Varying degrees of activity in real estate sector as markets await election outcome

JLL has released its city reports for key markets across South Africa, drawing an outlook from developing trends in the commercial and industrial sectors in Johannesburg and Durban, and the office market in Cape Town. It also provides perspective from the South African retail market.

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While the economy continued to struggle with a tough economic environment which contributed to low rental growth across the country, confidence in the long-term outlook is prevalent in strong developer activity in all major cities.

Development activity high in Joburg and Durban

In Johannesburg, there is still rigorous demand for high quality accommodation and development activity is still very high, albeit concentrated in specific prime nodes. The office pipeline is currently at 398,057m^2, with Sandton, Rosebank and Waterfall accounting for more than 60% of the pipeline.

On the industrial front, supply in Johannesburg has potential to grow given the development land that is still available. JLL expects the northern and eastern nodes to continue seeing interest from both occupiers and developers due to their advantageous locations and the quality and type of industrial property they offer. Zandile Makhoba, head of research for Sub-Saharan Africa, JLL, confirms that the current pipeline, for both industrial and office, reflects that developers have a long-term outlook on the economic prospects of the city.

Developer confidence in the Durban real estate market remains firm, with activity strong across all sectors, and continued growth of mixed-use precincts shaping the coastal city. Makhoba says one could argue that 2018 has worked out to be more of a construction year in Durban. Improved trade efficiency due to port investment and other public infrastructure is setting a positive tone for economic activity in the year ahead.

CT commercial property industry well positioned to weather recession

While Cape Town's office development pipeline remained unchanged, the commercial property industry remains well positioned to weather the recession, with a general vacancy rate below the national level. Makhoba comments, "The slight increase in the office vacancy rate to 7.3% in Q3 from 7.0% in Q2 was largely driven by a rise in supply rather than a decline in demand, and should be quickly absorbed by the market". Cape Town's office development pipeline is also the smallest in comparison to Durban and Johannesburg, with an additional 47,300m^2 to be added by 2020, however a significant R4bn investment in infrastructure over the next three years will enhance Cape Town's market appeal.

Retail market to experience headwinds for growth in 2019

A review of the South African retail market reveals that while trading density growth trends are showing signs of recovery, the high indebtedness of households and the rising cost of living indicate headwinds for growth in 2019. According to SAPOA, on a yearly basis, super-regional malls witnessed the highest increase in the vacancy rate and have the highest cost of occupancy, but have interestingly seen the biggest improvement in terms of trading density growth. Concerns of the market tipping into oversupply in the sector remain a concern, with Statistics South Africa reporting a total of 436,783m^2 of retail building plans having been passed, which gives a rough indication of future supply.

Makhoba says that despite the economic and retail sector challenges, the country continues to see an increase in retail supply. "SAPOA reports that there has been an increase in take-up of retail space by health and beauty stores which has positively shifted the tenant mix for shopping centres."

With 2019 being an election year, all activity is likely to slow across the country's key markets, as developers and occupiers adopt a wait-and-see attitude to the political situation. However, projects which have already broken ground stand to gain from the emergence of stability post the election period.