

# Cash retail is king in commercial property

 By [John Jack](#)

10 Jan 2024

2023 saw the commercial-property sector continue its road to recovery. The industry fought against uncontrollable odds such as elevated interest rates, high inflation, ongoing load shedding and economic uncertainty.



Source: Supplied. John Jack, chief executive officer of Galetti Corporate Real Estate.

People generally associate commercial property with office space, however, the clear industry frontrunners for 2023 would have to be retail and industrial property. Adding to this is heightened demand for auction properties and commercial space in the Western Cape.

While industrial properties continue to be the preferred choice in commercial real estate, driven by heightened e-commerce demand during the Covid-19 pandemic, the Q3 Rode Report indicates a slowdown in rental growth within this asset class.

The effects of load shedding cannot be overlooked.

All asset classes have been heavily impacted by load shedding and its subsequent knock-on effect on productivity. “2023 was a defining year for the country’s energy crisis and landlords have had to fork out a lot of money to ensure that their tenants can continue normal operations.”

Local reports by the Association of Communications and Technology suggest that telecommunications companies like MTN and Vodacom will have spent R1.1bn on diesel in 2023 alone.

Another prime example of the cost implications of load shedding would have to be South Africa’s retail sector. The country’s largest retailer, Shoprite is said to be spending R95m on diesel per month. In fact, the company spent the same amount in one quarter of 2023 as it did for the whole of 2022.

## **2024 trends unpacked:**

Looking ahead, The five rising trends for 2024 are as follows:

- **Western Cape: demand for easy port access continues...**

2023 saw heightened demand for coastal commercial real estate. Demand outweighs supply in Cape Town, largely driven by its strategic location, increased investment by the City of Cape Town and good governance. The logistics sector is a key driver for this demand because of Cape Town’s prominent road network and easy access to nearby ports.

- **Lowered interest rates as a lifeline for landlords:**

Predicted rate cuts from mid-2024 onwards will be welcomed by all landlords.

As rate cuts come to the fore, so does a landlord’s ability to start to recoup cash flow and benefit from higher yields. While interest-rate cuts are not the solution to the problem, they will ignite investor confidence and kickstart further activity among asset classes – particularly the office sector which has been in a lull since 2020.

- **Auction and sealed bids as a preferred method of sale:**

The idea of auction being used as a preferred method to sell off dilapidated and distressed properties is a thing of the past. Today, many sellers are opting for an auction as a quick and easy way to sell off prime assets in a competitive environment where bidders try to outbid each other.

We continue to see heightened demand for auction as a preferred method of sale for some. Recently, we brought a billion-rand portfolio of properties to the market, achieving excellent results on the auction floor.

For large-scale assets, sealed bids have proved to be popular, and this trend is set to soar. We continue to see more sellers opting for sealed bids on properties valued at over R50m. It is an efficient method of sale that ensures transparency and generates some healthy competition.

- **REITs fight back:**

Despite dismal returns and a total of R100bn lost among the ‘big five REITs’ (Real Estate Investment Trusts), we are seeing some bold investment moves being made, some of which should start to pay off from 2024 onwards.

Fortress aims to double its solar capacity by 2025, recognising this as a key pillar for growth in its portfolio, while

Attacq announced growth at Mall of Africa thanks to new retail brands and upgraded stores. Growthpoint is investing R63bn into student accommodation as a stable asset class and has announced improved earnings at flagship property, the V&A Waterfront.



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### • **Cash retail:**

The cash economy in South Africa cannot be underestimated. Township- and rural malls continue their upward trajectory and keen investors are taking note.

Galetti, as an example, consistently experiences strong demand during auctions for cash retail properties. These prime locations draw significant foot traffic, and data indicates substantial cash circulation despite current conditions.

Moreover, JSE-listed REIT, Vukile Property Fund has taken a bullish stance on expansion in the rural- and township retail market. The company recently announced the acquisition of a 60 000m<sup>2</sup> mall in Mthatha.

### • **Proptech:**

There is one more key trend that will continue to gain momentum and empower all parties and that's proptech. The use of technology in our industry has accelerated, and now with the advent of easy-to-use AI tools, we can improve efficiencies, reduce costs, and make better-informed decisions.

This doesn't mean that AI is better than a human workforce, and business leaders should keep in mind that these tools are most effective when utilised by a skilled professional.

They shouldn't view AI as a threat to job security, but rather as a way to 'work smarter' and provide tenants, landlords and property managers with a better experience.

## ABOUT JOHN JACK

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