

# Barometer

OFFICE | FIRST QUARTER | 2009



## OFFICE FORECAST

## Office Market

### Indicators Forecast

#### Johannesburg Q2-08

CBD Rentals	◀▶
Decentralised areas	◀▶
Vacancy	◀▶
Cap Rates	◀▶

#### Pretoria Q2-08

CBD Rentals	◀▶
Decentralised areas	◀▶
Vacancy	◀▶
Cap Rates	◀▶

#### Cape Town Q2-08

CBD Rentals	◀▶
Decentralised areas	▼
Vacancy	◀▶
Cap Rates	▲

#### Durban Q2-08

CBD Rentals	▲
Decentralised areas	◀▶
Vacancy	▲
Cap Rates	◀▶

## Market Overview

2008 was not the best year for the commercial real estate market throughout the world; and the question being asked at the moment is whether financial markets will ever be the same? Colliers predicts probably not, but the reality is that they will continue to exist and function and will hence continue to take up space.

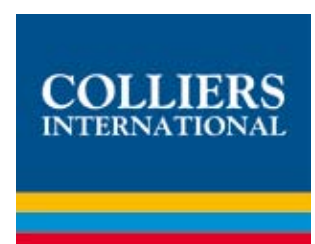
Good news is that the South Africa market was not hit as hard by the effect of the international turmoil. Why is this you may ask?

We believe there are four main reasons:

- South African listed property sector is not Real Estate Investment Trust (REIT) compliant
- The South African market's exposure to foreign investment is limited
- Liquidity is restricted – South African banks don't offer borrowings easily
- South African property fundamentals are still strong

The South African economic growth is forecast to slow to 3.3% in 2009, owing to ongoing problems with power shortages, the continued weak household demand and the global downturn. Economists are predicting a turnaround in 2010 with economic growth bouncing back to 5.3%. Inflation is showing a slight downward trend and the forecast for 2009 is 7.3%. This will encourage further interest rate cuts. However throughout the different sectors in the market we are seeing the number of jobs being negatively affected with retrenchments in all the major sectors of the economy.

In addition the latest statistics released by Stats SA show that the South African Retail market is now in a recession. Economists are predicting that the worst is yet to come.



[www.colliers.co.za/Markets/SouthAfrica](http://www.colliers.co.za/Markets/SouthAfrica)

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### Gauteng Commercial Market Trends

Gross asking rentals for prime space in the **Sandton CBD** continue to move sideways at R165m<sup>2</sup> over the last three quarters. Sandton remains the main financial hub of South Africa, and offers a diversified tenant mix with the average sales price being R20 000m<sup>2</sup>.

Vacancies in the **Johannesburg CBD** continue to decline from 15.1% in the third quarter of 2007 to 8.1% for the same period in 2008. Gross asking rentals of prime space in the CBD continue to rise showing a sig-

nificant increase of approximately 23% over the last quarter. The proposed Government precinct continues to attract attention.

Prime office space in the **Pretoria CBD** is selling for approximately R6000m<sup>2</sup> while office buildings in the decentralised nodes of Pretoria are achieving selling prices of R9 000m<sup>2</sup>. Vacancy rates show a downward trend from the third quarter of 2007 to date. The main demand for space in the area is still driven by various Government departments. Most of the decentralised areas in Pretoria currently have an oversupply of space.

## CAPITALISATION RATES

### GAUTENG

SUBMARKET	4TH QUARTER 2008	3RD QUARTER 2008	2ND QUARTER 2008	1ST QUARTER 2008	4TH QUARTER 2007
Johannesburg CBD	11.0%	11.5%	10.0%	10.0%	11.1%
Braamfontein	11.0%	11.1%	9.5%	9.5%	11.1%
Sandton Environs	10.0%	10.0%	8.5%	8.5%	8.3%
Bryanston/ Epsom Downs	10.0%	10.6%	9.2%	9.2%	8.8%
Pretoria CBD	12.0%	11.5%	11.3%	11.3%	11.3%
Centurion	12.0%	10.9%	9.8%	9.8%	9.2%

### KWAZULU-NATAL

SUBMARKET	4TH QUARTER 2008	3RD QUARTER 2008	2ND QUARTER 2008	1ST QUARTER 2008	4TH QUARTER 2007
Durban CBD	9.0%	11.8%	10.4%	10.4%	11.3%
Umhlanga/ La Lucia	10.0%	10.3%	9.0%	9.0%	9.2%

### CAPE TOWN METROPOLE

SUBMARKET	4TH QUARTER 2008	3RD QUARTER 2008	2ND QUARTER 2008	1ST QUARTER 2008	4TH QUARTER 2007
Cape Town CBD	9.5%	10.0%	9.0%	9.0%	8.6%
Century City	9.0%	9.7%	9.0%	9.0%	8.5%
Claremont	9.0%	10.1%	9.1%	9.1%	8.8%

## ASKING RENTALS &amp; VACANCY

SUBMARKET	GROSS ASKING RENTALS					VACANCY RATES				
	4TH QUARTER 2008	3RD QUARTER 2008	2ND QUARTER 2008	1ST QUARTER 2008	4TH QUARTER 2007	3RD QUARTER 2008	2ND QUARTER 2008	1ST QUARTER 2008	4TH QUARTER 2007	3RD QUARTER 2007
<b>GAUTENG</b>										
Johannesburg CBD	R 85	R 69	R 59	R 59	R 58	8.1%	9.9%	11.8%	15.1%	15.1%
Braamfontein	R 78	R 68	R 68	R 68	R 66	8.1%	6.7%	9.2%	10.3%	10.3%
Sandton Environs	R 165	R 165	R 165	R 131	R 129	5.6%	4.6%	3.1%	3.2%	2.9%
Bryanston/ Epsom Downs	R 135	R 118	R 110	R 110	R 109	2.2%	2.1%	3.2%	3.4%	3.4%
Pretoria CBD	R 80	R 68	R 68	R 68	R 65	2.5%	2.5%	3.0%	1.4%	3.4%
Centurion	R 110	R 102	R 113	R 112	R 112	3.0%	3.5%	3.7%	3.9%	4.0%
<b>KWAZULU-NATAL</b>										
Durban CBD	R 100	R 69	R 60	R 60	R 60	14.9%	15.1%	15.9%	16.7%	16.7%
Umhlanga/ La Lucia	R 120	R 120	R 110	R 112	R 96	0.4%	0.4%	0.4%	0.6%	0.6%
<b>CAPE TOWN METROPOLE</b>										
Cape Town CBD	R 130	R 140	R 157	R 130	R 100	4.6%	5.0%	4.3%	5.5%	5.5%
Century City	R 155	R 120	R 120	R 115	R 112	13.8%	14.8%	11.0%	8.5%	8.5%
Waterfront	R 173	R 173	R 170	R 170	R 150	1.3%	0.9%	0.3%	0.3%	0.3%

### KwaZulu-Natal Commercial Market Trends

There is a renewed interest in the redevelopment of old dilapidated buildings in **Durban CBD** and as a result the new refurbished stock coming online is achieving higher gross asking rentals. **Umhlanga/ La Lucia** remain the preferred destination in KwaZulu-Natal. Gross asking rentals for Prime space are R120m<sup>2</sup> and vacancies in the area remain very low at 0.4%.

### Cape Town Metropole Commercial Market Trends

Owing to limited office developments during the past 12 months vacancy rates in the **Cape Town CBD** have remained stable over the past year. The CBD remains the most important business node in the

Metropole. There are several tall and substantial office developments planned for the city, these developments will start to come online from 2011.

The **Century City** office node has come under pressure and the vacancies in the area remain high. With the current economic conditions the area does not seem as popular. The huge variety of retail offerings in the area remains strong.

### In conclusion

Colliers believes that 2009 will be a very interesting year, with the economic downturn continuing to impact on the property market. Capitalisation rates should continue to soften as sellers start to realise the true market value of their properties.

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## OFFICE RENTALS

LOCATION	R35 - R45/m <sup>2</sup>	R45 - R55/m <sup>2</sup>	R55 - R65/m <sup>2</sup>	R65 - R75/m <sup>2</sup>	R75 - R85/m <sup>2</sup>	R85 - R95m <sup>2</sup>	R95 - R105m <sup>2</sup>	R105 - R115m <sup>2</sup>	R115 - R125m <sup>2</sup>	> R125m <sup>2</sup>
<b>GAUTENG</b>										
JOHANNESBURG CBD	■	■	■	■	■					
BRAAMFONTEIN	■	■	■	■	■					
PARKTOWN			■	■	■	■	■			
HOUGHTON					■	■	■	■		
ROSEBANK				■	■	■	■	■	■	
DUNKELD						■	■	■	■	
HYDE PARK						■	■	■		
ILLOVO						■	■	■	■	■
SANDTON BUSINESS DISTRICT					■	■	■	■	■	■
MELROSE ARCH										■
BRYANSTON						■	■	■	■	■
FOURWAYS					■	■	■	■		
WOODMEAD					■	■	■	■		
SUNNINGHILL					■	■	■			
RIVONIA					■	■	■			
RANDBURG		■	■	■	■	■				
MIDRAND			■	■	■	■				
BEDFORDVIEW			■	■	■	■	■	■		
BRUMA			■	■	■	■	■			
PRETORIA CBD		■	■	■	■					
ARCADIA		■	■	■						
HATFIELD				■	■	■	■			
LYNNWOOD				■	■	■				
NIEUW MUCKLENEUK					■	■	■	■	■	
CENTURION				■	■	■	■	■		
SUNNYSIDE			■	■	■	■	■	■		
BROOKLYN/WATERKLOOF				■	■	■	■	■	■	

## OFFICE RENTALS CONTINUED

LOCATION	R35 - R45/m <sup>2</sup>	R45 - R55/m <sup>2</sup>	R55 - R65/m <sup>2</sup>	R65 - R75/m <sup>2</sup>	R75 - R85/m <sup>2</sup>	R85 - R95/m <sup>2</sup>	R95 - R105/m <sup>2</sup>	R105 - R115/m <sup>2</sup>	R115 - R125/m <sup>2</sup>	> R125m <sup>2</sup>
<b>KWAZULU-NATAL</b>										
DURBAN CBD	■	■	■	■	■	■	■			
BEREA				■	■	■	■			
ESSEX TERRACE				■	■					
WESTWAY							■	■		
WESTVILLE CENTRAL				■	■					
LA LUCIA RIDGE							■	■	■	■
<b>CAPE TOWN METROPOLE</b>										
CAPE TOWN CBD			■	■	■	■	■	■	■	■
V&A PORTWOOD RIDGE										■
GRANGER BAY										■
CLAREMONT					■	■	■	■	■	
WESTLAKE				■	■	■	■			
RONDEBOSCH / NEWLANDS					■	■	■			
CENTURY CITY						■	■	■	■	■
NI CITY – GOODWOOD		■	■	■						
TYGERBERG HILLS							■	■		
TYGERVALLEY		■	■	■	■					
DURBANVILLE		■	■	■						

*“Capitalisation rates should continue to soften as sellers start to realise the true market value of their properties.”*



## What is a REIT?

According to Investopedia and Wikipedia, a REIT is a corporate and tax designation for a corporation investing in real estate that reduces or eliminates corporate income taxes. REITs are required to distribute between 90% to 95% of their income, which may be taxable in the hands of the investors. The REIT structure was designed to provide a similar structure for investment in real estate as mutual funds provide for investment in stocks. REITs can be publicly or privately held and may be listed on public stock exchanges like shares of common stock in other firms. REITs receive special tax considerations and typically offer investors high yields, as well as a highly liquid method of investing in real estate. Most of the PLSs and PUTs listed on the JSE, will convert to the REIT sector over the next 12 months.

Equity REITs invest in and own properties. They are responsible for the equity or value of their real estate assets and their revenues come principally from the rentals generated by the properties they own.

Mortgage REITs deal in investment and ownership of property mortgages. These REITs lend money for mortgages to owners of real estate, or purchase existing mortgages or mortgage-backed securities. Their revenues are generated primarily by the interest that they earn on the mortgage loans.

Sources: Colliers International, Rode and Associates, Investopedia, Wikipedia, SAPOA

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Hybrid REITs combine the investment strategies of equity REITs and mortgage REITs by investing in both properties and mortgages.

Individuals can invest in REITs either by purchasing their shares directly on an open exchange or by investing in a mutual fund that specializes in public real estate. An additional benefit to investing in REITs is the fact that many are accompanied by dividend reinvestment plans (DRIPs). Among other things, REITs invest in shopping centres, office buildings, apartments, warehouses and hotels. Some REITs will invest specifically in one sector of the real estate market – for example shopping centres - or in one specific region, state or country. Investing in REITs is a liquid, dividend-paying means of participating in the real estate market.

## How will REITs affect the South African property market?

REITs will address the disadvantages and weakness in the current property investment vehicles in South Africa. They will give international investors the consistency and straightforwardness that will facilitate investment as the listed property vehicles will be uniform and it will be possible to benchmark the performance of the vehicle to global best practices.

241 OFFICES IN 54 COUNTRIES ON 6 CONTINENTS

USA 98

Canada 18

Latin America 14

Asia Pacific 46

EMEA 65

R439 billion in annual transaction volume

55.3 million square meter under management

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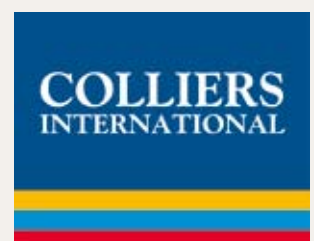
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