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RESEARCH

Industrial VACANCY **SURVEY**

IPD

An MSCI Brand

Report compiled by IPD

H2 2012: INDUSTRIAL PROPERTY PERFORMS WELL DESPITE SOFTER FUNDAMENTALS

RESEARCH

	GLA (m^2 thousands)	Number of properties	% of GLA	Vacancy %
All Industrial	6,604.6	634	100.0	4.4
Warehousing	1,756.6	137	26.6	2.5
High-tech/High-grade	1,041.1	107	15.8	3.1
Light Manufacturing	1,145.5	124	17.3	6.2
Standard Units	2,661.3	266	40.3	5.3

SUMMARY POINTS

- The second half of 2012 marks the first vacancy increase in industrial property since 2009. The national industrial vacancy figure rose from 4.1% in June 2012 to 4.4% in December 2012.
- Industrial property in KwaZulu Natal continues to enjoy the lowest vacancies, however this is also where the greatest vacancy increase occurred. Western Cape industrial, conversely, showed some degree of improvement over 2012.
- These results are based on a sample of 634 industrial assets covering 6.6 million m2 of lettable area.

The national vacancy rate for all industrial property as at the end of December 2012 was 4.4%. This marks an increase over the June 2012 figure of 4.1% as well as over the December 2011 figure of 4.2%.

Although the 2012 industrial vacancy rate remains below the three year and five year averages of 4.7% and 4.8% respectively, it is still above the longer ten year average of 3.9%. This ten year average is heavily influenced by the extremely low vacancies experienced by the sector between 2004 and 2008.

The upturn in vacancies in the second half of 2012 is the first instance of rising vacancies in the industrial market since 2009. While this certainly represents a shift in momentum, it is probably too early to tell whether a significant turning point in the cycle has been reached.

Despite the slight increase in vacancies, the industrial sector still enjoys the lowest overall vacancy level of the three main commercial property sectors. Retail vacancies as at December 2012 were 5.5%, while office vacancies remain stubbornly high at 12.5%.

Industrial property still maintained solid performance in terms of returns to investors in 2012. In line with the overall market, 2012 delivered an improved set of industrial returns compared to the previous year.

Returns improved on both the income return and capital growth components. The 2012 income return increased from 10.3% to 10.6%, while capital growth jumped from 1.7% to 4.8%.

Underlying fundamentals, however, suggest some softening in the market. Rental growth, although still positive and above inflation, moderated for the fourth straight year. Yields also continued to soften as they have done since the cyclical low in 2007. In 2007 the industrial rental yield was 9.4%, whereas by the end of 2012 it was 11.0%.

Compared to the same point in the previous year, warehouses were the only segment of the industrial market to record an improvement in vacancies, from 3.7% in December 2011 to 2.5% in December 2012.

The relative strength of some parts of the retail sector, the influence of international and local retailers, plus the slowly taking-off online shopping industry, all combine to drive demand for warehousing space, particularly those with good transport linkages.

The industrial segment which saw the highest increase in vacancies was the high-tech industrial section of the market, where vacancies increased from 2.2% to 3.1% over the year.

Given the large office component of many of these properties (generally between 25%-50% by rental value) it is unsurprising that they are being affected by some of the same dynamics as the lagging office sector.

Light manufacturing and low grade industrial properties, as well as standard units and workshop, both experienced rising vacancies and remain the segments with the highest overall vacancies.

Light manufacturing vacancies increased from 5.9% at the end of 2011 to 6.2% at the end of 2012, while standard unit vacancies increased from 4.7% to 5.3% over the same period.

Although there was some slight degree of improvement over the second half of the year, manufacturing confidence remained in negative territory in 2012.

The net income received for all types of industrial property nevertheless grew over the year, in each case at a rate above inflation despite ongoing cost pressures.

Significant operating cost inflation is still concerning the industrial sector, however the majority of the impact is being felt by tenants rather than landlords.

Recoveries are increasing at a faster rate than rentals, and the structure of these recoveries is tending more and more towards variable rather than fixed recoveries. This is primarily driven by the significant electricity component which is almost entirely recovered on a variable or usage basis.

Of the three main industrial provinces – Gauteng, Western Cape and KwaZulu Natal – it is KZN that continues to produce the best industrial performance. Its vacancies are the lowest of the three provinces, at 3.4%, and at the same time commands the highest net income at an average of R34.0/m2/month. The annual rate of net income growth was also the highest of the three provinces.

Recently, however, the industrial market in the Western Cape seems to have shown a degree of improvement over the year. It was the only province where overall vacancies actually decreased, with a 39 basis point decrease over the 12 months. This is in contrast to the 20bp vacancy increase in Gauteng and the 79bp increase in KZN.

In addition, Western Cape industrial managed to grow its annual base rentals at a double digit rate of 10.0%, while the rate in KZN was 7.5% and Gauteng could only manage 6.7%. Operating cost ratios, measured as gross costs as a percentage of base rent plus fixed recoveries, were also much lower in the Western Cape.

Some of the nodes around the country with the lowest vacancy rates include: N14 Centurion corridor, R21 north of ORTIA, Alberton/Alrode basin (Gauteng); Umgeni River node (KZN); N7 corridor (Western Cape).

Conversely, areas with some of the highest vacancies include: R512 Strijdom Park corridor, M2 east/west corridor, and Main Reef corridor (all Gauteng).

Report by Jess Cleland.

Based on data from the IPD SA database as at 31 December 2012

1. SAMPLE COMPOSITION

Sample Coverage

Square metres covered:	m^2	Number of Properties	Average Nodal Composition	% of GLA
All Industrial	**6,604,562**	**634**		
Warehousing	1,756,630	137	Warehousing	26.6%
High-Tech/High Grade Industrials	1,041,130	107	High-Tech/High Grade Industrials	15.8%
Light Manufacturing	1,145,476	124	Light Manufacturing	17.3%
Standard Units	2,661,326	266	Standard Units	40.3%

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

Node	Number of Properties		Node	m^2
Midrand/Olifantsfontein	66		Midrand/Olifantsfontein	482,653
Pinetown	47		Jet Park	476,940
Jet Park	46		Pinetown	475,956
Meadowdale/Tunney	39		Epping/Airport/Langa	412,688
Epping/Airport/Langa	38		Germiston	410,115
Linbro Park/Modderfontein/Chloorkop	31		Meadowdale/Tunney	361,911
Durban North/Umgeni/Springfield	29		Isando	276,414
Isando	26		Milnerton/Montague Gardens/Paarden Eiland	230,988
Germiston	24		Prolecon/City Deep/Rosherville	226,638
Spartan	12		Boksburg	224,745

2. TOP 5 NODES BY MAJORITY COMPOSITION

Minimum 15 properties in node

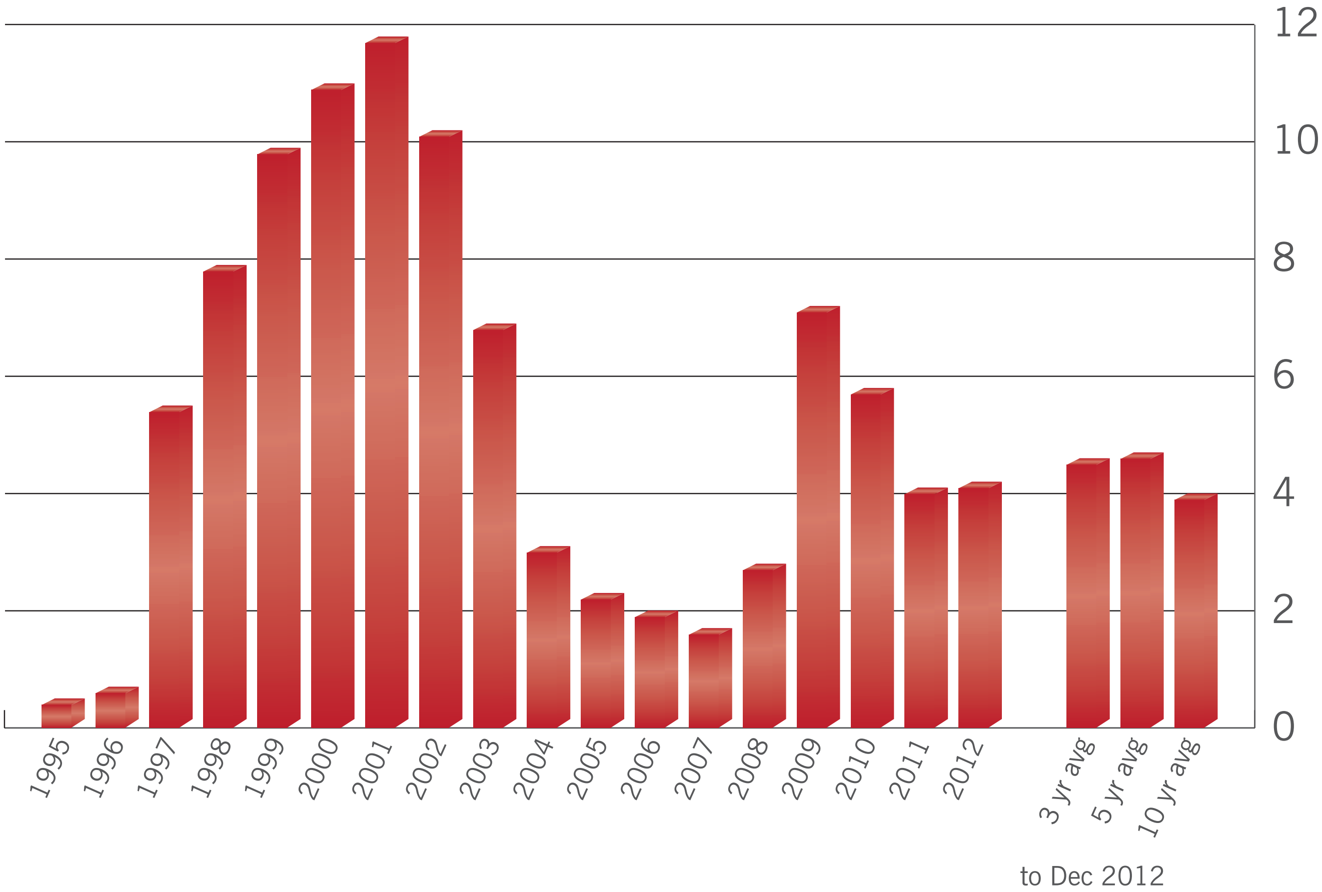
Warehousing	% of GLA		High-Tech/High Grade Industrials	% of GLA
Milnerton/Montague Gardens/Paarden Eiland	74.2%		Spartan	41.1%
Meadowdale/Tunney	48.4%		Kelvin/Alexandra/Wynberg	29.7%
Isando	40.9%		Durban North/Umgeni/Springfield	28.1%
Durban North/Umgeni/Springfield	35.8%		Midrand/Olifantsfontein	27.3%
Linbro Park/Modderfontein/Chloorkop	35.8%		Jet Park	23.4%

Light Manufacturing	% of GLA		Standard Units	% of GLA
Epping/Airport/Langa	43.5%		Other Gauteng	80.3%
Isando	42.2%		Midrand/Olifantsfontein	59.4%
Spartan	26.6%		Pinetown	59.4%
Kelvin/Alexandra/Wynberg	22.8%		Kelvin/Alexandra/Wynberg	47.5%
Germiston	17.9%		Linbro Park/Modderfontein/Chloorkop	47.3%

3. SEGMENT DATA

Segment	Vacancy Rate (%)	GLA (m²)	Net Income Receivable per m² (monthly)	Average property GLA
Warehousing	2.5	1,756,630	R 36.2	12,822
High-Tech/High Grade Industrials	3.1	1,041,130	R 34.6	9,730
Light Manufacturing	6.2	1,145,476	R 23.5	9,238
Standard Units	5.3	2,661,326	R 32.1	10,005

III. Long Term Vacancy Trend (All Industrial - South Africa)



4. PROVINCIAL DATA

Province	Vacancy Rate (%)	Net Income Receivable per m² (monthly)	GLA (m²)	Number of Properties
Gauteng	4.8	R 32.1	4,421,630	428
Western Cape	3.5	R 30.5	922,526	78
KwaZulu Natal	3.4	R 34.0	1,098,851	113

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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 (m2)	Number of Properties	Average property GLA
GAUTENG				
R24/R21/N12 Triangle	2.4	1,124,460	114	9,864
N3/N17 Junction	7.6	410,115	24	17,088
N1/R101 Corridor	4.1	518,797	70	7,411
M2 East/West Corridor	10.0	436,479	32	13,640
N12 East of Jet Park	2.5	283,215	15	18,881
M1 Corridor to Buccleuch	5.3	155,565	22	7,071
R512 Corridor inc. Strijdom Park	11.3	175,455	20	8,773
Alberton/Alrode Basin bound by the R59 & N3	1.1	114,433	9	12,715
South West Industrial - Main Reef Corridor incl. Ormonde	8.5	207,675	18	11,538
R21 North of OR Tambo Int Airport	1.0	250,964	30	8,365
N3/R25/Allandale Triangle	3.7	207,328	39	5,316
N14 Centurion Corridor	0.6	124,713	11	11,338
Greater Pretoria	6.6	203,459	12	16,955
KWAZULU NATAL				
Greater Pinetown	4.2	475,956	47	10,127
Southern Industrial Basin	2.2	173,183	9	19,243
Umgeni River Node - north to Redhill	1.1	211,419	29	7,290
East of the M4 - Jacobs to Isipingo	2.6	181,541	11	16,504
Phoenix/Mt Edgecombe Area	~	~	~	~
WESTERN CAPE				
Central Industrial Zone- bound by the N1/N2/R300	3.2	672,241	58	11,590
N7 Corridor (North of N1)	1.4	230,988	19	12,157
Southern Suburbs (South of N2)	~	~	~	~

~ Sample size less than 5 properties

GLOSSARY

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.

Statistics were provided by the following member companies:

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