

## Gains in the office sector driven by economy's performance

In light of the low economic growth in South Africa how is the office sector of property performing?



Weak economic growth has seen the office market muddling along, with overall vacancies still high, particularly for older buildings and secondary areas, with rental growth stagnating in large cities.

According to the Jones Lang Lasalle Johannesburg market review, increasing cost pressures in the current stagnant economic environment continue to burden the South African business community and the already over-indebted consumers.

Jones Lang Lasalle head of research Ndibu Motaung says the gap between prime and secondary property is widening.

"Often defined by location, rentals for prime office, industrial and retail property in the country's major metropolitan areas have held firm. This is particularly true of new facilities where tenants are able to benefit from utilisation efficiencies and subsequently able to absorb premium rentals," Motaung says.

Asked if the office sector is likely to see an improvement soon, she says the sector's improvements will be driven by gains in the economy and large take-up of current office space.

### Not all doom and gloom

Despite lack-lustre growth, prime nodes such as Sandton, Illovo and Rosebank in Johannesburg, the V&A Waterfront in Cape Town and Umhlanga near Durban are doing well.

"There is good take-up of newly committed office space. Developers are waiting for economic improvements before committing to more projects. Efficiencies are the key drivers of corporate office markets through office consolidation," Motaung says.

She says while market conditions could generally be described as being at the bottom of the cycle, its resilience is remarkable, given the lack-lustre state of the economy (both local and international) coupled with alarming increases in the actual costs of property occupation, most notably municipal charges and electric

With regard to growth in the office sector, Motaung says improvements in the global economy and SA becoming a production-driven economy could help the market.

"However, the protracted strike season is causing further damage to the country which will result in an uncompetitive market," she says.

## **Gautrain influence**

With new office developments around Gautrain stations most cranes on building sites are concentrated around Sandton and Rosebank.

Motaung says it is evident that the Gautrain is driving office location. She warns that the biggest threat for the commercial property market is the increasing cost of occupancy as tenants are focused on affordability, while investors are focused on yield.

"It is the balance between these two factors that gives rise to achievable market rentals. Impose above-inflationary increases in municipal rates and services tariffs, together with the ever increasing range of 'stealth taxes', and the result has to be strong downward pressure on net rentals," Motaung says.

As tenants grapple with affordability, the margin for net rental increases diminishes. Without net rental growth, development viability is arrested and investment in the sector becomes less appealing.

Increased commitment to development projects is providing occupiers with a wider choice of office buildings at contained rental levels, particularly in the prime areas.

## **Office demand**

According to the Jones Lang Lasalle Johannesburg market review, the demand in the Johannesburg office market continues to be driven by further consolidation of larger companies into new buildings, particularly in prime areas.

The increased commitment to non-speculative development in the past year by blue chip corporate occupiers is further confirmation of demand for high-quality and efficient office facilities in prime nodes.

Prime buildings in prime nodes continue to appeal to a number of tenants as more high-quality buildings are added to the market.

This is further shown by the planned relocation by Webber Wentzel and petrochemical giant, Sasol to new buildings in Sandton due to corporate consolidation.

Source: Business Day via I-Net Bridge