Johannesburg Industrial Market Outlook

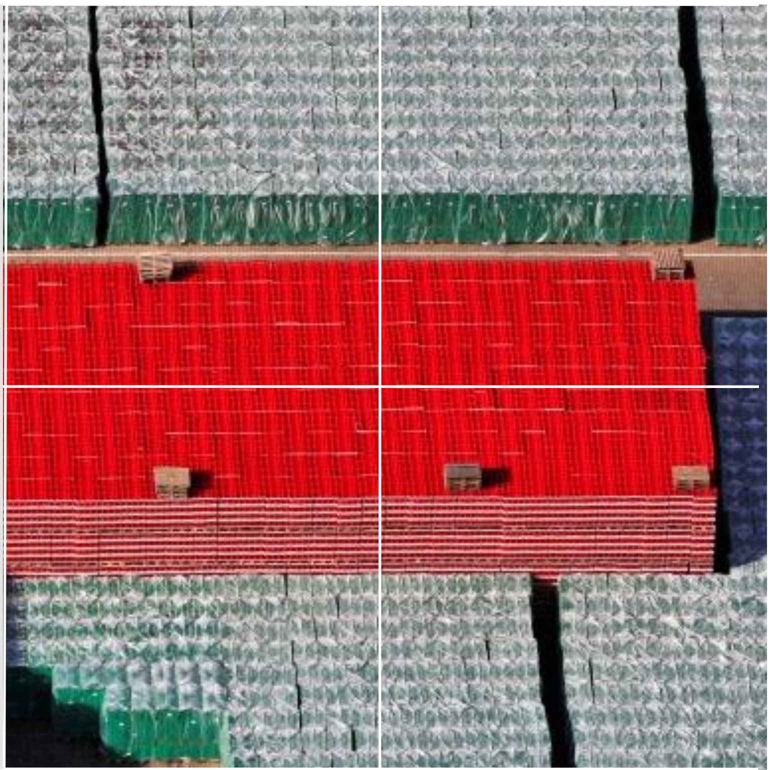
Q2 2015

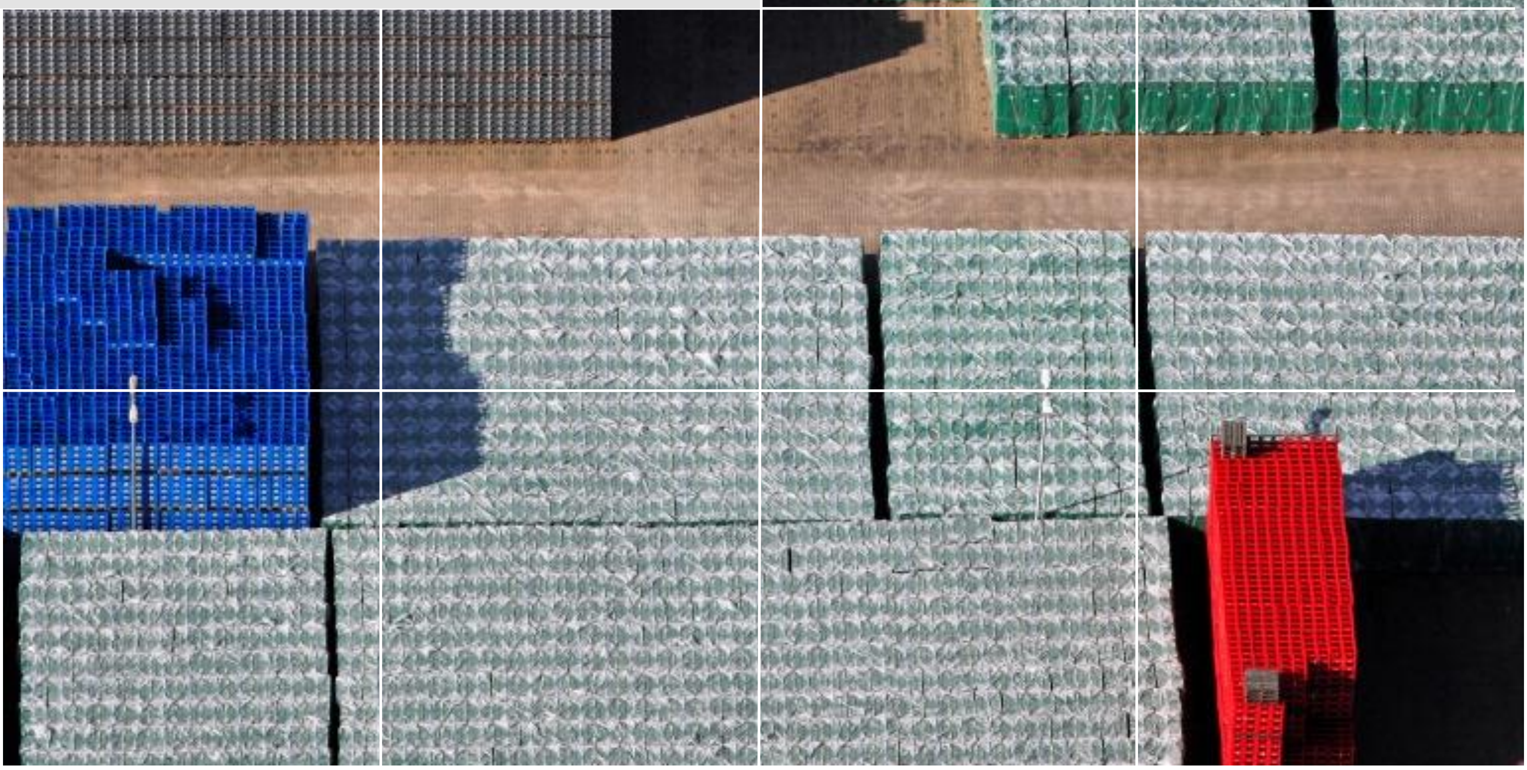
Highlights

The industrial vacancy rate has moved only slightly from Q1 2015, implying stable levels of industrial property demand attributable to trade activity.

The eastern and northern nodes are dominating the market at the moment, holding much of the newer and larger logistics units – an advantage for rental growth.

Construction and utilities, which have both seen moderate improvements in employment of late, could ease the pressure on trade performance as a driver of activity in the sector.





Prime gross rent
55-60 ZAR/m^2 per month[1]
►

Prime Yield
8.5%
►

Vacancies
9.6%
►

Total gross leasable area (GLA)('000 m^2)
4,445m^2
▲

12 month outlook

Demand

The overall employment trend is indicative of the stagnant growth of the economy, partly explaining the flat trend in industrial accommodation demand. The employment figures (Statistics South Africa Quarterly Labour Force Survey) reported a 4.3% y/y rise in employment, which would have been much more encouraging if it was not driven by a substantial 6.3% rise in informal sector employment. In contrast, formal sector employment showed a marginal 2.7% rise.
On the up side, it is worth noting that employment grew mainly in the sectors that contribute to demand for industrial accommodation: although manufacturing employment continued to contract, employment in construction and utilities saw double digit growth.

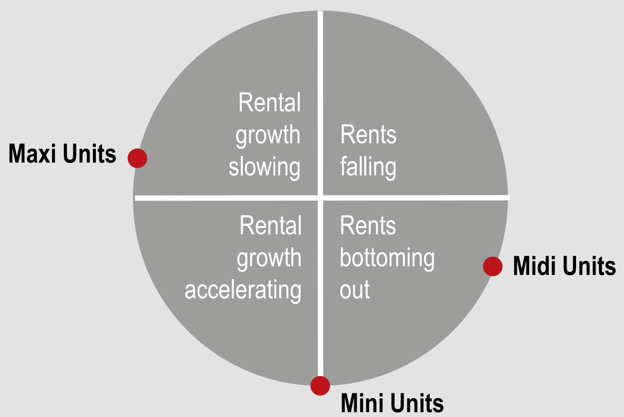
Of concern was the 4.4% y/y decline in trade employment, which coincides with the year-to-date contractions in imports and exports. Trade activity has been a major driver of demand in industrial accommodation and any further weakening in trade activity could see industrial vacancies on the rise, adding to the impact of a weaker manufacturing sector.

The industrial vacancy rate has hardly moved from Q1 2015, implying stable levels of industrial property demand attributable to trade activity. However, trade is also prone to downside risk, with weaker demand and rising inflation hurting imports growth, while weak global demand keeps exports stagnant.

Table 1: Indicative development projects

Development	Approximate size (m^2)	Node	Opening date
N3 Junction	80,000	Germiston	Phases ongoing
Lords View	50,000	Chloorkop	Phases ongoing
Plumbago	100,000	Pomona	Ongoing
Lanseria Corp Estate	12,000	Lanseria	Ongoing
Meadowview	50,000	Longmeadow	Ongoing

JLL Industrial Clock



The JLL Property Clock℠

Notable recent events

Kintetsu Worldwide Express (KWE) 25,000m^2, Jetpark

[1] Prime rent represents the top open market rent that could be expected for an industrial unit of the highest quality and specification in the best location in a market, as at a survey date.

Supply

Industrial accommodation is becoming characterised by a divided market, with demand gravitating towards newer, more efficient buildings, whilst older buildings see a deceleration in demand. This has resulted in the distortion of high developer confidence in an environment of rising vacancies, a relationship which is usually inverse.

While vacancies increase in older accommodation, new developments in Johannesburg continue to grow despite the flat demand. Overall stock remained largely unchanged in Q2 2015 from Q1 2015. However, investor confidence remains robust with several large developments currently underway.

Vacancies

Industrial vacancies increased marginally to 9.6% in Q2 2015, from 9.5% in Q1 2015. Stable occupation levels are likely to contribute to stagnation in rental rates, but this has not discouraged developments that are underway, reflecting long-term confidence in the market.

The eastern node (east of the M2 highway, including Modderfontein, Kempton Park, Pomona and Linbro Park) remains the node with the highest vacancy rate at an estimated 13.6% in Q2 2015.

The eastern node is indicative of the segmented market in the industrial sector. It has seen the most significant number of new developments, most of which have been well received by the market due to its convenient location close to O.R. Tambo International Airport, which is an advantage for the trade sector. However, the node is also home to older developments, many of which are no longer active as a result of the slump in the manufacturing sector. Vacancies are concentrated in these industrial buildings, while demand gravitates to warehouses and logistics accommodation.

In contrast, the northern node, between Sandton and Pretoria, maintains the lowest vacancy rate of just 2.2% in Q2 2015. In contrast to the east, the northern node has a much lower proportion of "older" stock, and few manufacturing units, which has made the node less vulnerable to vacancies in the current economic climate.

Figure 2: Johannesburg industrial vacancies

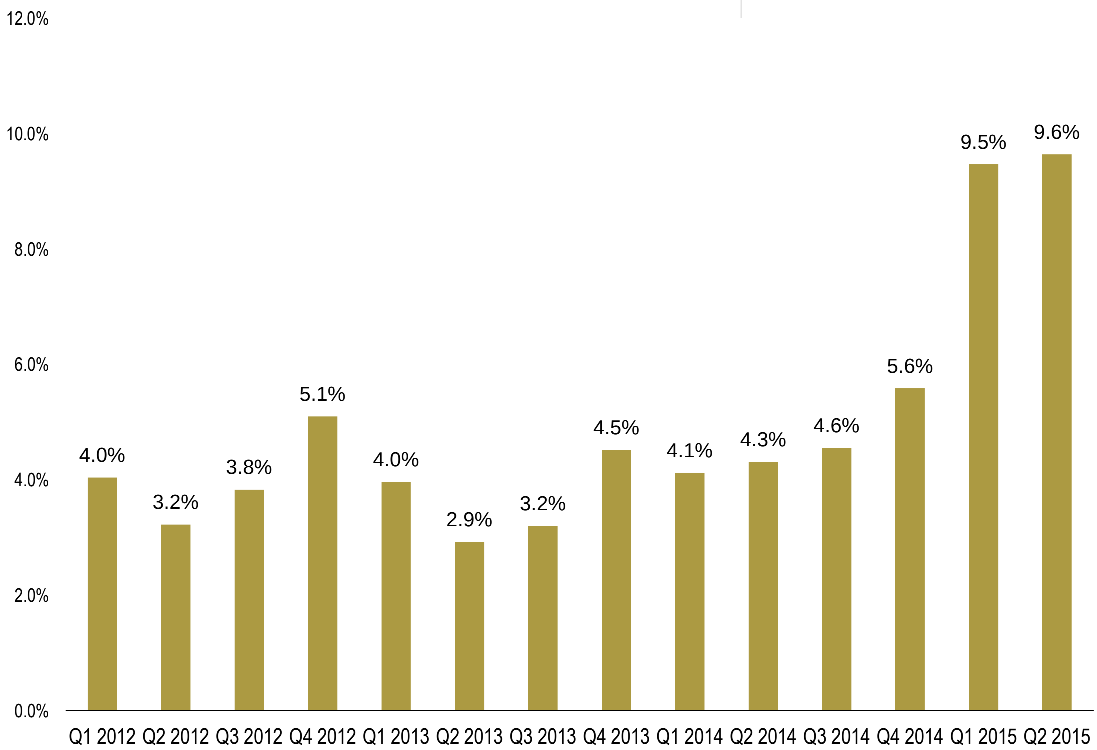
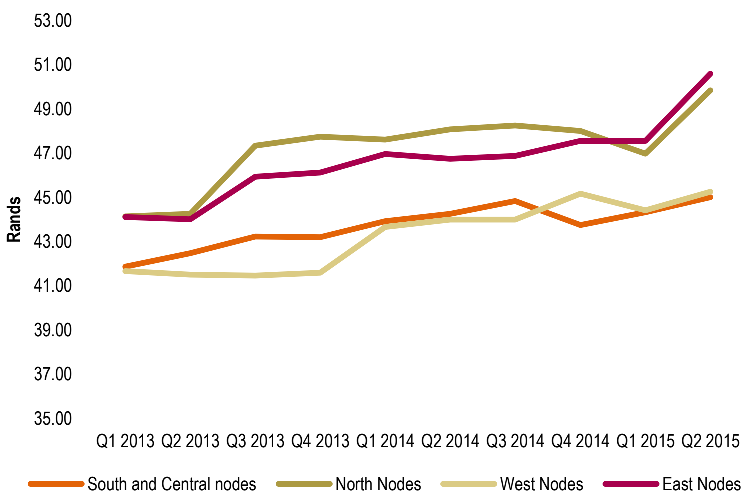


Figure 3: Rental performance for Grade A by unit type



Rental Performance

The eastern and northern nodes are dominating the market at the moment, holding much of the newer and larger logistics units which is an advantage for rental growth.

Reflecting their continued dominance, the rental rates in both areas picked up by over 6.0% q/q in Q2 2015. Using price as an indicator, the figure illustrates the gravitation of demand to the two nodes in contrast to the muted rental movement in the western and the southern nodes. Despite rising vacancies, new developments are able to attract users and set higher rental rates.

Market Outlook

A major risk developing in the industrial sector is the concentration of activity into the trade sector. Trade has provided a cushion to slowing activity in industrial real estate, and business activity could get slower for the industrial sector if trade activity continues to decelerate as it has over the past few months. On a year-to-date basis, imports declined by 1.2% and exports by 0.2% according to the latest trade statistics from SARS.

What is encouraging however, is that there are alternative sectors showing some improvement in activit,y which is beneficial to the sector. Construction and utilities, which have both seen moderate improvements in employment of late, could ease the pressure on trade performance. Utilities and energy related sectors could even restore manufacturing confidence where energy supply has been the major concern.

Johannesburg Industrial Units Statistics

Table 2: Average gross rental/m^2 – Grade A Maxi Units

	Q2 2014	Q1 2015	Q2 2015	y/y % change	q/q % change
South	42.0	42.0	42.0	0.0%	0.0%
East	47.5	46.5	46.5	-2.1%	0.0%
North	50.0	50.0	50.0	0.0%	0.0%
West	44.8	47.0	47.5	6.1%	1.1%
Average Grade A Maxi Units	**46.1**	**46.4**	**46.5**	**0.9%**	**0.3%**

Table 3: Average gross rental/m^2 – Grade A Midi Units

	Q2 2014	Q1 2015	Q2 2015	y/y % change	q/q % change
South	43.5	42,0	4.,0	-3.4%	0.0%
East	47.5	46.5	50.0	5.3%	7.5%
North	50.0	50.0	50.0	0.0%	0.0%
West	45.8	47.5	47.5	3.8%	0.0%
Average Grade A Midi Units	**46.7**	**46.5**	**47.4**	**1.5%**	**1.9%**

Table 4: Take up by area, m^2

	Q2 2014	Q1 2015	Q2 2015	y/y % change	q/q % change
South	43.5	42.0	42.0	-3.4%	0.0%
East	47.5	46.5	50.0	5.3%	7.5%
North	50.0	50.0	50.0	0.0%	0.0%
West	45.8	47.5	47.5	3.8%	0.0%
Average Grade A Midi Units	**46.7**	**46.5**	**47.4**	**1.5%**	**1.9%**

Table 5: Future supply

	Completions	y/y % change	Future Supply	y/y % change
2015 (f)	142,000	6.3%	4,610,454	3.2%
2016 (f)	150,000	5.6%	4,760,454	3.3%
2017 (f)	100,000	-33.3%	4,860,454	2.1%

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