

RESEARCH

INDUSTRIAL VACANCY SURVEY

H1 2011:

POSITIVE SIGNALS FOR INDUSTRIAL VACANCIES

	<i>GLA (m² thousands)</i>	<i>Number of properties</i>	<i>% of GLA</i>	<i>Vacancy (%)</i>
All Industrial	3,656.0	382	100.0	4.2
Warehousing	858.6	62	23.5	6.0
High-tech/High-grade	882.5	92	24.1	1.5
Light Manufacturing	657.1	85	18.0	4.7
Standard Units	1,257.9	143	34.4	4.7

SUMMARY POINTS

- The all industrial vacancy rate in South Africa improved to 4.2% with the trend having declined moderately over the past one-and-a-half years.
- Actual completed industrial supply was down by 32% in the first 6 months of 2011 compared with the same period in 2010.
- Despite good fundamentals, the industrial sector suffered a contraction in capital growth over the first six months of 2011, making it the worst performing of the three main commercial property sectors.

IPD

T: 011 656 2115

F: 011 656 2797

jcleland@ipdindex.co.za

www.ipd.com/southafrica

SAPOA

T: 011 883 0679

F: 011 883 0684

eventsmanager@sapoa.org.za

www.sapoa.org.za



CHALLENGING TIMES FOR INDUSTRIAL PROPERTY

On a weighted basis the all industrial vacancy rate in South Africa improved to 4.2%; this is down from levels of 5.4% six months earlier (end 2010) and 5.7% 12 months prior (mid 2010).

In fact, industrial vacancies have declined moderately over the past one-and-a-half years; this following a brief two year period of escalating vacancies, which in turn was preceded by a record low level reached in 2007.

Current industrial vacancy levels are below those of both the 3 and 10 year annualized average, but slightly above the 5 year average.

Following the brisk pace of economic expansion recorded in the first quarter of 2011, real growth in the South African economy slowed substantially in the second quarter to an annualised rate of only 1.3%.

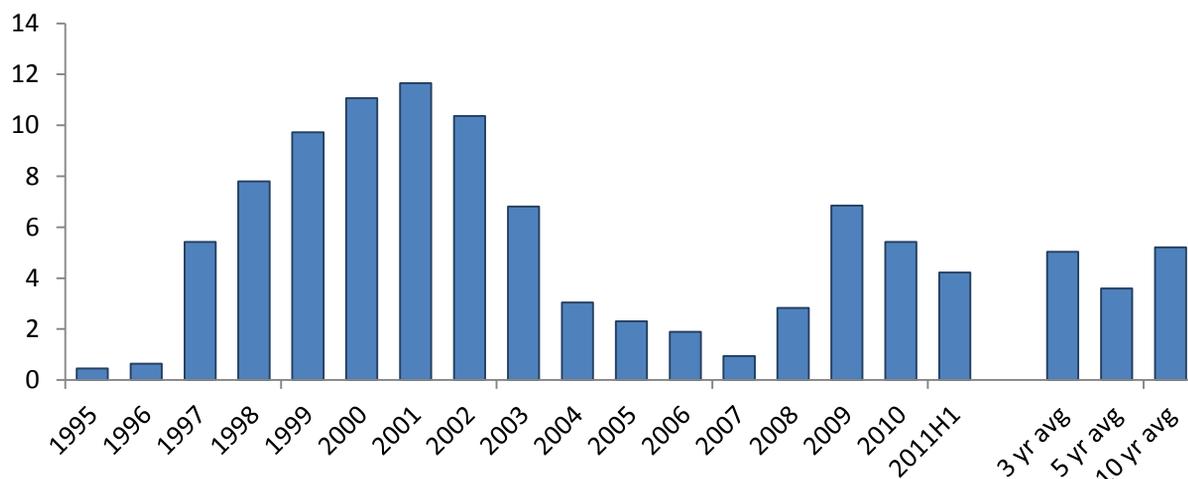
While activity in the tertiary sector expanded further, real value added in the main goods-producing sectors contracted notably in the second quarter.

The real value added by the manufacturing sector contracted at an annualised rate of 7% in the second quarter of 2011, following an expansion of 14% in the first quarter.

For industrial property market fundamentals this will at best stem investment activity and is most likely to detract from performance going forward.

Supporting this sentiment, industrial planned supply for the first six months of 2011 was down 7.3% compared with the same period in 2010; similarly actual completed supply was down by 32% and is supportive of ensuring market equilibrium.

Fig 1:
Industrial vacancy (% GLA)



Hi-tech industrial space continues showing the strongest occupation performance with a low vacancy of only 1.5%. This has by and large consistently been the trend over the past sixteen years with the exception of the period 200-2002.

There is little doubt that this has to do with the fact that this segment is representative of newer and more modern facilities; in turn these facilities often comprise an office component and by implication in some areas this can compete with traditional office market demand.

With the exception of high-tech industrial property, the industrial sector suffered a contraction in capital growth of -1.5%, making it the worst performing of the three main commercial property sectors; this despite industrials posting the strongest income return at 5.1% boosted by the lowest operating cost growth/m² and the lowest vacancy.

Following a number of years of outperformance, the industrial capital growth recorded over the past year is a legacy of a poor economic outlook for the sector in general.

Somewhat uncharacteristically, warehousing now records the highest vacancy at 6%; this is up 120bp from end 2010 (4.8%) and 80bp from mid 2010 (5.2%). The close economic association between warehousing and retail no doubt informs this recent trend, and with the uncertainty surrounding the consumer retail cycle, investors will be somewhat cautious regarding any conclusive outlook for this segment.

With economic growth slowing, household-based survey information shows that employment increased very little in the second quarter of 2011; and because the labour force expanded significantly at the same time, the unemployment rate rose further over the period.

Definitions

Warehousing:

Warehousing	Eaves height greater than 6 metres with good circulation and docking space and multiple access portals
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High-Tech/High Grade Industrials are inclusive of:

High-Tech Industrial	Modern construction with office content between 25% - 50% of the gross market rental.
High Grade Industrial	Eaves height greater than 6 metres with good yard/circulation space

Light Manufacturing:

Light Manufacturing	Office content less than 15% of market rental. Eaves height <6m or limited yard/circulation space or restricted accessibility.
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Standard Units are inclusive of:

Mini Units	Modular units with a majority of rentable areas being less than 500 m ² per unit
Midi Units	Modular units with a majority of rentable areas being between 500 and 1000m ² per unit.
Maxi Units	Modular units with a majority of rentable areas being greater than 1000m ² per unit.

Report compiled by IPD

In terms of segment sizes, the biggest improvement in vacancy rate as measured over the past 6 months occurred in the 5,000-10,000m² segment, where vacancies dropped from 7.5% to 3.8%.

By contrast, the only industrial size category which saw a climb in vacancy was the 2,500-5,000m² segment, which saw a jump from 6.1% as at end 2010 to 9.6% end June 2011.

In general, it is the larger sized industrial categories where vacancies have been lowest, and by implication this has fed into corresponding better total return performance.

One anticipates that with augmented technology combined with the increased cost and scarcity value of land, modern industrial facilities are likely to become larger or at least 'bulkier'; by similar logic heavy industrial facilities are likely to reduce in size.

Table 3 confirms that the average Gross Lettable Area (GLA) of hi-tech/hi-grade industrial facilities is larger than those attributed with light manufacturing and standard industrial units.

Warehousing and hi-tech/hi-grade industrial facilities currently comprise some 48% of the total IVS GLA; this is up from 38% at end 2010 and 34% in mid 2010. This trend supports the case that the SA property investment market continues to weigh their industrial portfolios in favour of these two segments.

From a provincial industrial perspective, there is no denying that vacancies in KZN are lowest – presently sitting at 1.3% – as compared with 4.0% and 5.3% in the Western Cape and Gauteng respectively.

In fact, over the past sixteen years, the highest industrial vacancy rate in KZN occurred in 2000 when it reached 6.8%; this in comparison with peaks of 8.0% in the Western Cape (1999) and 14.3% in Gauteng (2001).

Despite the fact that the vacancy picture is different in geographic terms, there is in fact very little separating these markets from a total return perspective and as measured on an average annualized basis over 3, 5, 10 and 16 years.

In fact by the same logic there is very little separating the total return performance across the different industrial segments (warehousing to standard units).

One of the more notable characteristics of the industrial investment market is that over the average annualized periods, the highest differentiation in total return is only 3.7% between the segments (over 3 years) and the lowest differential 1.4% (over 10 years).

This speaks to its relative low sector volatility and bond- like qualities which generally serve as motivation for inclusion in many SA property portfolios.

Report by Marc Schneider and Jess Cleland.

Industrial data is from the IPD Digest 2011 H1 update. For more information or to purchase the IPD Digest please contact Chele Moyo on 011 656 2115 or smoyo@ipdindex.co.za.

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Report compiled by IPD

1. Sample Composition

Sample Coverage

Square metres covered:	m ²	Number of Properties:	Average Nodal Composition	% of GLA
All Industrial	3,656,049	382		
Warehousing	858,546	62	Warehousing	23.5%
High-Tech/High Grade Industrials	882,460	92	High-Tech/High Grade Industrials	24.1%
Light Manufacturing	657,181	85	Light Manufacturing	18.0%
Standard Units	1,257,862	143	Standard Units	34.4%

Top 10 Largest Nodes in Sample (by number)

Top 10 Largest Nodes in Sample (by m²)

Node	Number of Properties	Node	m ²
Pinetown	36	Pinetown	332,647
Meadowdale/Tunney	28	Meadowdale/Tunney	256,038
Epping/Airport/Langa	27	Epping/Airport/Langa	247,512
Midrand/Olifantsfontein	26	Jet Park	234,542
Jet Park	20	Germiston	207,910
Durban North/Umgeni/Springfield	18	Boksburg	195,280
Isando	16	Milnerton/Montague Gardens/Paarden Eiland	193,175
Germiston	14	Umbilo/Mobeni/Westridge	172,747
Milnerton/Montague Gardens/Paarden Eiland	13	Midrand/Olifantsfontein	169,045
Spartan	12	Goodwood/Parow/Bellville	120,237

2. Top 5 Nodes by Majority Composition

Minimum 15 properties in node

Warehousing	% of GLA	High-Tech/High Grade Industrials	% of GLA
Meadowdale/Tunney	50.5%	Jet Park	60.2%
Jet Park	22.1%	Midrand/Olifantsfontein	39.2%
Pinetown	18.4%	Durban North/Umgeni/Springfield	34.4%
Durban North/Umgeni/Springfield	17.0%	Pinetown	19.8%
Isando	16.8%	Epping/Airport/Langa	17.1%

Light Manufacturing	% of GLA	Standard Units	% of GLA
Epping/Airport/Langa	58.4%	Midrand/Olifantsfontein	51.1%
Isando	45.3%	Pinetown	47.9%
Pinetown	13.9%	Durban North/Umgeni/Springfield	41.3%
Durban North/Umgeni/Springfield	7.3%	Meadowdale/Tunney	33.6%
Jet Park	7.2%	Isando	20.9%

3. Segment Data

Segment	Vacancy (%)	GLA (m ²)	Net Income Receivable R/m ² (monthly)	Average GLA (m ²)
Warehousing	6.0	858,546	R 26.9	13,848
High-Tech/High Grade Industrials	1.5	882,460	-	9,592
Light Manufacturing	4.7	657,181	R 20.3	7,732
Standard Units	4.7	1,257,862	R 27.9	8,796

4. Provincial Data

Province	Vacancy (%)	Net Income Receivable R/m ² (monthly)	GLA (m ²)	Number of Properties
Gauteng	5.3	R 27.8	2,200,680	231
Western Cape	4.0	R 23.4	645,543	56
KwaZulu Natal	1.3	R 28.8	756,362	86

5. Vacancies by Key Industrial Area

The Key Industrial Nodes detailed below are a conglomeration of IPD Nodes - grouped together to indicate functional industrial areas within the selected cities.

Node	Vacancy (%)	GLA (m ²)	Number of Properties	Average property GLA
Gauteng				
R24/R21/N12 Triangle	4.9	611,963	67	9,134
N3/N17 Junction	2.7	207,910	14	14,851
N1/R101 Corridor	7.8	202,677	32	6,334
M2 East/West Corridor	3.3	139,221	13	10,709
N12 East of Jet Park	2.8	213,477	11	19,407
M1 Corridor to Buccleuch	3.1	99,009	14	7,072
R512 Corridor inc. Strijdom Park	16.3	65,511	11	5,956
Alberton/Alrode Basin bound by the R59 & N3	4.8	99,808	9	11,090
South West Industrial - Main Reef Corridor incl. Ormonde	7.1	143,047	13	11,004
R21 North of OR Tambo Int Airport	10.6	73,520	15	4,901
N3/R25/Allandale Triangle	4.2	26,982	6	4,497
N14 Centurion Corridor	~	~	~	~
Greater Pretoria	2.7	171,736	11	15,612
KwaZulu Natal				
Greater Pinetown	2.3	332,647	36	9,240
Southern Industrial Basin	0.4	172,747	9	19,194
Umgeni River Node - north to Redhill	0.7	108,775	18	6,043
East of the M4 - Jacobs to Isipingo	~	~	~	~
Phoenix/Mt Edgecombe Area	~	~	~	~
Western Cape				
Central Industrial Zone- bound by the N1/N2/R300	3.8	423,580	39	10,861
N7 Corridor (North of N1)	4.7	193,175	13	14,860
Southern Suburbs (South of N2)	~	~	~	~

~ Sample size less than 5 properties

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