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RESEARCH

INDUSTRIAL VACANCY SURVEY

H1 2012:
ECONOMIC RISKS PERSIST BUT INDUSTRIAL PROPERTY RESILIENT

	GLA (m^2 thousands)	Number of properties	% of GLA	Vacancy (%)
All Industrial	3,889.3	380	100.0	4.1
Warehousing	965.3	70	24.8	4.3
High-tech/High-grade	832.7	87	21.4	2.2
Light Manufacturing	662.6	80	17.0	5.1
Standard Units	1,428.7	143	36.7	4.5

SUMMARY POINTS

- The all industrial vacancy rate in South Africa improved marginally in the first half of 2012 and currently sits at 4.1%, representing a 23bp decrease over 4.3% at the end of December 2011 and also an improvement from 5.6% at the end of 2010.

- Industrial supply in terms of square metres of new buildings completed rose 53.9% in H1 2012, versus H1 2011.

- While recent socio-economic developments are a threat to the economy and may present a risk to the industrial sector, the fundamentals remain strong, as depicted by improving vacancies and capital values.

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FLICKERS OF RECOVERY FOR INDUSTRIAL PROPERTY

The national vacancy rate for all industrial property on a weighted basis showed marginal improvement in the first half of 2012 and currently registers 4.1%. This represents the third consecutive period of improvement, following 4.3% registered at the end of 2011, 5.6% at the end of 2010 and the cycle-high of 6.5% at the end of 2009.

This is a good trend for industrial property and indicates that the market has seen some improvement up until June 2012. Looking back, the current rate is below the 3 and 10 year annualised averages which are 5.5% and 4.5% respectively, and on par with the 5 year average of 4.1%. However, recent economic developments may mean the sector is not yet out of the woods.

Looking at the performance of the economy this year so far, GDP registered growth of 2.7% in Q1 and then 3.2% in Q2. While this looks fairly positive, a number of domestic and global issues have negatively affected forecasts for the remainder of the year, and also for 2013.

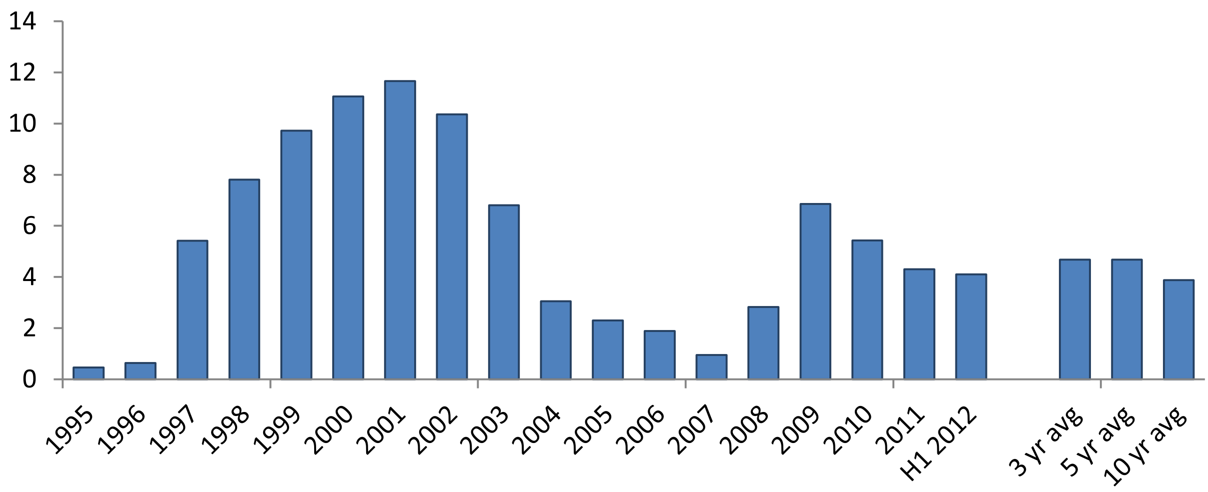
Wildcat strikes which originated in the mining sector have begun to spread to other important sectors. This is hurting the economy and also confidence in the economy, from foreign investors as well as South Africans.

As a result, the manufacturing sector and consumers are likely to come under renewed pressure. Manufacturing sector activity shrank by 1.0% in Q2 2012, while consumer confidence fell to -3 from 5 in Q1.

What does this mean for industrial property? Various economic developments are threatening manufacturing, which translates into worsening conditions for industrial property. Should the current sentiment remain for some time, factories are unlikely to expand and new ones unlikely to open.

That said, new factories for some foreign companies have been planned, although their impact will not be significant for the overall market

Fig 1:
Industrial vacancy (% GLA)



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High-tech industrial space maintains the lowest vacancy compared to the other industrial sectors, registering 2.2% as at the end of June 2012. This represents an increase on 1.4% at the end of December 2011. Warehousing also saw vacancies rise, from 3.1% to 4.3%.

Conversely, light manufacturing saw a strong improvement from 8.6% at the end of 2011 to 5.1% in the latest numbers. This may indicate an improvement in smaller scale manufacturers who possibly offer a specialised service or product which is somewhat immune from current economic woes. Standard units saw vacancies remain unchanged at 4.5%.

Looking back, high-tech industrial space vacancies are roughly on par with pre-2008 levels while the other three segments are approximately double what they were in the 'good years' preceding the Global Financial Crash and its delayed effects on the domestic economy. This highlights the quality and resilience of high-tech industrial space in terms of an asset within an investment property portfolio.

For vacancy rate changes over the past 6 months in terms of segment sizes, large properties in the over 25,000m² segment realised the biggest improvement as vacancies fell from 6.0% at the end of 2011 to 3.4% in the latest numbers. Conversely, the 10,001m² - 25,000m² segment saw vacancies rise from 2.7% to 4.4%. The other segments realised marginal changes of less than 1%.

In term of total return, the 5,001m² - 10,000m² segment achieved the highest return for the H1 2012 period at 7.1%, followed by the 10,001m² - 25,000m² segment which recorded 6.3%. These returns compare favorably to the retail and office sectors, and in fact marginally outpace them. This means the right selection of industrial property could have contributed positively to an investment property portfolio.

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.

Turning to a provincial perspective, Kwazulu-Natal has maintained the lowest vacancies in the country for all industrial property, registering 1.6% as at June 2012 compared to 2.6% at the end of 2011. Next best is the Western Cape at 3.6%, representing a 41bp improvement, followed by Gauteng at 5.1%, representing a 40bp increase.

Looking back, at the end of 2009 vacancies for KZN, the WC and GP were 2.9%, 6.8% and 7.4% respectively. Overall, vacancies have improved strongly compared to this period which was arguably at the peak of our economic woes.

The 10 year annualised average sits at 5.6%, 3.3% and 1.9% for GP, the WC and KZN. This shows that current vacancies are roughly in line with historical averages for the three largest provinces.

The three main provinces in terms of industrial property produced similar investment returns for the H1 2012 period. Total returns were 6.6%, 6.2% and 6.1% for KZN, GP and the WC respectively. While KZN is marginally ahead of its two counterparts, this lead has been larger in the past few years, returns seem to have been converging somewhat in 2012 so far.

KZN has the advantage of ports that serve the nation, which spur demand for various types of industrial property.

There is also considerable public spending planned on various fronts in the province, including the continued expansion of the Dube Tradeport node.

This is not to suggest that the rest of the country is unable to present good opportunities for industrial property investors and developers. The Coega IDZ is the Eastern Cape has some considerable development in the pipeline including a significant vehicle manufacturing plant.

In the Western Cape, the industrial market has seen some uptake in space as depicted by falling vacancy rates as well as development activity spurred by limited stock in some areas.

In terms of capital values, when comparing the H1 sample in 2011 to the sample in 2012, all three provinces saw an increase in the average value per square metre. Average values in KZN increased by 4.8%, in Gauteng by 7.4% and Western Cape saw the largest increase at 11.3%, perhaps further suggesting that some areas of the WC are undersupplied which is pushing values up.

Overall, the industrial property market has delivered relatively good performance through the economic downturn and into the current numbers.

While recent social, political and economic developments are worrying for the sector and indeed for the whole economy, one most not underestimate the positive impact of planned infrastructure development and the potential of the manufacturing and import/export industries.

If one takes a longer term view, industrial property may still have few tricks up its sleeve.

Report by Sean Godoy and Jess Cleland.

Industrial data is from the IPD Annual Digest Update H1 2012. 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	3,889,270	380		
Warehousing	965,320	70	Warehousing	24.8%
High-Tech/High Grade Industrials	832,654	87	High-Tech/High Grade Industrials	21.4%
Light Manufacturing	662,589	80	Light Manufacturing	17.0%
Standard Units	1,428,707	143	Standard Units	36.7%

Top 10 Largest Nodes in Sample (by number)

Node	Number of Properties
Pinetown	38
Meadowdale/Tunney	29
Midrand/Olifantsfontein	27
Epping/Airport/Langa	27
Jet Park	21
Durban North/Umgeni/Springfield	17
Isando	16
Milnerton/Montague Gardens/Paarden Eiland	15
Germiston	13
Spartan	12

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

Node	m^2
Pinetown	376,868
Meadowdale/Tunney	297,545
Epping/Airport/Langa	265,307
Jet Park	252,615
Milnerton/Montague Gardens/Paarden	223,227
Midrand/Olifantsfontein	207,688
Germiston	198,029
Boksburg	187,718
Umbilo/Mobeni/Westridge	172,072
Goodwood/Parow/Bellville	140,071

2. Top 5 Nodes by Majority Composition

Minimum 15 properties in node

Warehousing	% of GLA
Milnerton/Montague Gardens/Paarden Eiland	76.8%
Meadowdale/Tunney	45.7%
Jet Park	40.2%
Durban North/Umgeni/Springfield	19.2%
Isando	16.9%

High-Tech/High Grade Industrials	% of GLA
Jet Park	43.4%
Midrand/Olifantsfontein	37.5%
Durban North/Umgeni/Springfield	36.3%
Isando	17.1%
Pinetown	16.3%

Light Manufacturing	% of GLA
Epping/Airport/Langa	62.5%
Isando	45.6%
Pinetown	12.4%
Milnerton/Montague Gardens/Paarden Eiland	10.1%
Durban North/Umgeni/Springfield	6.9%

Standard Units	% of GLA
Pinetown	55.0%
Midrand/Olifantsfontein	51.7%
Meadowdale/Tunney	40.7%
Durban North/Umgeni/Springfield	37.6%
Isando	20.4%

3. Segment Data

Segment	Vacancy Rate (%)	GLA (m^2)	Net Income Receivable per m^2 (monthly)	Average property GLA
Warehousing	4.3	965,320	R 33.7	13,790
High-Tech/High Grade Industrials	2.2	832,654	R 34.9	9,571
Light Manufacturing	5.1	662,589	R 21.6	8,282
Standard Units	4.5	1,428,707	R 30.2	9,991

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4. Provincial Data

Province	Vacancy Rate (%)	Net Income Receivable per m² (monthly)	GLA (m^2)	Number of Properties
Gauteng	5.1	R 30.4	2,340,185	228
Western Cape	3.6	R 28.8	718,549	59
KwaZulu Natal	1.6	R 32.7	777,829	85

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	2.3	198,029	13	15,233
N1/R101 Corridor	7.5	230,505	30	7,684
M2 East/West Corridor	3.5	143,522	13	11,040
N12 East of Jet Park	0.9	204,510	11	18,592
M1 Corridor to Buccleuch	2.4	93,815	12	7,818
R512 Corridor inc. Strijdom Park	11.8	107,655	13	8,281
Alberton/Alrode Basin bound by the R59 & N3	9.0	94,322	8	11,790
South West Industrial - Main Reef Corridor incl. Ormonde	6.1	162,910	12	13,576
R21 North of OR Tambo Int Airport	0.0	70,432	15	4,695
N3/R25/Allandale Triangle	0.0	26,982	6	4,497
N14 Centurion Corridor	~	~	~	~
Greater Pretoria	5.7	178,968	11	16,270
KwaZulu Natal				
Greater Pinetown	2.3	376,868	38	9,918
Southern Industrial Basin	0.5	172,072	9	19,119
Umgeni River Node - north to Redhill	0.7	114,554	17	6,738
East of the M4 - Jacobs to Isipingo	~	~	~	~
Phoenix/Mt Edgecombe Area	~	~	~	~
Western Cape				
Central Industrial Zone- bound by the N1/N2/R300	2.1	466,481	41	11,378
N7 Corridor (North of N1)	5.0	223,227	15	14,882
Southern Suburbs (South of N2)	~	~	~	~

~ Sample size less than 5 properties

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