

Rate of New Projects Slacken

Written by Australian Business

(PRLEAP.COM) June 11, 2014 - Johannesburg, South Africa – In their 2013/14 assessment of property trends in South Africa and other key African markets, Broll said there was a marked slowdown in new projects, with a 44 percent year-on-year decline in the value of non-residential building plans passed during the last year.

This report cited the South African property market's response to a macroeconomic environment, which is characterised by lacklustre economic growth, exchange rate volatility and global uncertainty. However, the slowdown should result in improved vacancies and rental trends. Strengthening vacancy rates in the retail and industrial property sectors suggested the market was moving up the property cycle, according to the report.

South African commercial property recorded a total return of 15.3 percent last year, a slight improvement on the 15.1 percent return in 2012. Property management specialists, Broll, said this reflected the success of the sector in controlling operating costs through effective property management interventions. The short-term prospects for this sector would be largely dictated by its ability to contain operating costs, it stressed. The longer-term scenario, on the other hand, would be determined by rapidly evolving business practices, online retail technologies and significant improvements in public transport infrastructure.

The latest South African Property Owners Association (SAPOA) office vacancy survey revealed that the national office vacancy rate was 11 percent in the first quarter. This was 20 basis points lower than the previous quarter but 40 basis points higher than a year earlier. SAPOA said the national office vacancy rate had essentially been moving sideways since June 2011 and the excess supply in the market was weighing on rental growth, which was only marginally positive in nominal terms but negative if adjusted for inflation.

Broll said that the office sector remained under pressure for a range of macroeconomic and business factors, not least of which was weak growth in gross domestic product (GDP), but the prime nodes were forecast to perform well this year. It added that the take-up of office space was firmly focused on premier and A-grade nodes that offered contemporary, green buildings. Older, secondary nodes were lagging behind. They faced high vacancy levels, dragging the overall sector performance down as a result.

The report said development tended to be restricted to high-demand nodes where developers felt risk was minimal. At the same time, redevelopment had emerged as a trend, because the supply of available zoned land had tightened. Broll said there were about 20.7 million square metres of formal retail space in South Africa and 2 million square metres of space under construction or in the planning stages. About 6 percent of those 2 million square metres was the

Mall of Africa development in Midrand.

The report stated that the industrial property sector was underpinned by manufacturing but was increasingly being affected by the downturn in GDP growth, a slowdown in manufacturing output and rand weakness. While a weaker currency gives local manufacturers an opportunity to compete with imports, the sector's poor performance in recent years, combined with softer demand from the euro zone means they often do not have the capacity to take advantage of it. Furthermore, a range of challenges negatively impacts South Africa's ability to drive new industrial growth: continued fuel price increases, wildcat strikes, high and escalating input costs for electricity and labour, and a lack of skills are all key examples.

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