

# Johannesburg Office Market Outlook

Q2 2015



## Highlights

The Johannesburg office vacancy rate saw an improvement to 11.3% in Q2 2015 from 11.9% in Q1 2015. The decline was driven mainly by take-up in Grade A accommodation.

Johannesburg continues to anticipate an additional 591,000m<sup>2</sup> of new developments, raising concerns of an over-supplied market.

The average rental rate increased by a muted 2.9% y/y in Q2 2015.

The subdued office market provides an opportune moment for restructuring and re-strategising business models for both occupiers and investors.





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



Prime Yield  
**8.5%**



Vacancies  
**11.3%**



Total gross leasable area  
(GLA)('000 m<sup>2</sup>)  
**9,447m<sup>2</sup>**

Source: JLL, SAPOA

12 month  
outlook

## Demand

The latest statistics on employment by occupation showed a 6.8% y/y decline in 'managers' and a 10.9% y/y decline in 'professionals' according to Statistics South Africa's Quarterly Labour Force Survey.

Every economic sector needs some kind of office space, however, if the jobs that fill offices are on the decline, it is a telltale sign for office demand. Businesses are on a search for efficiency, and remaining profitable also bears the question on how to save on costs. Economic pressure is challenging businesses to find ways to do more with less;

from staff to equipment, right down to square metres in office space.

High levels of unemployment coupled with rising office vacancies may sound discouraging. However, these are also the effects of a transitioning economy. By the time economic growth recovers, a new culture in the way that the country does business could be well established leading to higher per capita productivity and stronger economic growth.

It will naturally take time to get there, and a significant change in people's

mindsets. A key element is the continued use of private vehicles which is a hurdle to space saving and cost cutting, in addition to the time wasted in traffic. The economic climate provides a rare opportunity for occupiers to experiment.

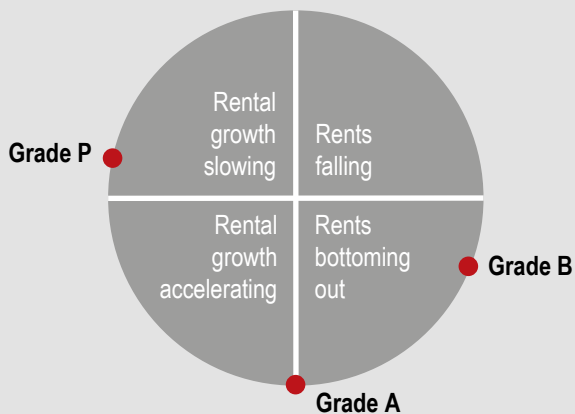
Incentivising public transportation and greater use of the Gautrain could see companies becoming more attracted to accommodation with lower parking capacity in decentralised nodes such as Rosebank and Midrand.



### Notable recent events

McSteel leasing 3,000m<sup>2</sup> in Athol Towers

### JLL Office Clock



The JLL Property Clock<sup>SM</sup>

Table 1: Indicative development projects

Development	Approximate Size (m <sup>2</sup> )	Node	Developer
Mutual Place	120,000	Sandton	Old Mutual
Discovery Building	85,000	Sandton	Growthpoint/Zenprop
Sasol	67,000	Sandton	Alchemy
Village Walk	60,000	Sandton	MMI
Monte Circle	55,000	Fourways	Abland
144 Oxford	35,000	Rosebank	Growthpoint
90 Rivonia Road	33,000	Sandton	Redefine
Alice Lane Phase III	33,000	Sandton	Abland
Rosebank Towers	3,000	Rosebank	Abland
140 West Street	24,000	Sandton	Zenprop
The Central	20,000	Sandton	Investec
4 Stan Road	6,000	Sandton	MDS

<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.

## Vacancies

The Johannesburg office vacancy rate saw an improvement to 11.3% in Q2 2015 from 11.9% in Q1 2015. The decline was driven mainly by Grade A accommodation, which saw a slowing in the vacancy to 8.8% from 9.4% in Q1 2015. The vacancy in Grade P accommodation remained muted at 5.0%. It is worth noting that the share of Grade P buildings to total stock has increased to 11.0% in Q1 2015 from 8.4% in Q1 2014. Hence the vacancy rate has remained stable despite the growth in supply in this category of building, outlining the market's preference in this regard.

The vacancy rate is exemplary of the gravitation of the market towards higher quality accommodation and this is contributing to continued investor confidence despite sluggish demand. Vacancies in Grade B buildings remained largely unchanged at 13.9% in the quarter. There remains a strong market for these buildings, which account for 33.2% of total stock in the city. Price advantage is likely to play a stronger role in mitigating any further growth in the vacancy rate.

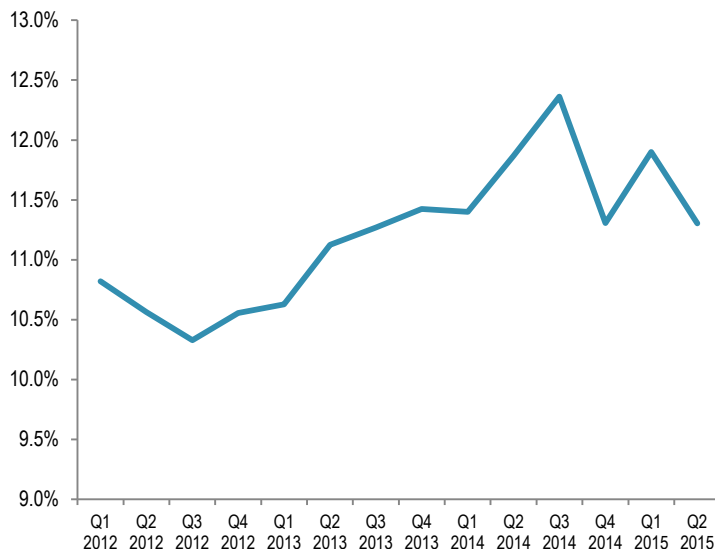
## Supply

Despite oversupply, Johannesburg continues to anticipate an additional 591,000m<sup>2</sup> of new developments. The latest additions to the pipelines include 140 West Street being developed by Zenprop and 4 Stan Road to add 6,000m<sup>2</sup> in Sandton by MDS. Midrand will see 4,200m<sup>2</sup> added to the Hertford Office Park which is being developed by Abland.

It is worth noting that most developments in the pipeline at the moment are within a close radius to Gautrain stations or planned future stations within the city. However, these buildings continue to incorporate a high number of parking spaces, catering for the culture of private vehicle use in the city. One might argue that the advantage of being located close to the stations is lost if employees are not encouraged to make use of public transport.

However, it should be borne in mind that cultural change takes time and the change is likely to occur in stages. Although showing notable growth in travellers since 2010, the Gautrain still operates at less than full capacity.

Figure 3: Johannesburg vacancy rate



## Rental Performance

The average rental rate increased by 2.9% y/y in Q2 2015 with new developments driving much of the increase in rental rates.

Grade P accommodation drove the increase in rental rates, recording a 5.4% y/y increase in the quarter. The most significant rental growth was recorded in the Rosebank node.

## Market Outlook

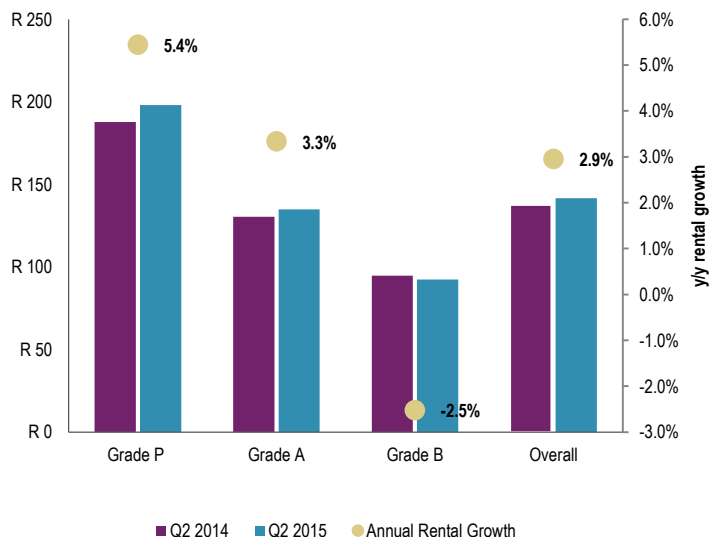
Economic conditions are likely to see office demand remaining flat over the remainder of the year, having a similar impact on rental rates and vacancies. The low demand environment gives occupiers some leverage in negotiation with regard to securing favourable rental rates in certain segments of the market.

However, this may also offer landlords the opportunity to secure longer term leases providing long term cash-flow stability.

The office market provides an opportune moment for restructuring and re-strategising business models for both occupiers and investors. Tenants can position themselves for the next upswing in the business cycle whilst rental growth rates are more favourable to them. The market has seen several tenants taking up more office accommodation than they currently require, accounting for future expansion.

On the investor side, the business climate provides an opportunity for investors to assess the true long term value of their portfolio of assets. Proactive consideration of the change in business models across the city, how tenant preferences have changed, as well as the impact of the change in public infrastructure, can assist in identifying the assets which will best position them to take advantage of the next economic recovery.

Figure 2: Johannesburg average rental performance by grade



Recent completions – Total 19,000m<sup>2</sup> ▲ 12 month outlook

Capital Hill  
9,000m<sup>2</sup>

85 Grayston  
10,000m<sup>2</sup>



# Johannesburg Office Statistics

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

	Q2 2014	Q1 2015	Q2 2015	y/y % change	q/q% change
Sandton	201	207	207	0.0%	2.9%
Rosebank	205	225	225	0.0%	9.8%
Melrose Arch	183	190	195	2.6%	6.8%
Illovo	215	215	215	0.0%	0.0%
Fourways	165	177	177	-0.3%	7.0%
Bryanston	165	180	180	-0.1%	8.9%
Waterfall	180	187	187	0.0%	3.9%
<b>Average Grade P</b>	<b>188</b>	<b>196</b>	<b>198</b>	<b>0.3%</b>	<b>5.4%</b>

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

	Q2 2014	Q1 2015	Q2 2015	y/y % change	q/q % change
Sandton	169	182	175	-3.8%	3.6%
Rosebank	150	160	169	5.6%	12.7%
Melrose	138	132	132	0.0%	-4.3%
Illovo	148	148	148	0.0%	0.2%
Fourways	127	133	135	1.5%	6.3%
Bryanston	143	140	144	2.6%	0.5%
Parktown	115	120	123	2.1%	6.5%
Rivonia	98	95	95	0.0%	-3.1%
Woodmead	135	139	139	0.0%	3.0%
Midrand	146	153	153	0.0%	4.8%
Houghton	155	164	164	0.0%	5.8%
Sunninghill	85	85	86	1.2%	1.2%
Randburg	85	88	88	0.0%	3.5%
<b>Average Grade A</b>	<b>128</b>	<b>132</b>	<b>135</b>	<b>1.2%</b>	<b>3.3%</b>

**Future supply**

	Completions (m <sup>2</sup> )	y/y % change	Future supply (m <sup>2</sup> )	y/y % change
2015 (f)	48,464	-81%	9,495,847	0.6%
2016 (f)	206,000	325%	9,701,847	2.2%
2017 (f)	207,000	0%	9,908,847	2.1%

**Table 4: Vacancies by grade**

	Grade P	Grade A	Grade B	Grade C	Overall
Q2 2014	7.5%	9.1%	14.7%	24.5%	11.9%
Q1 2015	4.8%	9.4%	14.7%	26.8%	11.9%
Q2 2015	5.0%	8.8%	13.9%	26.5%	11.3%

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