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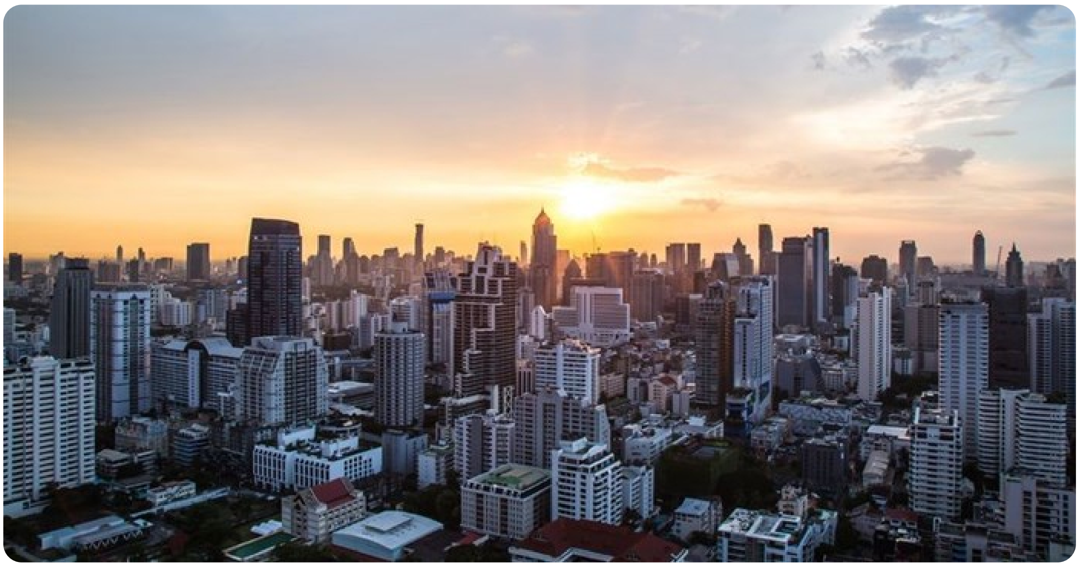
JLL releases Q2 2018 local property market activity overview

JLL has released its South African Q2 2018 reports on activity in the commercial and industrial sectors in Johannesburg and Durban, the office market in Cape Town as well as an outline of th South African retail market.



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The notable decline in GDP during Q2 2018 forewarns of a challenging economic climate in the remainde of the year. However, there are windows of improvements across the sectors, indicating both occupiers ar developers have a positive outlook.

Oversupply in Johannesburg office space

A resilient Johannesburg real estate market reflects a healthy confidence in the city. The office sector has seen a slight improvement in the vacancy rate at 12.4%, revealing a considerable decline over the past fe years; moving down from 19.7% in Q2 2015. However, concerns of an oversupply in the Johannesburg office space are growing. The introduction of new stock in the market will see a downgrading of older stoc which will drive the vacancy rates for older grades higher.

While the economic drivers of the industrial sector remain weak, a significant proportion of the Johannesburg industrial development pipeline is for midi units, indicating that there is a healthy demand fo this type of industrial accommodation.

Demand improving for Durban prime office, industrial space

In Durban, prime office and industrial properties are witnessing improvements in demand. On the commercial side, prime office accommodation is in short supply with vacancies in this segment at 1.3% compared to 13.2% in the overall office market. Office development activity is concentrated in the Umhlan and La Lucia region where rentals have firmed, as can be seen from rentals ranging between R185/m2 ar R250/m2 being asked.

Industrial demand is on the rise in Durban, and occupiers are looking for Grade A or Grade B warehousing the 5,000m^2 to 20,000m^2 size range. Despite improving demand and the addition of high quality industrial stock which tends to push rentals up, rental rates are expected to remain stagnant for some time to come. This is not deterring confidence in the eThekwini industrial market, visible from the blue-chip investors breaking ground in the city.

CT office amrket to remain stable

The Cape Town office market is expected to remain stable, characterised by low, but not declining, rental growth, a deviation from other office markets in South Africa. This is influenced by the growth in the city's financial sector combined with relatively low office vacancies. The stable growth in office supply, with the conversion of older office buildings to residential use is cushioning the impact on vacancies.

The city has a small development pipeline, with speculative developments accounting for 80% of the offic pipeline in Cape Town.

On the retail front, sales came in below expectations while the cost of occupancy has been gradually increasing over the past few years – all indicative of the tough economic conditions. This is evident in the super-regional shopping centre vacancy rate up 1.6%, highlighting the prevailing pressures in this type of retail accommodation. The cost of occupancy in super-regional shopping centres, currently at 11%, has increased significantly since 2016.

Consumer confidence remains high despite the weaker economic conditions; however, expectations are likely to adjust and be in line with the current economic reality.