

# Cape Town Office Market Outlook

In association with Baker Street Properties

Q2 2015

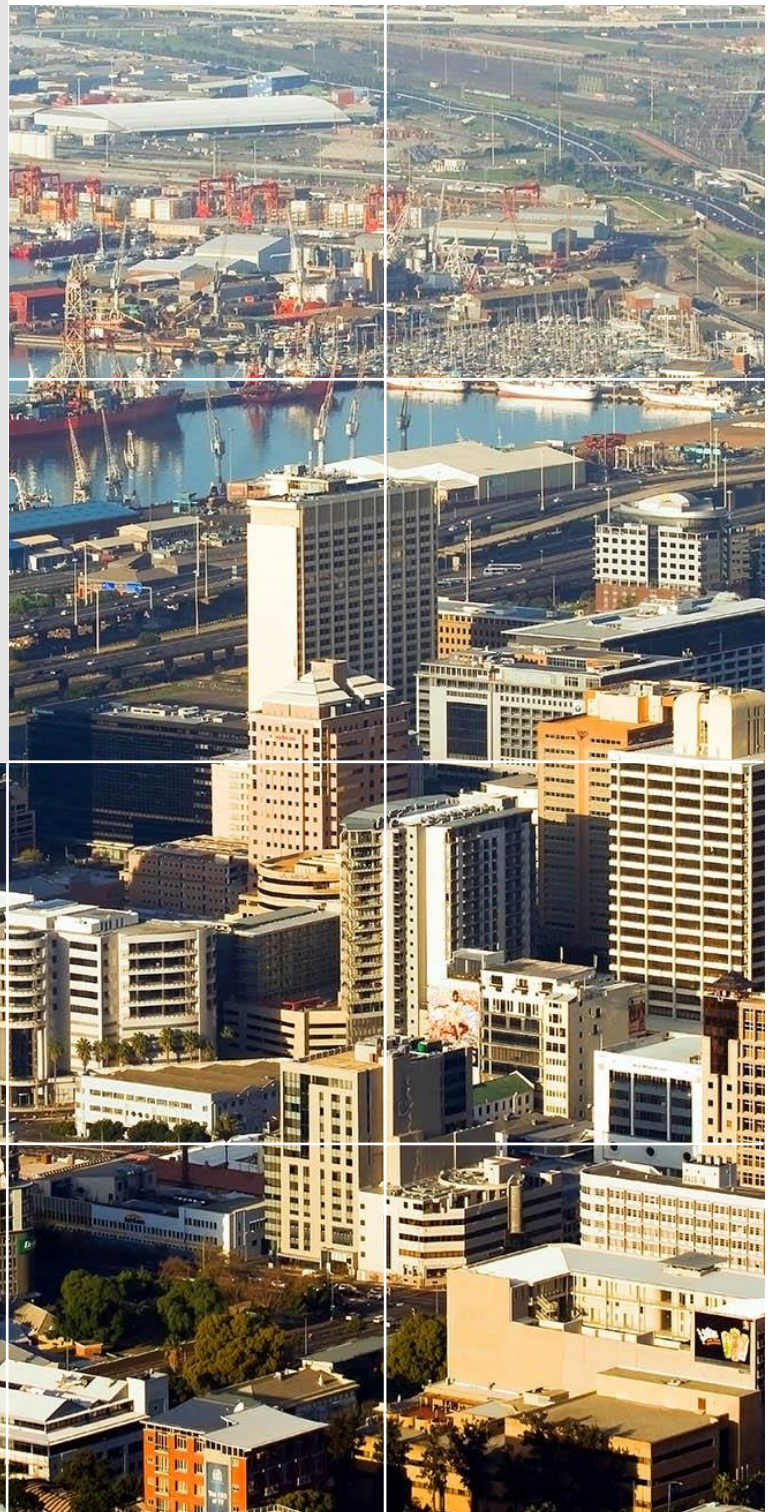


## Highlights

The Cape Town office market showed improvement in Q2 2015, partly driven by the conversion of Triangle House, in the CBD, to residential and hotel accommodation.

The vacancy rate reduced to 8.1% in Q2 2015 from 9.2% in Q1 2015. This is the lowest vacancy rate in the various South African metros surveyed by SAPOA.

Rental rates improved by an overall average of 5.7% y/y with Grade A buildings driving much of the growth.





Prime gross rent  
**170 ZAR/m<sup>2</sup>**  
per month<sup>1</sup>



Prime yield  
**8.0%**



Vacancies  
**8.1%**



Total gross leasable area  
(GLA)('000 m<sup>2</sup>)  
**2,445m<sup>2</sup>**



12 month  
outlook

Source: Baker Street, JLL, SAPOA

## Demand

Activity in the Cape Town office market showed improvement in Q2 2015, partly driven by the conversion of Triangle House, in the CBD, to residential and hotel accommodation. The relocation of the building's tenants in the node contributed to a decline in vacancies within the CBD, particularly in Grade B buildings, which gained much of the sudden surge in demand.

Nevertheless, the improvement in take-up was not limited to the CBD with all major nodes in Cape Town

recording a decline in vacancies. Aside from the CBD, significant property absorption was noted in Pinelands, and the Waterfront nodes. Hence demand was spread across the major property types, indicating that demand was not purely generated by the conversion of Triangle House. While the building contributed 24,000m<sup>2</sup> of office accommodation to the city, a total of 37,149m<sup>2</sup> was taken during the quarter with some tenants still looking for alternative accommodation from the building.

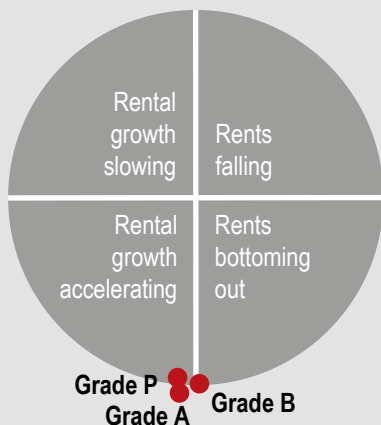
The improvement in take up in Cape Town contrasts with the national trend of declining employment, suggesting that the regional economy is doing better than the national average. Yet the improvement remains gradual. Once one accounts for a "lateral move" of tenants from Triangle House, the improvement in demand is much slower. This, however, is viewed as a positive because a slower recovery tends to be mores sustainable.



## Notable recent events

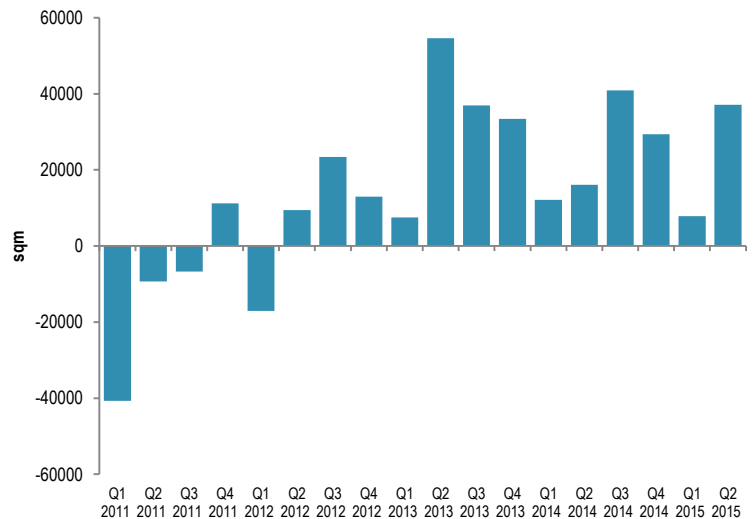
Triangle house, in the heart of the CBD is being converted into a combination of residential and hotel units. This has resulted in the tenants of the building moving to alternative accommodation in the CBD. The combined effect of reduced office supply and the relocation of tenants has contributed to a reduction in vacancies in the node. Although it is too early to tell, the continued vacancies in the CBD are likely to prompt alternative uses as seen in the Johannesburg CBD, with some office accommodation being converted into student housing and residential.

## JLL Office Clock



The JLL Property Clock™

Figure 1: Take up (net office absorption)



Data: SAPOA

<sup>1</sup> Prime rent represents the top open market rent that could be expected for an office unit of the highest quality and specification in the best location in a market, as at a survey date.

## Supply

Overall office supply remained largely unchanged in Q2 2015. The market has seen a slight reduction in supply with the conversion of Triangle House. However, this was mitigated by the completion of E-TV's building during Q1 2015, also in the CBD.

A total of 43,000m<sup>2</sup> of new accommodation is anticipated to reach completion before the end of 2015, including the 18,000m<sup>2</sup> Bridge Park Development in Century City. Q2 2015 also saw the announcement of several speculative developments in Century City, including The Apex (8,000m<sup>2</sup>). The Matrix (5,000m<sup>2</sup>) and the Annex (4,000m<sup>2</sup>) being added to the pipeline. Therefore, the city's development split now sits at 62.0% speculative – that is developed without a pre-specified tenant, contrasting with Johannesburg's 40.0%.

## Vacancies

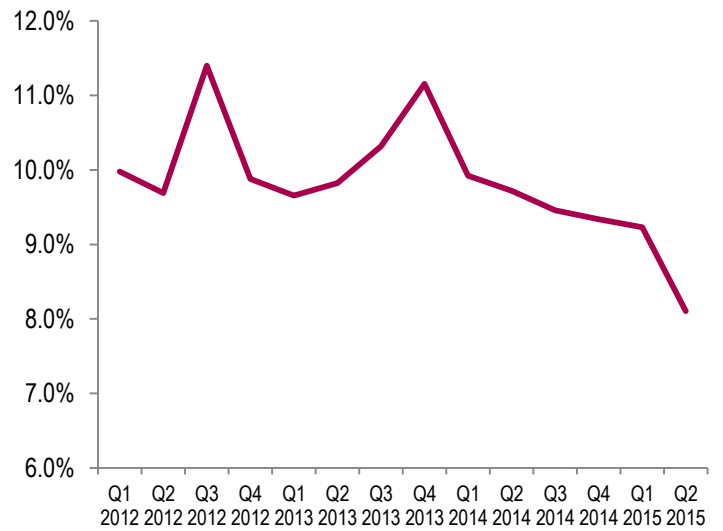
A slight reduction in vacancies in greater Cape Town has seen the overall office vacancy rate reducing to 8.1% in Q2 2015 from 9.2% in Q1 2015. This is

the lowest vacancy rate in the various South African metros surveyed by SAPOA. This reduction was predominately driven by the CBD where overall vacancies reduced from 13.4% in Q1 to 11.7% in Q2 as a result of the Triangle House conversion. A substantial portion of this 24,000m<sup>2</sup> property was occupied by quality office tenants who have now had to find alternative options to make way for the conversion.

Nevertheless, vacancies declined in all the major Cape Town nodes during the quarter, with the most significant declines being in Ronderbosch, Claremont and Belville. The three nodes are dominated by Grade A accommodation.

In terms of property types, vacancies remained highest in Grade C buildings at 20.7% and in Grade P buildings at 13.7%. The vacancy trend highlights the importance of balancing price with quality in this challenging economic climate. As a result, Grade A vacancies remain the lowest at 5.4%.

Figure 2: Cape Town vacancy rate



## Rental Performance

The market has started to see a recovery in rental rates with quality offices achieving higher rentals, whilst it is noted that they are coming off a very low base. The average prime rentals in the lower grade properties will be slower to recover with vacancies in the Grade C sector well into double figures. Rental rates improved by an overall average of 5.7% y/y with grade A buildings driving much of the growth with a 12.1% y/y rise. In contrast, Grade P accommodation managed a marginal 2.0% y/y rise, reflecting the challenge with vacancies.

## Market Outlook

We anticipate a further reduction in vacancies in Q3 as more tenants move out of Triangle House and take up more of the existing vacancies in the city. Properties such as the 5 star green rated Portside are expected to benefit from this.

Overall, the market is showing the first signs of recovery which also justifies the rise in non-speculative developments in the city. The growth in developments is well paced with the gradual recovery in demand, and the stability shown in the market provides an encouraging outlook for rental growth.

Table 1: Indicative development projects

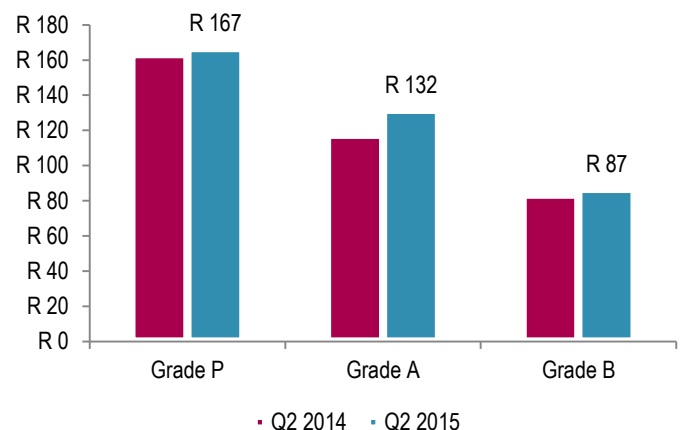
Development	Approximate Size (m <sup>2</sup> )	Node	Expected Completion Date
Bridge Park	18,000	Century City	Q3 2015
Touchstone	10,000	Cape Town CBD	Q3 2015
The Pavilion	4,000	Waterfront	Q3 2015
Waterview Park 4	3,000	Century City	Q3 2015
The Annex	4,000	Century City	Q1 2016
The Apex	8,000	Century City	Q1 2016
The Matrix	5,000	Century City	Q1 2016
Citadel	6,500	Claremont	Q3 2016

Recent completions – Total 8,000m<sup>2</sup>

▲ 12 month outlook

ETV, CBD Cape Town 8,000m<sup>2</sup>

Figure 2: Cape Town rentals



# Cape Town Office Statistics

**Table 2: Average gross rental/m<sup>2</sup> for prime buildings**

	Q4 2013	Q3 2014	Q4 2015	y/y % change	y/y % change
City Centre	163	165	166	2.0%	1.0%
V&A Waterfront	163	165	167	2.0%	1.0%
<b>Average Grade P</b>	<b>163</b>	<b>165</b>	<b>167</b>	<b>2.0%</b>	<b>1.0%</b>

**Table 3: Average Gross rental/m<sup>2</sup> – Grade A buildings**

	Q4 2013	Q3 2014	Q4 2015	y/y % change	q-to-q % change
City Centre	118	120	132	12.1%	9.7%
Century City	122	123	127	4.1%	2.7%
Tygervalley/Bellville	102	103	105	3.3%	1.6%
V&A Waterfront	163	165	167	2.0%	1.0%
<b>Average Grade A</b>	<b>126</b>	<b>128</b>	<b>133</b>	<b>5.1%</b>	<b>3.6%</b>

**Table 4: Vacancies by Grade**

	Grade P	Grade A	Grade B	Grade C	Overall
Q2 2014	24.7%	5.5%	11.0%	26.8%	9.7%
Q1 2015	15.4%	6.2%	10.3%	21.9%	9.2%
Q2 2015	13.7%	5.3%	9.0%	20.7%	8.1%

**Table 5: Future supply**

	Completions (m <sup>2</sup> )	y/y % change	Future supply (m <sup>2</sup> )	y/y % change
2015 (f)	43,000	-55%	2,488,719	2.4%
2016 (f)	26,500	-38%	2,515,219	1.1%

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