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

According to JLL's latest South Africa Q2 Real Estate report, while the country is witnessing the easing of restrictions, the impact of Covid-19, coupled with economic pressures, continues to create challenges for most corporate real estate sectors. The report provides an overview of the office, retail, industrial and hospitality sectors in Johannesburg, Cape Town and eThekwini.

© Thissatan Kotirat – [123RF.com](123RF.com)

Johannesburg

Johannesburg is the largest metropolitan population in South Africa by size and GDP, with 5.8 million residents. It is also home to Africa's largest stock exchange – the Johannesburg Stock Exchange (JSE).

Johannesburg is still reeling with an oversupplied office market that's plagued with rising vacancy rates, accelerated by businesses downscaling or being forced to close as a result of the recent lockdown. While many organisations have continued to encourage working from home, a large amount of uncertainty between developers and landlords remains. Johannesburg's office stock is growing at an annualised rate of 0.8% and is approximately 10.4 million square metres large. It is expected to rise by an additional 32,800 square metres as a result of Intaprop's Oxford Park and Attacq's Corporate Campus.

Currently there is very little growth potential in the market, with businesses unlikely to expand their physical footprint in the short to medium term. Many developments in the pipeline are being put on hold as a result of subdued demand.

Challenges not unique to Joburg

According to Michael Scott, research analyst, Sub-Saharan Africa at JLL, "These challenges are not unique to Johannesburg as the impact of the nationwide lockdown has been largely felt throughout corporate South Africa. The months of April and May saw landlords receiving as little as 40-50% of their rent, restricting trade and forcing many corporates to close their operations."

JLL maintains a positive outlook towards retail as well as supply chain-driven warehousing and logistics spaces moving into the second half of 2020. Demand for logistics space remains resilient, as the e-commerce consumer base steadily grows year-on-year. Accordingly, there is a greater requirement for quality logistics space with emphasis on stock-holding requirements. While the logistics and warehousing segment has not been immune to the effects of the global pandemic, there is great opportunity for new-generation warehousing and distributions spaces.

Johannesburg is a mature hotel market in a regional context, dominated by the presence of local owner operators, who appeal to domestic corporate demand. Operators are cautiously considering their own re-opening timeline from a demand perspective, despite regulation no longer being the determining factor. Occupancy levels in the City of Johannesburg reached levels of 34% by the end of June 2020. This equates to an annualised contraction of 45%, declining from 62% in May 2019. While the recovery is expected to be slow, according to JLL, it will last well into 2021.

Read the full Johannesburg report attached.

© Hansueli Krapf – 123RF.com

Cape Town

Cape Town's local economy is predominantly service driven, accounting for 12% of the country's GDP. A resilient commercial environment, coupled with a thriving tourism sector, means that the city is home to the second largest airport in South Africa.

The metropolitan has seen some of the best quality office space come to market over the past five years. The office sector finds itself transitioning into a cyclical downturn. Rentals across asset grade have peaked and are starting to decline.

Commercial operators have shown a reluctance to go out to market and assess space options, despite the country's revised lockdown regulations which now allow most sectors to trade again.

Corporate demand is expected to reduce as businesses scale down and restructure their workspace requirements in order to prioritise the health and safety of employees. The city has approximately 19,000m^2 of commercial office space currently in its pipeline.

Focus on tenant retention

All recent movement in the industrial sector has been in the logistics and warehousing segments. Cape Town's industrial spaces have shown average vacancy levels in the logistics and warehousing space ranging between 7-8%. With the peak of South Africa's Covid-19 infections forecasted to strike at the end of August, industrial segments are set to remain tenant focused.

"The landlords' focus is to retain tenants and to avoid long term vacancies and subsequent costs. Accordingly, we anticipate that current lease agreements may be temporarily re-negotiated to accommodate tenant's affordability," added Scott.

The implementation of global travel restrictions, as well as South Africa's lockdown have brought South Africa's hotel industry to a standstill. All international borders and airports have been closed for tourism. Hotel occupancy levels in Cape Town reached record low levels of 10% by the end of June 2020. This equates to an annualised contraction of 80%, declining from 53% in June 2019.

Read the full Cape Town report attached.

© Hongqi Zhang – 123RF.com

eThekwini

eThekwini Metropolitan Municipality contributes 15% towards South Africa's total GDP. The port city plays a key role in South Africa's trade linkages with the rest of the world. It has maintained some of the highest office vacancy rates country-wide. Landlords are becoming increasingly aggressive with commercial lease agreements, as focus shifts towards tenant retention. Office supply in eThekwini is dominated by the Umhlanga, including La Lucia, node with several mixed-use schemes making up the commercial pipeline, reinforcing it as the preferred location of choice for corporate office users and citizens alike.

Although the nation-wide lockdown brought the construction industry to an abrupt stand still, eThekwini's subdued commercial climate, coupled with an oversupply of office space, will continue to compress rentals whilst driving up vacancy rates. This will be primarily driven by weak corporate demand playing into the hands of occupiers as more competitive deals will be offered.

Investors pulling out of major deals

A healthy industrial project pipeline has been overshadowed by investors and developers alike pulling out of major deals. This is evident with current developments including Clairwood Industrial Park and Cornubia Industrial Business Estate, where no tenants have been secured yet. On existing leases, many landlords are being forced to bring down rentals and escalations using extended lease adjustments to recover costs.

Though the spike in e-commerce sales has had a significant impact on the logistics and warehousing landscape, it is anticipated that many smaller operators will be heavily impacted by the economic slowdown.

eThekwini's hotels market relies primarily on domestic corporate travel but enjoys a higher weighting of domestic leisure travel than other major markets in the country. The emergence of the Umhlanga node corporate centre bodes well for hotels based in the surrounding area. However, continued urban decay and commercial decline, coupled with muted economic growth, is likely to hamper hotel performance in Durban CBD.

Read the full eThekwini report attached.