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RESEARCH

Industrial Vacancy SURVEY

IPD

An MSCI Brand

Report compiled by IPD

H1 2013:
INDUSTRIAL PROPERTY PERFORMANCE IMPROVE

RESEARCH

	GLA (m² thousands)	Number of properties	% of GLA	Vacancy %
All Industrial	3,746.7	375	100.0	2.8
Warehousing	846.5	65	22.6	1.6
High-tech/High-grade	819.5	86	21.9	1.0
Light Manufacturing	650.7	83	17.4	4.3
Standard Units	1,430.0	141	38.2	4.0

SUMMARY POINTS

- The results for the first half of 2013 show significant improvement in vacancy rate and currently sits at 2.8%, representing a 160bp decrease compared to the end of December 2012.
- Industrial property in Western Cape registered the lowest vacancies and highest occupancy increase. Gauteng industrial, showed some improvement registering 153bp decrease in vacancy rate compared to the end of 2012.
- Industrial supply in terms of square metres of new buildings completed was down by 30.8% in H1 2013, compared with H1 2012.

The all industrial property vacancy rate decreased to 2.8% in the first half of 2013. This marks a decrease of 160bp over the end of 2012 figure of 4.4%. This was also 120bp lower than the June 2012 figure of 4.0%.

The first half of 2013 vacancy remains below the three year and five year averages of 4.7% and 4.8% respectively. Compared to a longer term horizon, the vacancy level is also below the ten year average of 3.9%. Low vacancies experienced by the sector between 2004 and 2008 are the major contributors to the lower ten year average.

New industrial space reported as completed decreased by 30.8% between H1 2013 and H1 2012, this reduced pressure on the existing stock. The industrial sector continues to enjoy the lowest overall vacancy level of the three main commercial property sectors. Office vacancies top the list at 12.6%, while retail vacancies as at June 2013 were 5.9%.

The industrial sector posted a 9.1% overall return, of which 3.9% was capital growth and 5.0% was income return. Compared to H2 2012, total return and capital growth increased by 50bp and 70bp respectively. This

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impressive overall performance was underpinned by high capital growth and low vacancy rates averaging 2.8% for the 6 months.

However, rental growth continued on a decreasing path with the first half of 2013 registering a growth rate of 2.0% compared to 7.4% as at end of 2012. This was 3.5% less than the annual inflation rate. Yields slightly improved from 11.0% in 2012 to 10.9% in this half of 2013.

All industrial segments recorded improvements in vacancies compared to the same half in the previous year, against a backdrop of declining business confidence as reflected by the 4 point drop in the RMB/BER Business Confidence Index (BCI) in the second quarter of 2013.

Warehouse vacancies decreased from 4.3% in June 2012 to 1.6% in June 2013. The demand for space in this segment is potentially underpinned by improved retail sales growth since Q4 2012. On an annual basis, retail sales growth increased from 2.3% in Q4 2012 to 3.3% in Q2 2013. Logistics and Distribution companies continue to lead market demand. Transport linkages also play an important role in attracting tenants with those close to the airport enjoying high occupancy levels.

The high-tech industrial segment recorded the lowest vacancy level, where vacancies decreased from 2.2% in June 2012 to 1.0% in June 2013. Compared to end of 2012 figure, vacancy rate fell by 210bp. Most of the properties in this segment comprise a significant portion of office space, which has benefitted the segment as increased demand for office space in some nodes for example Midrand, contributed to higher occupancy levels.

In this first half, light manufacturing and standard units also experienced decreasing vacancies but remain the segments with the highest overall vacancies.

Light manufacturing and standard unit properties registered marginal improvements in vacancy rate. Light manufacturing vacancies decreased from 5.1% in June 2012 to 4.3% in June 2013, while standard unit vacancies decreased from 4.4% to 4.0% over the same period.

While the H1 2013 results can be seen to signal a positive industrial outlook, we would caution against this, a weakening rand and lower domestic and export sales which adversely affected the manufacturing index as it dropped from 42 in Q1 2013 to 34 in Q2 2013. The rand per dollar exchange rate dropped from R8.7 in January 2013 to R10.0 in June 2013, while wholesale trade sales three month growth also fell from 3.4% in January 2013 to 2.7% in June 2013. Total exports of goods and services at constant 2005 prices marginally increased from R472.1 billion in Q1 2013 to R476.9 billion in Q2 2013.

Although the net income received for all types of industrial property grew over the year, only high-tech industrial and light manufacturing segments managed to register growth rates above inflation.

Operating costs continued to increase in all segments with the exception of light manufacturing, which saw operating costs per square metre slightly decreased from R14.9 in June 2012 to R14.6 in June 2013.

The 2013 half year results show that KZN is no longer the best performing province. Western Cape continues to post impressive results with operating costs as a percent of gross rent receivable decreasing by 1.0%, Gauteng also experienced a 2.0% reduction in the cost ratio between H1 2012 and H1 2013. However, KZN's cost ratio increased by 5.1% over the same period.

The Western Cape also outperformed other industrial provinces in terms of occupancy. Its vacancies were the lowest of the main industrial provinces, at 1.5% followed closely by KZN at 2.2%. However, when it comes to net income, Gauteng commands the highest net income at R32.2/m2/month. Furthermore, of all the three provinces, Western Cape registered the highest annual rate of net income growth .

The Western Cape registered the highest annual base rental growth at 2.7%, while KZN recorded a 2.5% growth. Gauteng trailed behind at 1.6%. The highest growth in capital value per square metre was recorded in Gauteng at 13.5%, KZN registered 9.4%, while Western Cape only managed 6.3%.

Some of the nodes around the country with the lowest vacancy rates include: R21 north of O.R. Tambo International Airport, N3/R25/Allandale Triangle, N12 East of Jet Park (Gauteng); East of the M4 - Jacobs to Isipingo, Umgeni River node (KZN); N7 corridor (Western Cape).

On the other hand, areas with some of the highest vacancies are found in Gauteng and these include: R512 Strijdom Park corridor, Greater Pretoria, and N1/R101 Corridor.

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Based on data from the IPD SA database as at 30 June 2013

1. SAMPLE COMPOSITION

Sample Coverage

Square metres covered:	m²	Number of Properties	Average Nodal Composition	% of GLA
All Industrial	**3 746 710**	**375**		
Warehousing	846 456	65	Warehousing	22.6%
High-Tech/High Grade Industrials	819 546	86	High-Tech/High Grade Industrials	21.9%
Light Manufacturing	650 726	83	Light Manufacturing	17.4%
Standard Units	1 429 982	141	Standard Units	38.2%

Top 10 Largest Nodes in Sample (by number)

Node	Number of Properties
Pinetown	38
Meadowdale/Tunney	30
Midrand/Olifantsfontein	27
Epping/Airport/Langa	25
Jet Park	19
Durban North/Umgeni/Springfield	17
Isando	16
Germiston	15
Spartan	15
Milnerton/Montague Gardens/Paarden Eiland	13

Top 10 Largest Nodes in Sample (by m²)

Node	m²
Pinetown	384,846
Meadowdale/Tunney	300,085
Jet Park	230,680
Epping/Airport/Langa	230,051
Midrand/Olifantsfontein	226,023
Germiston	203,391
Milnerton/Montague Gardens/Paarden Eiland	193,355
Boksburg	189,135
Umbilo/Mobeni/Westridge	177,535
Goodwood/Parow/Bellville	142,129

2. TOP 5 NODES BY MAJORITY COMPOSITION

Minimum 15 properties in node

Warehousing	% of GLA
Meadowdale/Tunney	46.0%
Jet Park	34.5%
Spartan	24.8%
Durban North/Umgeni/Springfield	16.9%
Isando	16.8%

High-Tech/High Grade Industrials	% of GLA
Jet Park	47.5%
Spartan	46.9%
Durban North/Umgeni/Springfield	36.9%
Midrand/Olifantsfontein	29.6%
Epping/Airport/Langa	18.0%

Light Manufacturing	% of GLA
Epping/Airport/Langa	67.1%
Isando	45.8%
Spartan	15.1%
Pinetown	12.2%
Germiston	9.3%

Standard Units	% of GLA
Germiston	71.8%
Midrand/Olifantsfontein	60.5%
Pinetown	55.9%
Meadowdale/Tunney	40.4%
Durban North/Umgeni/Springfield	39.0%

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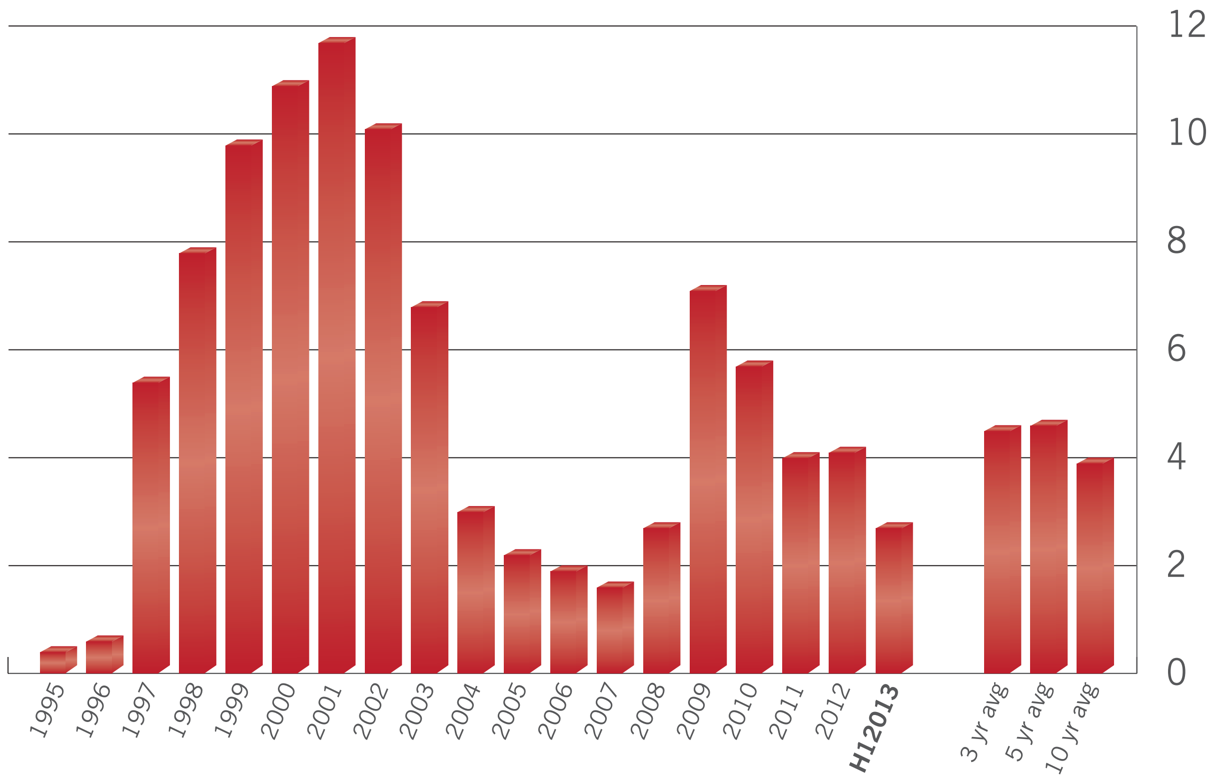
3. SEGMENT DATA				
Segment	**Vacancy Rate (%)**	**GLA (m²)**	**Net Income Receivable per m² (monthly)**	**Average property GLA**
Warehousing	1.6	846,456	R 34.0	13,022
High-Tech/High Grade Industrials	1.0	819,546	R 37.6	9,530
Light Manufacturing	4.3	650,726	R 23.3	7,840
Standard Units	4.0	1,429,982	R 30.3	10,142

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	3.3	R 32.2	2,270,502	230
Western Cape	1.5	R 31.5	650,024	54
KwaZulu Natal	2.2	R 30.8	786,876	85

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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	3.3	652,245	68	9,592
N3/N17 Junction	2.4	203,391	15	13,559
N1/R101 Corridor	5.3	248,114	30	8,270
M2 East/West Corridor	1.1	133,566	12	11,131
N12 East of Jet Park	0.9	205,927	12	17,161
M1 Corridor to Buccleuch	2.3	90,650	12	7,554
R512 Corridor inc. Strijdom Park	11.4	107,543	13	8,273
Alberton/Alrode Basin bound by the R59 & N3	1.0	94,322	8	11,790
South West Industrial - Main Reef Corridor incl. Ormonde	1.3	145,766	11	13,251
R21 North of OR Tambo Int Airport	0.0	70,432	18	3,913
N3/R25/Allandale Triangle	0.0	26,982	6	4,497
N14 Centurion Corridor	~	~	~	~
Greater Pretoria	6.4	134,332	11	12,212
KWAZULU NATAL				
Greater Pinetown	2.9	384,846	38	10,128
Southern Industrial Basin	2.2	177,535	10	17,754
Umgeni River Node - north to Redhill	1.0	110,545	17	6,503
East of the M4 - Jacobs to Isipingo	0.0	42,687	5	8,537
Phoenix/Mt Edgecombe Area	~	~	~	~
WESTERN CAPE				
Central Industrial Zone- bound by the N1/N2/R300	1.4	427,839	38	11,259
N7 Corridor (North of N1)	0.7	193,355	13	14,873
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 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.

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