JLL SA releases Q2 2017 property market reports

JLL South Africa, has released its Q2 2017 research reports of the industrial markets in Johannesburg and Durban, the office markets in Johannesburg, Durban and Cape Town and a synopsis of the South African retail market.

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Overall, the official recession has set a scene of caution across all markets in SA. However, in various instances, there are pleasing signs of relatively robust demand, decreasing vacancies and rental growth.

Industrial sector

The industrial property market has shown resilience with notable growth despite the struggling manufacturing sector. A low overall vacancy trend is supporting stronger rental escalation within this challenging environment. Positive export activity is encouraging to support increased demand for logistics and warehouse accommodation.

In Johannesburg, prime warehousing space in Kya Sands, Kempton Park and Lanseria has recorded double digit growth. Vacancy rates are remaining low across the city at 5.0%.

In Durban, a healthy developer confidence is present with some 120,000m^2 of supply expected to come into market over the next 12-24 months. However, there is rental-sensitivity amongst occupiers, with few willing to pay higher rents for new developments. Less speculative developments can be expected.

Office sector

In the office sector, across all three provinces there are encouraging indications despite the negativity. A circumspect approach is necessary to avoid oversupply and rental contractions.

The Cape Town office market has improved slightly from the previous quarter with positive take-up and broad-based demand across prime and non-prime properties. It should be noted that 46.0% of current developments are non-speculative, a forewarning of potential vacancies ahead when existing tenants move out to these new buildings. Conditions are leaning towards a more favourable environment for tenants.

In Durban, there is an air of optimism about the future of the coastal city's office market with over 100,000m^2 expected to be completed by the end of 2018. The Umhlanga region, in particular, remains one of the most sought-after nodes, with most of eThekwini's development pipeline situated here. The node also records the lowest vacancy rates and highest rental rates.

Then in the Durban CBD, growing interest continues with Grade A rentals improving to an average of R95/m^2 from R75m^2 in the previous quarter.

Johannesburg recorded the highest vacancy rate at 13.3% compared to other cities in the country, and this statistic may increase, with a third of the current development pipeline coming on board before the end of the year. However, prime nodes - like Sandton, Waterfall, Rosebank and Illovo - continue to perform well on the back of persistent healthy demand for prime buildings in best locations. Corporates in the city are taking a wait-and-see approach to expansion/relocation decisions in the current climate.

Retail sector

Lastly, JLL's South Africa Retail Market Review reveals that super-regional centres are witnessing their highest vacancy rates since 2013, sitting at 3.9%, more than double the long-term average of 1.6%. This is a result of the shutdown of large retailers such as Stuttafords and other standalone stores. However, the property owners most affected have noted demand for the vacant space by both local and international brands. Smaller centres, on the other hand, are surprisingly seeing more interest with declining vacancies during the quarter.

The recent interest rate cut could give some retail trade relief. Good news considering that the retail market is expected to welcome a further 336,528m^2 of retail accommodation by the end of 2017. Most of the new stock is concentrated in the Gauteng and KZN area.