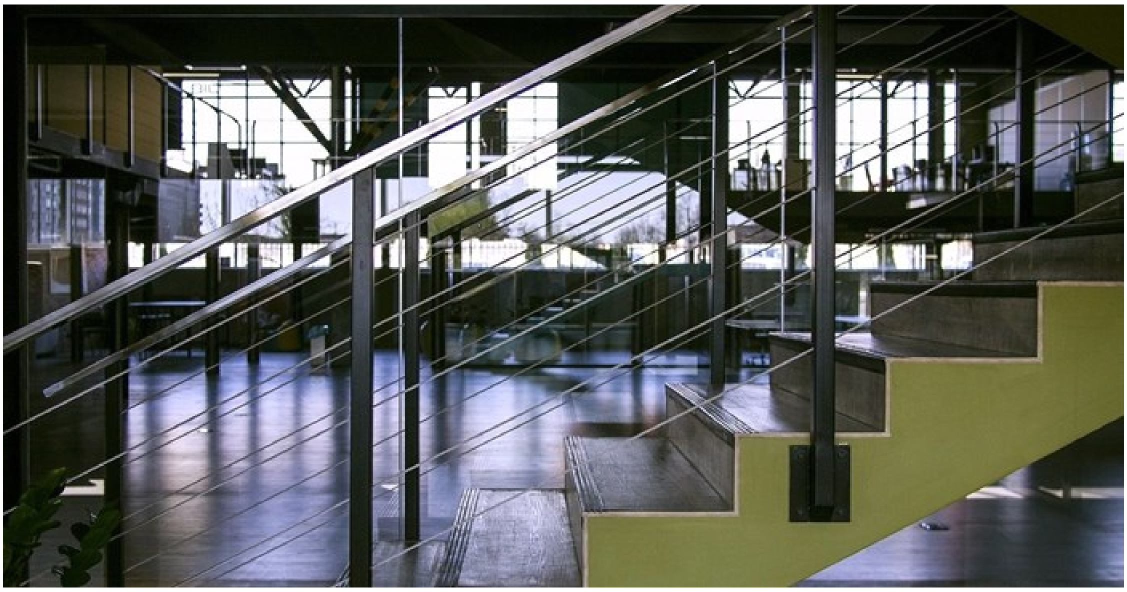
JLL releases Q1 2018 market reports for key SA markets

JLL SA has released its South African Q1 2018 market reports for key markets across the country, including the office markets in Johannesburg, Durban and Cape Town; the industrial markets in Johannesburg and Durban; and an outline of the South African retail market.



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The analysis sheds light on several factors impacting development, vacancies and rental growth in the current commercial property landscape.

It is interesting to note that the buoyancy resulting from the appointment of a new president seems to be fading, with the rand seeing new weakening at the end of the quarter. However, developer confidence is strong across the main centres with pockets of optimism and opportunities for solid investment.

Joburg office market under pressure

The Johannesburg office market is under pressure as the vacancy rate nears 13%, the highest vacancy rate recorded since 2010. Grade P office accommodation may have the lowest rate at 5.4%, yet quality stock has witnessed a significant increase of 2.7% compared to the same period in 2017. The inner city and surrounding areas continue to exert the most pressure on the overall vacancy rate.

Despite higher vacancies, Johannesburg remains the first-choice location for many corporates, with robust developer interest in the city. Activity continues be saturated in the Sandon, Rosebank and Waterfall nodes. As more high-quality accommodation becomes available, there will be opportunities for landlords to either refurbish or find alternative uses for older property, such as office to residential conversion.

Joburg industrial market faces economic challenge

Economic fundamentals remain a challenge in the Johannesburg industrial market, with recent ABSA PMI figures outlining a tough market in the manufacturing sector. Producers are likely to maintain low inventories and backlogged stock in line with low demand resulting in a reduced need for storage space. It is anticipated that rental rates will remain largely unchanged for now, but this may change in the future with the growing introduction of new accommodation and recent completions likely to create an occupier market in the Johannesburg industrial real estate sector.

Cape Town office market down to rarely seen levels

Despite the city’s water crisis, vacancies in several nodes across the Cape Town office market are down to levels rarely seen. That said, there is evidence that the five-year upward trend in rental rates is beginning to slow down, with most areas likely to have reached their peak rates. Within this environment, developer confidence is strong. The pipeline in Cape Town has increased to 63,000m² in Q1 2018, almost doubling from 35,000m² in Q4 2017. With projects going ahead, this sends a strong message of confidence in the city.

Durban industrial market sees renewed interest

In the Durban industrial market, low vacancy rates were recorded in the period, with analysis pointing to renewed interest in industrial accommodation in the Umbilo and Mobeni nodes. While the development pipeline is currently thinning out, it will be short-lived as recent data from Statistics South Africa indicates industrial building plans equalling 137,159m^2 have been approved in the first quarter of 2018. There is no concern of oversupply as the high quality of new stock ensures it is taken up quickly.

Spike in vacancies in Durban office market

Then, the Durban office market hit an overall vacancy rate of 14.0% in Q1 2018, the highest vacancy rate that the city has seen in years. However, a closer look reveals that vacancies only increased in Grade C accommodation, reflecting the transition to higher quality stock. While developer confidence is high and rental rates remain largely unchanged, it is difficult to tell the direction that the KwaZulu-Natal market will go. A sizable percentage of new developments are pre-let, pointing to a spike in vacancies when these buildings are ready for occupation. A telling sign will be if new buildings are able to achieve higher asking rentals despite the stagnation in demand. If yes, this points to a quality issue, if not, it will raise concerns of an occupier market developing in the city.

SA retail market experiencing increased pressure

The South African retail market is seeing increased pressure across all types of shopping centres as trading density growth has slowed further. Shopping centre performance varies significantly, depending on their sensitivity to economic growth and consumer spending. Smaller retail centres, for instance, continue to outperform the bigger ones. While the average vacancy rate has edged up marginally to 4.2% from 4.0% in the previous quarter, there is still some positivity in the market. Consumer confidence for Q1 2018 reached a record high of +26 index points, surpassing the 10-year record level of +23 index points (FNB/BER Consumer Confidence Index).