August, the 1st survey to be undertaken after the May national election and the establishment of what was widely seen as perhaps the most "business and investor-friendly" Government of National Unity (GNU) combination.

However, while noticeably stronger, this most recent level of broker business confidence remains very weak, still implying that a majority of 54% of respondents still perceives business conditions as unsatisfactory.

In addition to a seemingly favorable electoral outcome for markets, there is a widespread expectation of the commencement of interest rate cutting by the SARB (South African Reserve Bank) at its upcoming September Monetary Policy Committee (MPC) meeting.

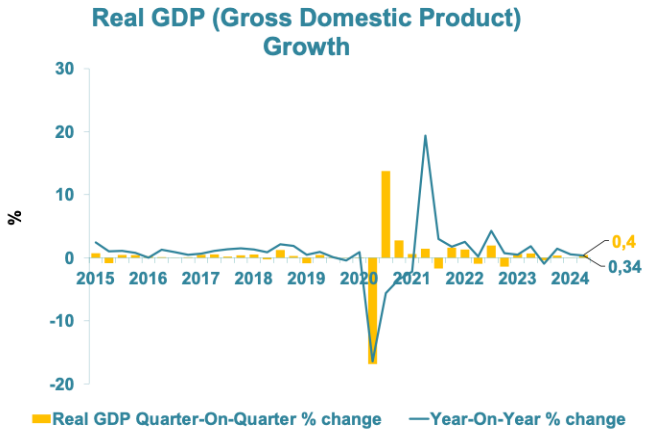
The property broker business confidence rebound appears not too dissimilar to business confidence in the broader economy as per the RMB-BER Business Confidence Index. The latter index came in at 38 (scale of 0 to 100) in the 3rd quarter of 2024, up from 33 in the prior quarter.



But while confidence is improved, the still-weak level suggests that the broker and business community is not getting "too far ahead of itself".

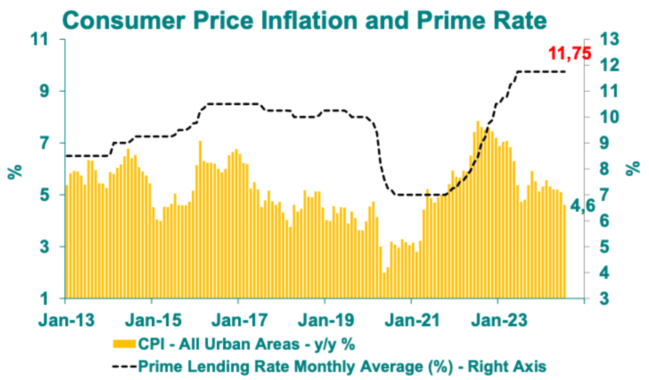
The economy remains stagnant, with quarterly GDP having moved in and out of contraction (Gross Domestic Product) in recent quarters. GDP has not only been affected by still-elevated interest rates, but also until recently by electricity supply constraints (although these have seemingly been alleviated this year to date), and reportedly major transport and logistics challenges in the area of rail and harbours, to name but 2. At local government level, service-delivery shortcomings are often also a major constraint, while economy-wide infrastructure investment, upgrades and maintenance are insufficient.

Real GDP growth was a positive 0.4% quarter-on-quarter (seasonally-adjusted) in the 3rd quarter of 2024, only mildly improved on the slower 0% of the prior quarter. This weak 1st half of 2024 came after a very low growth rate of only 0.7% being registered for 2023 as a whole.



And while the economy remains stagnant, the SARB has still not yet provided any stimulus in the form of interest rate cuts by time of writing. However, the inflation outlook has improved significantly, and headline CPI (Consumer Price Index) inflation has slowed to 4.6% year-on-year in July, now near the midpoint of the SARB's 3-6% target range. In addition, the US Federal Reserve is expected to commence rate cutting this week, which assists the SARB in being able to do so with less risk of causing imported inflation through any interest rate differential-driven Rand weakening.

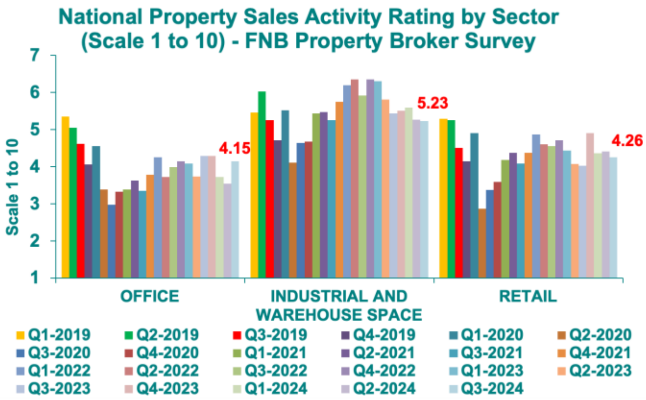
At this month's MPC meeting we pencil in the 1st 25 basis point interest rate cut by the SARB.



Therefore, the property market may soon receive some mild stimulus in the form of local interest rate reduction, along with some economic growth stimulus from foreign sources as key global interest rates decline too.

Sales Activity Ratings by Major Property Class – 2 out of 3 markets showed quarterly weakening.

When asking brokers for their ratings of market activity levels on a scale of 1 to 10, the group of respondents' average rating was lower in 2 of the 3 property classes compared with those of the previous quarter's survey.



The brokers remain most optimistic about the Industrial and Warehouse Property Market, despite that market's rating having declined slightly further in the 3rd quarter to 5.23, from 5.27 in the prior quarter. This rating is now significantly lower than the 6.35 multi-year high reached in the final quarter of 2022.

The Retail Property Activity Rating declined mildly from 4.41 in the 2nd quarter of 2024 to 4.26 in the 3rd quarter. This, too, is still noticeably down on its multi-year high of 4.9 reached at the end of 2023.

The Office Property Market Activity Rating remained perceived as the weakest of the 3 markets. However, this rating rose to 4.15 in the 3rd quarter, up from, 3.54 in the 2nd quarter of 2024. But this rating too remains below its multi-year high of 4.29 recorded in the 3rd and 4th quarter of 2023.

Broadly-speaking, sales activity ratings are stronger in major metros along the coast compared to a weaker Gauteng.

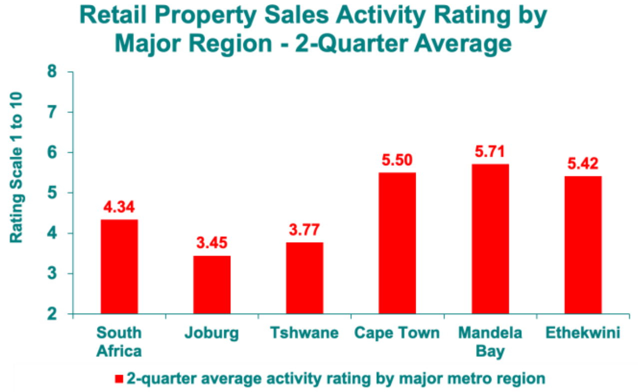
When viewing the sales activity ratings on a major metro regional basis, we are mindful of the fact that survey sample size is smaller, and results are more volatile. We therefore use a 2-quarter average to evaluate the sales activity ratings by region.

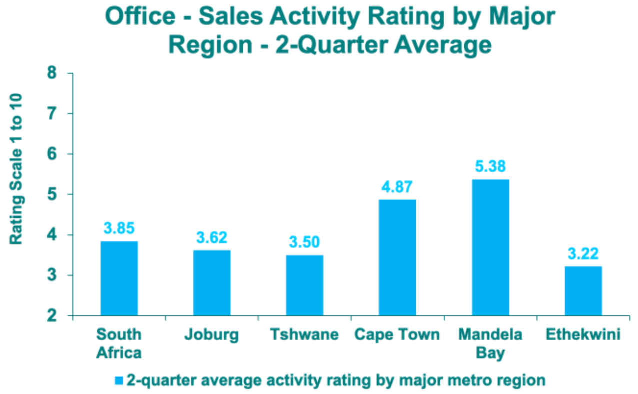
Interestingly, Nelson Mandela Bay sales activity ratings come out relatively strong. We must caution, however, that this smaller metro's survey sample is smaller than the other metros surveyed, so can be less reliable. Nevertheless, its readings add to the relatively strong coastal metro picture, compared with a weaker Gauteng.

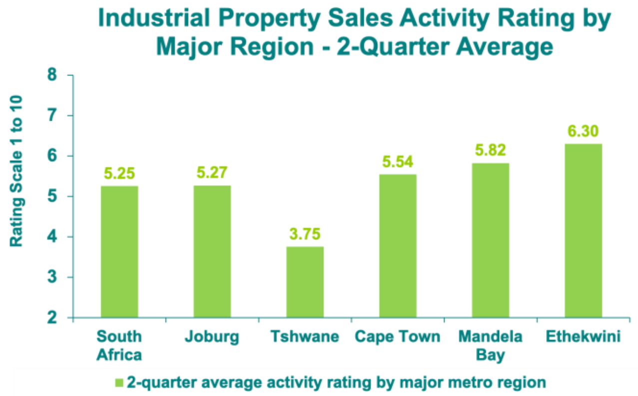
In the area of retail property, Nelson Mandela Bay's average sales activity rating for the 1st half of 2024 was 5.71, followed by Cape Town's 5.5 and eThekwini's 5.42. Noticeably weaker are the 2 Gauteng Metro regions, Tshwane recording 3.77 and Greater Johannesburg 3.45.

In the office market, Mandela Bay once again recorded the strongest sales activity rating of 5.38 for the 1st half of 2024, with Cape Town 2nd on 4.87. eThekwini, however, recorded a weak 3.22, which didn't stick to the relatively strong coastal markets theme. In Gauteng, Greater Joburg recorded an average sales rating of 3.62 and Tshwane 3.5.

In industrial property, it was eThekwini that recorded the strongest sales activity rating average for the 1st half of 2024, to the tune of 6.3. This was followed by Mandela Bay's 5.82 and Cape Town's 5.54. In Gauteng, Greater Joburg was not far behind the coast metros, recording 5.27, but Tshwane recorded a considerably weaker 3.75.







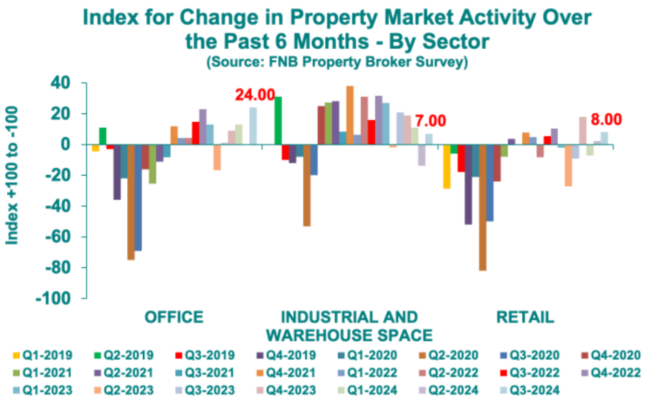
Broker perceptions of sales activity compared with 6 months earlier.

Each quarterly survey selects a different sample of brokers from the Property Industry. Therefore, although we ask for quarterly activity ratings, we ask a follow up question as to whether the current quarter's respondents perceive a changed activity level over the 6 months leading up to the survey date.

The follow up question asks whether the respondents have perceived a decline, increase or no change in activity levels compared with 6 months prior. From these results we compile an index, allocating a score of +1 to each percentage points' worth of "increased" responses, zero to that of "unchanged" responses and -1 for that of "decreased" responses. The index is thus on a scale of +100 to -100.

By this measure, the broker aggregated perceptions demonstrate a perception of mild strengthening from 6 months prior to the survey in all 3 markets. The Office Index reading was +24, the Retail Index a slightly positive +8, and the Industrial Index a small positive of +7.

These readings are seemingly at odds with the direction of recent sales activity ratings, but that is not uncommon. Getting sales activity ratings exactly consistent with each other from quarter to quarter, with changing samples of brokers, is not possible. But the picture provided in terms of the indices of the direction of sales activity over the past 6 months is not way out of kilter with the movement in sales activity ratings. The reality is that the increases in the industrial and retail sales activity direction indices are so small that they are not meaningful indicators of a direction change, while the stronger office market increase does tie in with the fact that the sales activity rating for the office market is indeed higher than 6 months ago.



Conclusion – A market showing no clear direction yet in terms of sales activity, but perhaps a slightly more confident broker population.

In the 3rd quarter 2024 broker survey, the combined results regarding broker business confidence as well as broker sales activity perceptions show on balance a market perhaps expectant of better times to come, but no actual clear direction in sales activity, and perhaps a market "treading water" awaiting interest rate cuts or meaningful improvement in economic performance.

2 of the 3 major commercial property markets, i.e. Industrial and Retail, saw a mild weakening in their sales activity ratings compared to the previous quarter (the Office Market being the exception). And all 3 remain down on multi-year highs.

When it came to 3rd quarter broker perceptions of the trend over the past 6 months, however, on average the brokers perceived all 3 markets to be slightly stronger than 6 months prior. The retail and industrial perception of a stronger market since 6 months prior is insignificantly small, so this is not a significant contradiction from the sales activity ratings of 6 months prior (with a different broker sample) that were actually slightly higher than the most recent surveys. Such small divergences between surveys can occur as the survey questioning is not an "exact science".

But with regard to the office market, a more noticeable portion of brokers perceiving an increase in sales activity, compared with 6 months prior, appears to fit with a 3rd quarter sales activity rating that is higher than 6 months earlier.

Satisfaction with business conditions strengthened quarter-on-quarter, albeit remaining at a weak level not far out of kilter with weak broader economy-wide business confidence. This improvement may be based more on expectations of a better near-term future, with interest rates widely expected to fall, and a GNU formation that has sparked some cautious optimism around positive Government policy change.

Sales activity weakness, with a lack of clear direction, appears to reflect the broader economy in many ways. Interest rates have been relatively high and unchanged since May 2023, after a prior 475 basis points worth of hiking, while GDP growth has been stagnant.

The market thus awaits some stimulus. The Government of National Unity's work will take time to bear fruit on the economy, but its mere establishment may have already led to some business and investor confidence improvement. But we anticipate some mild economic and property sales strengthening in the near term as global and local interest rate cuts get under way, and the economy starts to pick up mildly as a result.

Disclaimer

responsibility for any error, omission or loss sustained by any person acting or refraining from acting as a result of this publication is accepted by FirstRand Group Limited and / or the authors of the material.