

Property sector bracing for an eighth interest rate hike

With the South African Reserve Bank (Sarb) set to make another interest rate announcement on Wednesday, 24 May, experts are anticipating an eighth consecutive interest rate hike that will take the interest and repo rates up to 8% and 11.5% respectively.



John Jack, CEO of Galetti Corporate Real Estate

According to John Jack, CEO of Galetti Corporate Real Estate, this is bound to have a significant impact on the commercial real estate sector, which is already facing the effects of load shedding, increasing upkeep costs and high vacancy rates.

"Landlords are going to be caught between a rock and a hard place: they'll be dealing with rising interest rates and levies on one side and the need to keep their tenants happy with affordable rental escalations on the other."

But that's not all - with load shedding looking like it might hit Stages 7 and 8 soon, landlords are under increasing pressure to find alternative energy solutions. "At Stage 8 load shedding, electricity may be off for up to 13 hours each day. Landlords place their tenants at significant risk if they cannot provide them with power," explains Jack.

Alternative solutions

However, installing alternative power solutions, like solar panels or generators with backup batteries, is going to be costly. "Landlords are paying millions to install generators that can power high-rise office buildings during load

shedding. Generally, the tenants will share the operating costs, including the R22 per litre cost of diesel," he elaborates.

So, what's the solution? Jack suggests that landlords work closely with their tenants to find a compromise that works for everyone. "There's a trend towards lease agreements in retail and manufacturing environments where the landlord covers the capital cost for solar panels and the inverter to power the building during the day, but the tenant pays for the batteries," he says. "And in cases where the tenant is a heavy user of electricity or operates around the clock, they'll be responsible for all costs associated with the installation."



JRA, Sandton Central collaborate to keep traffic lights on during load shedding

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Public, private sectors working together

The good news is that both the public and private sectors are working together to find solutions to these challenges. Companies like Investec are partnering with local agencies to address traffic congestion during load shedding, while the solar panel tax incentive announced in February's National Budget is making sustainable energy solutions more feasible for homeowners and companies.

Looking ahead, Jack urges landlords to make the most of available tax rebates which make the installation of sustainable alternative power sources feasible. "We also advise negotiating with banks and loan providers to secure more favourable

property interest rates, as this also enables you to pass savings on to your tenants. For best results, work with an advisor who has experience managing these negotiations.”

“All in all, it's tough out there in the South African commercial property sector, but, with a bit of creativity and collaboration, we can overcome these challenges together,” he concludes.

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