BIZCOMMUNITY

JLL SA Q2 report reflects positive outlook for industrial, warehousing sector

According to JLL's latest Q2 city report, South Africa's corporate real estate sectors remain under pressure, partly due to the ongoing Covid-19 pandemic and resultant restrictions.

Source: Thissatan Kotirat © 123RF.com

Johannesburg

Johannesburg's office market is anticipated to remain in turbulent waters over the foreseeable future, with vacancy rates and rental levels expected to continue softening. Sustained real economic growth, particularly within the financial and business services sector, will be critical to the long-term path of recovery. Furthermore, the successful scaling and roll-out of the Covid-19 vaccine coupled with accommodative monetary and fiscal policy will be vital in restoring both local and international business confidence.

Michael Scott, research analyst, sub-Saharan Africa at JLL, says: "The case for repurposing and refitting old vacant office space is still strong; however, traditional residential conversions in commercial nodes may be less viable than in the past, given the shift in demographic demand dynamics. Critically, landlords and developers need to proactively identify the best-fit repurposing models, appropriately responding to corporate migration trends and the socio-economic needs of residents in the area. While the demand for traditional office space in Johannesburg has and continues to change as we know it, the appetite for productive, safe and employee-focused workspaces continues to grow."

Johannesburg's industrial market has shown considerable resilience over the past 18 months. Industrial distribution and multi-parks have outperformed all segments, driven by a rebound in retail trade volumes and a surge in e-commerce activity. Many traditional retailers have introduced online sales platforms in response to trade restrictions and reduced foot traffic, further driving the demand for storage and distribution space. Large retail distribution operators are beginning to outsource smaller logistics companies, taking up spaces in the 2,000m^2 - 4,000m^2 range. Though still in its nascency stage, the move towards centralising supply chains echoes that of the last mile and urban logistics trends practiced in more developed markets. While speculative developments seem to have slowed down across Johannesburg, a healthy pipeline of new builds will continue to come to market, as large operators typically prefer to fit new premises to their exact specifications.

In the hotel market, during the second quarter and for the first time since the start of the pandemic, Gauteng has recorded lower occupancy rates than the Western Cape and the lowest sub-market in South Africa. While occupancy rates in most major markets in South Africa have strengthened compared to the latter part of 2020, Johannesburg has weakened. While the next few months will be very challenging for the hotel market, the third quarter will likely end with substantial pent-up demand for domestic travel, with a vaccinated international community ready to consider cross-border travel.

Download the South Africa Q2 2021 Real Estate Market: Johannesburg report.

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John Jack 20 Jul 2021

Cape Town

The City of Cape Town has seen its historically robust office fundamentals erode significantly over the last year. Vacancy rates have steadily risen as corporate consolidations and the rise in work-from-home result in more space being given up in the market. It is anticipated that office vacancy rates will continue shifting upwards, placing negative pressure on rentals for the coming 12 to 18 months. The overall office market will likely see a steady trend in negative net absorption until such a time as the country achieves some level of herd immunity against Covid-19. The hybrid model incorporating flex, traditional and home-based setups will see the office space being used more effectively.

While Cape Town's industrial sector has seen little change in activity from the first quarter of 2021, landlords have started firming up their rentals. The resilience in industrial fundamentals (particularly amongst specialised quality assets) has been driven partly by the local market beginning to run into stock issues as various tenants pursue up-scaling operations. At the same time, investors continue to showcase a keen interest in taking advantage of the enticing buyers' market. Accordingly, the market is starting to see multiple enquiries from blue-chip tenants looking for quality stock with 10-year leases in place.

In Cape Town's hotel market, the second quarter of 2021 started with April registering the highest average national occupancy rates of any month since the start of the Covid-19 pandemic. "It is interesting to note that when comparing occupancy levels during the second quarter of 2021 with those toward the end of 2020, these markets record a more significant improvement in occupancy than almost all other sub-markets in South Africa. This improvement also occurred in the two months leading up to winter, typically when occupancy rates decline throughout the Western Cape," added Scott.

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Peter Hodgkinson 22 Jul 2021

eThekwini

eThekwini's* office sector continues to face heavy headwinds as rising vacancy rates and compressed rentals put landlords under significant pressure. Office demand dynamics have continued to soften as corporates look to scale down on space requirements in line with new work-from-home and office rotational hybrid models. Emerging trends of smaller businesses migrating into the peripheral suburbs have started picking up traction, driven strongly by residential estates expanding their service offerings through sectional title office spaces. It remains an opportune time for prospective tenants operating in eThekwini to secure favourable long-term lease arrangements.

While eThekwini experienced significant traction in industrial activity over the fourth quarter of 2020 and the first quarter of 2021, momentum has slowed down drastically over the last month of the second quarter. Large operators such as Massmart continue to opt for new build options. Interestingly, these blue-chip tenant specification-built premises have shown incredibly resilient fundamentals, achieving rentals around R85-R90/m^2. These specialised greenfield developments typically range between 10,000-25,000m^2 in size. Unsurprisingly, momentum in the new build space has placed pressure on fundamentals across existing stock in the market. Trends suggest that large operators would rather expand into new bespoke, uniquely tailored buildings. As a result, there is a healthy pipeline of buildings under construction, and planned premises expected to come online over the next year.

In the hotel market, the Durban area has remained the destination of choice for the domestic leisure market. In fact, occupancy rates recorded during the start of the second quarter have come very close to 2019 levels, whilst ADR was also similar – even slightly higher during April. The strength in the Durban market is particularly noticeable in the four-star segment, where upscale properties continue to appeal to an upper income target market that has been mostly unscathed by Covid-19 (in terms of economic impact), and that remain largely unable to travel internationally.

**eThekwini Metropolitan Municipality is a category-A municipality, covering the areas of Durban and surrounding towns.*

Download the South Africa Q2 2021 Real Estate Market: eThekwini report.