

Overview

Economic recession in Q3 2018, high unemployment, cost pressures for both consumers and businesses as well as low business confidence best describe the sentiment in the overall commercial real estate market. The office sector has suffered various blows over the past years resulting in muted demand for new office space, high vacancies and pressure on rental performance. This is worsened by increased supply in some of the prime areas. Despite this, there are nodes performing better than the wider market.

Market Performance

Demand - Various companies are under pressure to reduce their real estate cost. as such, many are increasing space utilization densities and subletting surplus space. Take up of new space continues to be driven by musical chairs – companies moving from one node to another, rather than business expansion. There is however, a quantum of enquiries and take up of smaller spaces between 50m² to 500m². **On the supply side**, development pipeline is currently reported at 398,107m² in the office market. Sandton, Rosebank and Waterfall are responsible for 83% of the overall developments in Johannesburg, with the majority of the development pipeline still seen in Sandton. **Vacancies** across the city have worsened from the previous quarter, registering a 400 bps increase to 12.8% in Q3 2018. The largest contributions to this vacancy trend were seen in Rosebank, Sandton, Johannesburg CBD and Braamfontein nodes, all increasing vacancies by over 12,000m² in each submarket. The vacancy trend is expected to increase further as more developments are completed. **Prime rental performance** remains under pressure, attributed to the large options of quality stock for tenants. Gross Rentals for a prime building in a good node are reported at R260/m² per month. Q to Q % change in achieved Gross rental performance saw sharp declines in the various prime nodes like Sandton, Rosebank, Melrose and Fourways (See Table 2).

Outlook

Market take up is expected to remain under pressure whilst supply of new space increases. Occupiers have the advantage of various options for better quality, this resulting in further rental pressure across the market. Unless the economic trajectory turns, the next 6 to 18 months will continue to favour the occupiers.

MARKET INDICATORS

Table 1: Market Outlook

Prime Rents:	No to limited growth of prime rents, with various landlords prepared to offer more incentives to attract tenants in to their portfolios.	▼
Prime Yields:	Remaining under pressure across prime markets as net incomes of various good buildings come under threat.	►
Supply:	Various speculative developments on the pipeline, giving occupiers varied choice of good quality office accommodation.	▲
Demand:	Demand driven by consolidation and efficiencies. Enquiries are predominantly for smaller office space (between 50m ² and 500m ²).	▼

Table 2: Prime Office rents – Q3 2018

LOCATION	ZAR	GBP	US\$	GROWTH %	
	SQ. M YR	SQ.M YR	SQ.FT YR	Q TO CHANGE	Y/Y % CHANGE
PRIME OFFICE NODES					
Sandton	260	13.54	17.62	-8.8%	15.6%
Rosebank	260	13.54	17.62	-8.8%	20.9%
Melrose	240	12.50	16.26	-9.4%	45.5%
Bryanston/Epsom Downs	191	9.95	12.94	-13.2%	-1.0%
Fourways	185	9.64	12.53	-5.1%	2.8%
Waterfall	220	11.46	14.91	0.9%	42.9%
Midrand / JHB North	190	9.90	12.87	0.0%	2.7%
Johannesburg CBD & Braamfontein	95	4.95	6.44	0.0%	0.0%

Exchange rates

Rand per GBP = R19.2

Rand per USD = 14.76

Table 3: Vacancies – Q3 2018

LOCATION (FIGURES ARE EXPRESSED IN %)	CURRENT	LAST	LAST	5 YEAR	
	Q	Q	Y	HIGH	LOW
Sandton	17.3%	16.5%	11.3%	12.3%	2.6%
Rosebank	7.9%	5.0%	11.9%	7.8%	0.0%
Melrose	5.0%	5.6%	16.6%	3.2%	1.8%
Bryanston/Epsom Downs	9.1%	9.1%	8.6%	7.5%	7.6%
Fourways	8.9%	8.8%	11.7%	3.2%	1.8%
Waterfall	2.3%	2.4%	5.6%		
Midrand / JHB North	14.3%	14.2%	6.5%	10.2%	1.8%
Johannesburg CBD & Braamfontein	14.9%	15.2%	14.6%	19.4%	13.6%

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JOHANNESBURG, SOUTH AFRICA

Office Market Snapshot

Third Quarter | 2018



EXCELLERATE

LOCATION	INVENTORY	PRIME STOCK (M ²)	GRADE A STOCK (M ²)	PRIME RENTS ¹	COMPLETIONS (M ²)	GRADE P VACANT STOCK (M ²)	GRADE A VACANT STOCK (M ²)	OVERALL VACANCY RATE
PRIME OFFICE NODES	3,401,475	1,184,950	1,387,678	226	18,872			
Sandton	1,841,846	907,785	594,725	260		70,372	120,783	17.3%
Rosebank	415,510	116,159	153,690	260		2,821	17,377	7.9%
Melrose	209,373	21,479	167,697	240			10,492	5.7%
Bryanston/Epsom Downs	564,493	15,630	298,575	191	4,872	540	26,966	9.1%
Fourways	218,892	25,000	120,527	185	0	0	14,447	8.9%
Waterfall	151,361	98,897	52,464	220	14,000	3,500	0	2.3%

¹ Prime Rentals reflect Gross Achieved rentals R per square metre / month
Source: SAPOA, Cushman & Wakefield Excellerate

Key Developments Q3 2018

PROPERTY	LOCATION	MAJOR TENANT	SIZE (SQ. M)	COMPLETION DATE	DEVELOPER
Waterfall Point	Waterfall		10,000		Attacq
The Galleria - Phase 1	Rosebank		20,000	Q2 2019	Abland / Redefine
The Galleria - Phase 2	Rosebank		20,000		
The Galleria - Phase 3	Rosebank		30,000		
144 Oxford Road	Rosebank		35,000		
18 Glenhove	Melrose / Waverley		3,500		
Oxford/ Glenhove	Rosebank		22,000		Barrow
The Oxford Park /199 Oxford	Rosebank		4,800	Q4 2018	Intaprop
Corporate Campus	Waterfall		30,000		
The Ingress	Waterfall		22,500	Q4 2019	Attacq
Hartford Office Park	Midrand		6,500		
Barlow Park	Sandton	Barlow World	60,000		Atterbury

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