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SAPOA

RESEARCH

INDUSTRIAL VACANCY SURVEY

H2 2011:
POSITIVE SIGNALS FOR INDUSTRIAL VACANCIES

	GLA (m^2 thousands)	Number of properties	% of GLA	Vacancy (%)
All Industrial	6,854.0	673	100.0	4.3
Warehousing	1,310.5	94	19.1	3.1
High-tech/High-grade	1,213.4	123	17.7	1.4
Light Manufacturing	1,275.9	139	18.6	8.6
Standard Units	2,413.0	261	35.2	4.5

SUMMARY POINTS

- The all industrial vacancy rate in South Africa steadied in the second half of 2011 and currently sits at 4.3%, representing a marginal increase over 4.2% at the end of June 2011 but an improvement from 5.6% at the end of 2010.

- Industrial supply in terms of square metres of new buildings completed was down by 22.9% in 2011, compared with 2010.

- Fundamentals remain good for the sector. Capital values returned to positive growth at the end of 2011, after a flat period in the first half in the year, and total return was the highest of the three main commercial sectors for 2011 overall.

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FLICKERS OF HOPE FOR INDUSTRIAL PROPERTY

The national vacancy rate for all industrial property on a weighted basis remained relatively steady in the second half of 2011, and currently sits at 4.3%. This is marginally up on 4.2% in H1 2011 but down on 5.6% recorded in December 2010.

This means that industrial vacancies have been improving for the last two years following a high of 6.5% for 2009, but now seem to be steadying. Looking back, the current vacancy rate sits below the 3 and 10 year annualised averages of 5.5% and 4.5% respectively, and just above the 5 year average of 4.1%.

While industrial vacancies realised some improvement during 2011 and overall returns have beaten other property sectors, the sector continues to operate in a tight market grappling with a slow economy. Real, unadjusted GDP growth slowed marginally throughout 2011, recording 3.4% in Q1 and ending with 2.9% in Q4, over the same quarters in 2010.

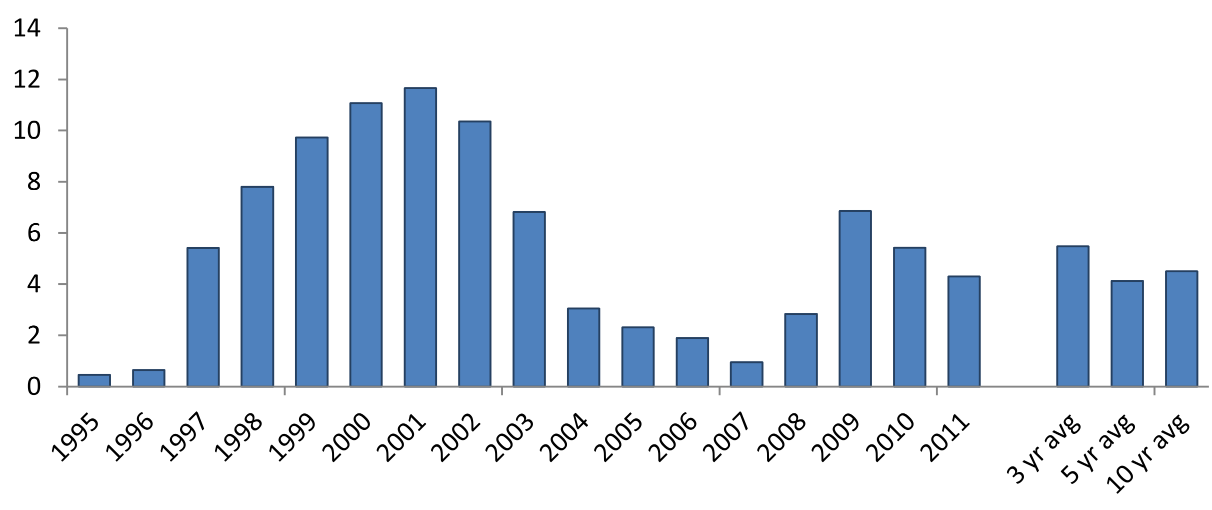
Overall, 2011 realised growth of 3.1%, only just beating 2.9% achieved in 2010. This trend is set to continue into 2012 where general growth forecasts are pegged at around 3% amid global economic concerns, a lacklustre manufacturing sector and consumer spending coming under pressure.

The tertiary sector continued to contribute positively to GDP in Q4, albeit at a slower pace that Q3, while the main goods-producing sectors realised an improvement and grew by the same rate of 3.5%.

In line with this improvement, the manufacturing sector expanded by 4.2% in Q4, following contraction in the previous two quarters. Overall, 2011 saw the sector expand by 2.4%, compared with 5.4% recorded in 2010.

While these improvements bode well for industrial property, investors will remain cautious due to the uncertain economic outlook. At best, 2012 will see a gradual improvement of investment in some under-supplied nodes.

Fig 1:
Industrial vacancy (% GLA)



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Hi-tech industrial space continues to outperformed its counterparts in terms of occupancy performance with a vacancy of 1.4% registered across the segment, a slight improvement from 1.5% in H1 2011. While this is partly due to properties being mainly tenant specific, it also reflects strong demand for modern industrial space including a decent office component.

Light manufacturing was the only segment to register an increase in vacancies over the six month period, up considerably to 8.6% from 4.7% in H1 2011. This is indicative of the pressure on some areas of the manufacturing industry.

Conversely, the largest improvement was realised by warehousing space where vacancies fell to 3.1% from 6.0% in the previous quarter. Considering the close correlation of warehouse space and the retail industry, this reflects the relatively strong performance of retail at the end of 2011. However, 2012 data suggests that the retail 'mini-boom' may be faltering and as a result the continued performance of warehousing into 2012 is uncertain.

Looking at vacancy rate changes over the past 6 months in terms of segment sizes, the largest improvement was realised in the 2,500-5,000m² segment where vacancies fell from 9.6% to 4.6%. Larger industrial properties in the 25,000m² and above segment experienced the largest increase during this period, from 3.6% to 6.0%. The remaining segments realised marginal movements of less than 1%.

This increase has negatively affected total returns in the segment which is no longer the top performer as was the case at the end of 2010. This accolade now rests with the 10,000m² to 25,000m² category which posted a 13.2% return at the end of 2011. Correspondingly, the segment currently has the lowest vacancy of 2.7% as well.

Definitions	
Warehousing:	
Warehousing	Eaves height greater than 6 metres with good circulation and docking space and multiple access portals
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.
Standard Units are inclusive of:	
Mini Units	Modular units with a majority of rentable areas being less than 500 m² per unit
Midi Units	Modular units with a majority of rentable areas being between 500 and 1000m² per unit.
Maxi Units	Modular units with a majority of rentable areas being greater than 1000m² per unit.

On a provincial level, Kwazulu-Natal continues to achieve the lowest vacancies, which currently register 2.6%. While this is up on 2.0% at the end of 2010, it compares well to vacancies of 4.7% and 4.0% in Gauteng and the Western Cape respectively.

While vacancies are higher in Gauteng and the Western Cape, the current levels in each province represent improvements over the respective levels of 6.8% and 5.2% at the end of 2010.

In terms of investment performance, Kwazulu-Natal also bettered it's two main counterparts with a total return of 12.6% as at the end of 2011. Gauteng was a close second with 12.2%, followed by the Western Cape with 9.8%. Total returns across all three provinces were largely driven by income return, as is the general case in the commercial property market as a whole.

This outperformance is not only in recent results, and while total returns over an annualised ten year period for the three provinces are very close, industrial property in Kwazulu-Natal came out on top with 20.8%. This is compared to returns of 20.0% and 19.6% achieved in Gauteng and the Western Cape respectively.

Looking closer, one should also consider that the industrial property market in Gauteng is considerably larger than in its two closest rivals, coming in at approximately double the Kwazulu-Natal and the Western Cape markets combined in terms of Gross Lettable Area (refer to table 4).

This means that on a provincial level different dynamics are at play in SA's largest industrial market which for one translates into a higher natural vacancy rate. This is illustrated by the 10 year annualised vacancy rate which sits at 5.6% for Gauteng, 3.4% for the Western Cape and 2.6% for Kwazulu-Natal.

That said, the higher vacancy rate also suggests that certain nodes in Gauteng are at more risk of oversupply. Strong demand is being registered Kwazulu-Natal where significant infrastructure investment is taking place, particularly in ports, while in the Western Cape anecdotal evidence suggests a shortage of supply in some areas of the market. The Eastern Cape is also likely to present opportunities due to institutional focus in the form of the Coega IDZ.

Turning to capital values, industrial property has seen a slight turnaround this period, achieving positive annual growth of 1.4% at the end of 2011, following contraction of 1.5% in the six months to June 2011. While an improvement, this is down on 3.3% achieved as at end 2010, highlighting the continued pressure on capital values.

On a segmental basis, only light manufacturing registered a decrease in capital values, further emphasizing the lacklustre performance of the segment.

In terms of overall performance of the commercial property market, the industrial sector achieved the highest total return of 11.9% during 2011. This was mainly driven by a strong income return of 10.4%, which beats its main two sector-counterparts for the third consecutive year.

Report by Sean Godoy and Jess Cleland.

Industrial data is from the IPD Digest 2011. 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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1. Sample Composition

Sample Coverage

Square metres covered:	m^2	Number of Properties:	Average Nodal Composition	% of GLA
All Industrial	6,854,004	673		
Warehousing	1,310,501	94	Warehousing	19.1%
High-Tech/High Grade Industrials	1,213,444	123	High-Tech/High Grade Industrials	17.7%
Light Manufacturing	1,275,901	139	Light Manufacturing	18.6%
Standard Units	2,412,975	261	Standard Units	35.2%

Top 10 Largest Nodes in Sample (by number)

Node	Number of Properties
Midrand/Olifantsfontein	67
Pinetown	47
Jet Park	46
Meadowdale/Tunney	39
Epping/Airport/Langa	38
Linbro Park/Modderfontein/Chloorkop	31
Durban North/Umgeni/Springfield	30
Isando	29
Germiston	23
Spartan	23

Top 10 Largest Nodes in Sample (by m^2)

Node	m^2
Midrand/Olifantsfontein	484,074
Pinetown	449,391
Jet Park	449,207
Epping/Airport/Langa	411,720
Germiston	411,149
Meadowdale/Tunney	361,736
Isando	334,176
Durban North/Umgeni/Springfield	229,932
Boksburg	227,015
Prolecon/City Deep/Rosherville	226,638

2. Top 5 Nodes by Majority Composition

Minimum 15 properties in node

Warehousing	% of GLA
Milnerton/Montague Gardens/Paarden Eiland	62.9%
Meadowdale/Tunney	40.7%
Durban North/Umgeni/Springfield	30.7%
Epping/Airport/Langa	21.0%
Jet Park	19.8%

High-Tech/High Grade Industrials	% of GLA
Midrand/Olifantsfontein	38.4%
Jet Park	37.6%
Linbro Park/Modderfontein/Chloorkop	35.9%
Spartan	32.1%
Durban North/Umgeni/Springfield	31.1%

Light Manufacturing	% of GLA
Isando	65.1%
Epping/Airport/Langa	39.7%
Spartan	34.9%
Germiston	30.4%
Kelvin/Alexandra/Wynberg	27.8%

Standard Units	% of GLA
Linbro Park/Modderfontein/Chloorkop	63.1%
Pinetown	56.0%
Midrand/Olifantsfontein	52.3%
Germiston	49.9%
Kelvin/Alexandra/Wynberg	44.3%

3. Segment Data

Segment	Vacancy Rate (%)	GLA (m^2)	Net Income Receivable per m^2 (monthly)	Average property GLA
Warehousing	3.1	1,310,501	R 29.2	13,942
High-Tech/High Grade Industrials	1.4	1,213,444	R 33.8	9,865
Light Manufacturing	8.6	1,275,901	R 20.4	9,179
Standard Units	4.5	2,412,975	R 29.6	9,245

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4. Provincial Data

Province	Vacancy Rate (%)	Net Income Receivable per m² (monthly)	GLA (m^2)	Number of Properties
Gauteng	4.7	R 28.9	4,446,127	450
Western Cape	4.0	R 27.1	980,085	82
KwaZulu Natal	2.6	R 29.8	1,251,496	123

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 Rate (%)	GLA (m^2)	Number of Properties	Average property GLA
Gauteng				
R24/R21/N12 Triangle	2.9	1,154,314	117	9,866
N3/N17 Junction	14.2	411,149	23	17,876
N1/R101 Corridor	4.1	520,133	74	7,029
M2 East/West Corridor	5.9	451,062	33	13,669
N12 East of Jet Park	0.9	285,485	15	19,032
M1 Corridor to Buccleuch	6.0	174,584	26	6,715
R512 Corridor inc. Strijdom Park	9.2	175,550	20	8,778
Alberton/Alrode Basin bound by the R59 & N3	0.6	114,433	9	12,715
South West Industrial - Main Reef Corridor incl. Ormonde	6.3	227,382	20	11,369
R21 North of OR Tambo Int Airport	0.4	248,099	33	7,518
N3/R25/Allandale Triangle	0.9	207,712	39	5,326
N14 Centurion Corridor	0.7	124,181	11	11,289
Greater Pretoria	3.7	194,617	11	17,692
KwaZulu Natal				
Greater Pinetown	2.9	449,391	47	9,562
Southern Industrial Basin	0.6	191,605	11	17,419
Umgeni River Node - north to Redhill	1.6	229,932	30	7,664
East of the M4 - Jacobs to Isipingo	1.3	177,437	11	16,131
Phoenix/Mt Edgecombe Area	~	~	~	~
Western Cape				
Central Industrial Zone- bound by the N1/N2/R300	3.4	663,938	57	11,648
N7 Corridor (North of N1)	3.7	224,971	18	12,498
Southern Suburbs (South of N2)	~	~	~	~

~ Sample size less than 5 properties

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