JLL releases property market reports for Q3 2017

JLL released its South African market reports for the office markets in Johannesburg, Durban and Cape Town; the industrial markets in Johannesburg and Durban; and an outline of the South African retail market for Q3 2017.

The improved activity in the financial and business services sector of the economy, which is a key driver of office demand, has positively impacted the Cape Town and Durban office markets. Johannesburg is experiencing a short-term oversupply of stock and some rental contraction. It appears that the gradual introduction of new accommodation is key to mastering the balancing act of supply and demand in this market.

Office market

A closer look at the Johannesburg office market reveals a two-track trend unfolding: healthy developer interest continues but the city is battling a high vacancy rate. Johannesburg recorded the highest vacancy rate at 12.6% (the second time in two consecutive quarters) compared to the other large metros. It is suggested that the current pressure will be short-lived as the city remains the business hub of South Africa and most nodes in Johannesburg offer sought-after high quality office accommodation.

The Cape Town office market saw a decline in the vacancy of all the major asset types, including Grade C accommodation. This is an excellent indicator of overall confidence in the business climate of the city, from large to small and medium sized enterprises. The most impressive decline was in Grade P accommodation which recorded a vacancy rate of 7.7% from 9.4% in Q2 2017.

The Durban office market experienced a notable drop in its vacancy rate in Q3 2017, declining to 11.7% from 12.3% in the previous quarter. The Umhlanga node contributed most significantly to this decline. With the Durban CBD also making a positive contribution, it is clear confidence is gradually returning to the sector among business decision-makers. Add to this a rise in rental rates, and the environment points to a landlord market developing.

Industrial sector

A review of the overall industrial property sector requires a close eye on consumer confidence as one of the major drivers of activity in the logistics and warehousing property market. While this remains weak, export growth has been encouraging, and the manufacturing sector finally broke out of decline.

In the Johannesburg industrial market, vacancy rates remain largely unchanged at 4.0%. However, it is the spread of these vacancies that is of interest. Historically, southern Johannesburg has struggled to fill older buildings even at low rental rates. However, the South is now showing one of the lowest vacancies. The nodes of Southdale/Booysens and Germiston, Alrode and Alberton are of particular interest.

Durban industrial nodes continue to enjoy significantly low vacancy rates. However, there is considerable variance between nodes. Industrial properties located in the north are performing well, recording low vacancies and fetching higher rentals. Depressed consumer confidence is not deterring industrial investors, indicating confidence in the city's long-term outlook, especially in accommodation located near the international airport and the Port of Durban.

Retail report

Lastly, JLL's *South Africa Retail Market Report* reveals that neighbourhood and community centres have continued to perform well during the quarter, with an average 2.75% increase in trading density. Vacancy rates ended the quarter at an average of 6.0% and 3.0% respectively, while super-regional malls saw a 1.1% increase, sitting at an average vacancy rate of 4.1%, the highest level yet. This is unlikely to improve in the short term, with Finance Minister Malusi Gigaba painting a bleak economic outlook and concerns of sovereign downgrades reignited.