

Divergent trends in property values across Africa

By [Roger Long](#)

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The onset of the Covid-19 pandemic not only affected people and communities, but also impacted commercial property values across the world. This report looks at the effect of the pandemic on property values in Africa, with a special focus on select countries. The outlook for each country's market is largely tied to the expectations on the performance of the wider economy in that country. It is expected that these trends will persist in the short to medium term.



Source: Supplied

Which sector has been the hardest hit?

It was initially anticipated that the retail sector would be the most affected due to the lockdowns and the subsequent inability to trade. There were casualties, but many malls and most of the smaller centres have, in fact, fared relatively well during the last 14 months or so. This may be attributed to landlords acting swiftly with rent reductions, deferments, etc., and, as a result, many retailers have managed to stay afloat, thereby preserving the rental income of the asset.

It is instead the office sector that has been the hardest-hit asset class in South Africa, and the pressures are not expected to ease in the coming months. The fallout in the office market has seen property and rental values recede sharply. In the early stages of the pandemic, a number of occupiers held firm and retained space during the lockdowns. Landlords were therefore still receiving the majority of their income even from empty buildings, but vacancies are now rising as occupiers decide they no longer need as much space.

SAPOA reported that third-quarter vacancies reached an all-time high of 15.4%, while the pre Covid-19 level was 11.6%. Additional supply is also coming to market as a result of projects that were planned and started well before the pandemic. At the start of 2020, around 263,000m² was in the pipeline, which slowed to around 47,000m² by Q3 2021. We note that offices in smaller outlying towns are not as badly affected due to a more limited offering.

Prime logistics facilities are doing well, not only in South Africa, but across the continent. Furthermore, the growth in online retail has seen a corresponding rise in interest in data centres as companies move to exploit opportunities in the online sector. A number of data centre companies are expanding in strategic locations across West, East and South Africa.

Current and emerging needs of occupiers and landlords

In general, occupiers are seeking maximum flexibility, considering that their demand for space in the short- and medium-term is still relatively unknown or unconfirmed. Occupants want the flexibility to either work from home or to do so on a rotational basis. This would most likely be a long-term trend post the vaccination rollout.



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Occupiers are increasingly focused on understanding what the future workplace will look like and how that affects their existing real-estate structure. More and more corporates in this market are looking to not only optimise operational functions in terms of cost, but also in terms of the size of their requirements.

Landlords, on the other hand, are seeking strategies to drive occupancy of their buildings. These range from more flexible lease terms and notable rental discounts (on a case-by-case basis) to looking at less traditional uses for their buildings. For example, the co-working model is a conversation that is making the rounds in some buildings in the market. Furthermore, landlords are looking at repurposing surplus space and or vacant space.

Are multinationals still driving the sector across the continent?

A number of local players and parastatals are shifting towards better-quality spaces, therefore competing head-on with multinationals. This trend that will continue as the benefits of modern space are being discovered by tenants who have not traditionally occupied such space.

In the A-grade market segment and, to a certain degree, B-grade, it is predominantly the multinational corporates driving market activity. The fundamentals of this market, dollar rentals to be exact, tend to be financially unfeasible for local and some international corporates that earn revenues in local currency.

It is a situation of “Who bears the brunt of the currency risk?” due to the consistent decline in the exchange rate. So far, there have been notable increases in requests by existing tenants to hand back some or all of their space for cheaper options. There has also been some discounting on rent or escalation freezes for lease renewals (again on a case-by-case basis). Landlords are actively seeking ways to encourage tenants in a manner that does not completely erode their existing cash flows.



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Kenya

In Kenya, the office sector recorded a year-on-year (YoY) marginal improvement of 0.7% in occupancy levels and corresponding 1.6% YoY decline in rental rates as landlords offer increasing incentives and discounts to fill space. The retail sector achieved an improvement in occupancy levels of 2.7% YoY, while rental rates declined by 3.1% YoY as landlords continue to also offer concessions in this sector.

The logistics sector has been the least affected, with marginal changes and an expected positive outlook. Most properties are now being leased and/or sold at rates lower than what such assets were achieving before the pandemic.

The hospitality sector is heavily dependent on tourism, both for leisure and business purposes. International tourism has

declined significantly since March 2020 due to travel restrictions. Local tourism activity, on the other hand, has been subdued as it is affected by the decline in disposable income for most households due to the depressed economy.

The asset class that has remained somewhat buoyant is the logistics sector. There has been increased interest for short-term storage, especially for medical facilities and goods. Manufacturers of medical and PPE related items have been thriving. However, with the closure of international trade, cargo movement slowed down. The sector still receives enquiries from various users who are planning to take up occupancy in the near future.



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Nigeria

The impact of Covid-19 on the office market has manifested in a number of space and cost consolidation strategies as a result of the health, economic and business impact on company revenues and general operations. Transactions are at a record low, with the lowest take-up in five years recorded in the first half of 2021 at under 200m². Vacancy levels remain high, with an average of 46% as opposed to the pre-pandemic level of 39%.

Asking rents in the office market have remained largely unchanged. However, achievable rates are much lower due to lease regears and concessions for existing tenants, as well as financial incentives granted to prospective tenants by landlords to maintain or drive occupancy at their building, especially with the existing and rising supply glut – the stock pipeline is currently over 90,000m² in the A-grade market. Rents are currently as low as \$600/m²/annum for newer A-grade commercial office developments, as opposed to achievable rents of \$1,000/m²/annum in 2014/2015.

The residential sector, on the other hand, has witnessed some noteworthy transactional activity in the last six to 18 months. Driven by the necessity to store and create value in a challenging business environment, especially with less than desirable yields in safe haven assets in the country, a number of investors have flocked to the residential market. There has been a great degree of investment in the luxury and middle-income segments, while affordable housing, which has the highest supply gaps, is yet to see this quantum of investment.

Ghana

In Ghana, although the evidence is not yet fully reflected in the market, there are sentiments that a number of commercial property tenants could downsize their space requirements due to new remote working practices.

Leases coming up for renewal and rent reviews are likely to be agreed to the advantage of tenants. This is due to the increasing vacancy rates resulting from the banking sector reform of 2018 and large corporates opting for owner-occupied developments. In 2018, the vacancy rate of office developments in the country was 21%. This increased to 28% in 2019 and 33% in 2020. There is also likely to be a reduction in the rates of passing rents for prime office space from \$27 to \$30m²/month in 2020 to \$25 to \$28m²/month by end 2021.

Mauritius

At the beginning of 2020, valuers in Mauritius had a cautionary outlook for the property market, predicting that the industry would see similar trends to that which were witnessed in 2019. Rising average vacancy rates and downward pressure on rental growth, affected by the already-low consumer confidence level and major disruptions to the economy, impacted property values further. However, no one could have foreseen the impact that the pandemic would have on this already strained market, with international border closures in particular stifling the key tourism sector for many months.

Buildings with a public use component, such as high-rise offices, shopping centres and hotels, have been identified as potential Covid-19 spreading locations, and have at times either closed or have had use restrictions imposed.

Static to declining rentals, increasing expenses and rising capitalisation rates have resulted in downward pressure on the market values of investment-grade property. Modern grade industrial properties have been the least affected during the pandemic.



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Conclusion

In conclusion, it appears that property and rental values in the rest of Africa have not been as badly affected by the pandemic as in the case of South Africa, especially the office sector. It is expected that a rebound to pre-Covid-19 levels could take until 2022 or beyond. One exception to the trend is industrial real estate, most specifically warehouses and logistics centres, which have gained value as investors snapped up buildings essential to the delivery economy.

Covid-19 has upset real-estate fundamentals by changing how we lead our lives. Companies are already deciding they will need less office space than before, either because of staff cutbacks or because more of their employees will permanently or partially work from home. And the rise of e-commerce — along with small business closures — will create a glut of retail space in a country that already had too much of it.

As countries go through waves of infections, and people come to terms with the fact that the pandemic is here to stay for the foreseeable future, some solutions are starting to emerge. These allow us a glimpse into the future, in terms of what could become the 'new normal' trend globally and in Africa.

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