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# THE ANNUAL BROLL PROPERTY REPORT

THE RETAIL, OFFICE AND INDUSTRIAL PROPERTY MARKETS

MAXIMISING PROPERTY POTENTIAL

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## Knowledge-based decision making

Welcome to the Broll Annual Market Report, our review of the global, continental and local retail, industrial and office sectors.

The global economic turmoil continues, with European woes showing few signs of abating, and a stuttering US recovery, leaving some of the Asian markets the only really positive beacon for the near term. And while the South African market has not escaped, there are indications that in terms of the Property Life Cycle we are entering the Recovery phase.

Listed property on the JSE Securities Exchange continued to outperform others in the traditional four asset classes – bonds, cash and equities. But with subdued demand and excess space in the market, tenants in all property sectors – offices, industrial and retail – have a strong position when it comes to renewals, and owners are struggling to achieve real term increases. These challenges coincide with a period of above-inflation increases in electricity and municipal rates, placing additional strain on tenants' ability to absorb rental increases.

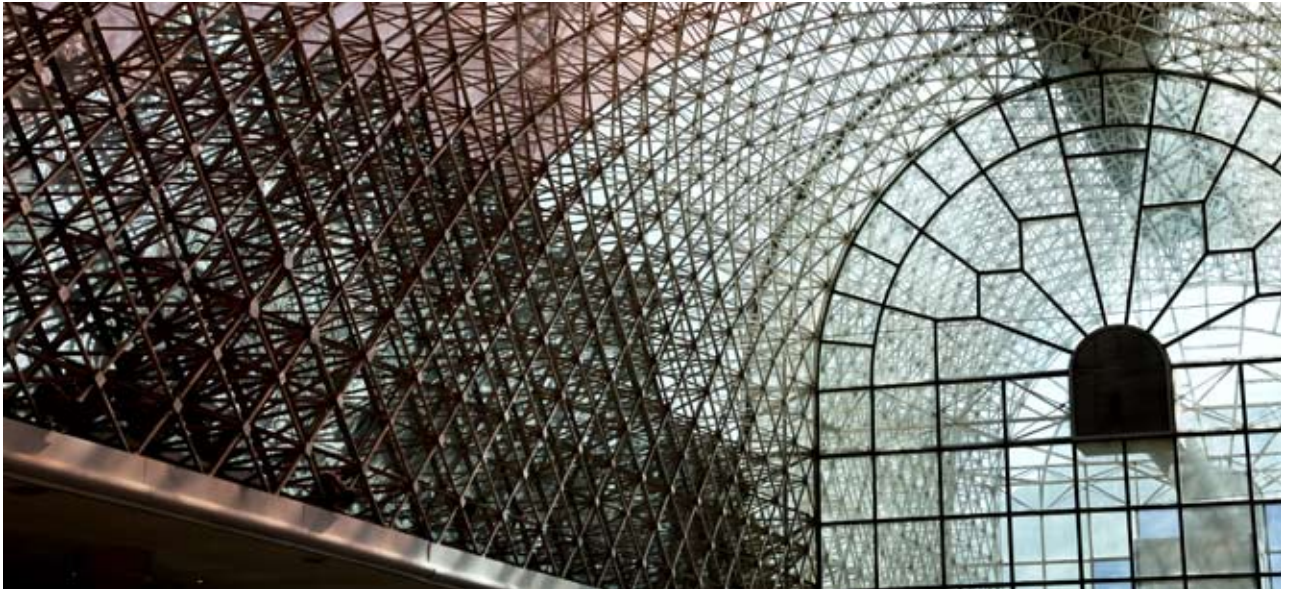
But it's not all doom and gloom. In fact, there are several indicators of an increasingly vibrant local property sector. In addition, growing interest in Africa as a destination for many multi-national businesses is resulting in a significant uptick in the demand for quality retail and office space in several countries to the north.

An almost four-decade track record, offices in all major South African centres and a growing continental footprint are factors that ideally position Broll to advise investors, owner-occupiers and tenants on their property investments throughout Africa. In addition to our own research capabilities, our affiliation to global property giant CBRE opens doors for our clients to a multitude of experts around the world.

Our primary objective is to maximise your property's potential. This report showcases our understanding and knowledge of the African property market.

Malcolm Horne  
Chief Executive Officer  
February 2012





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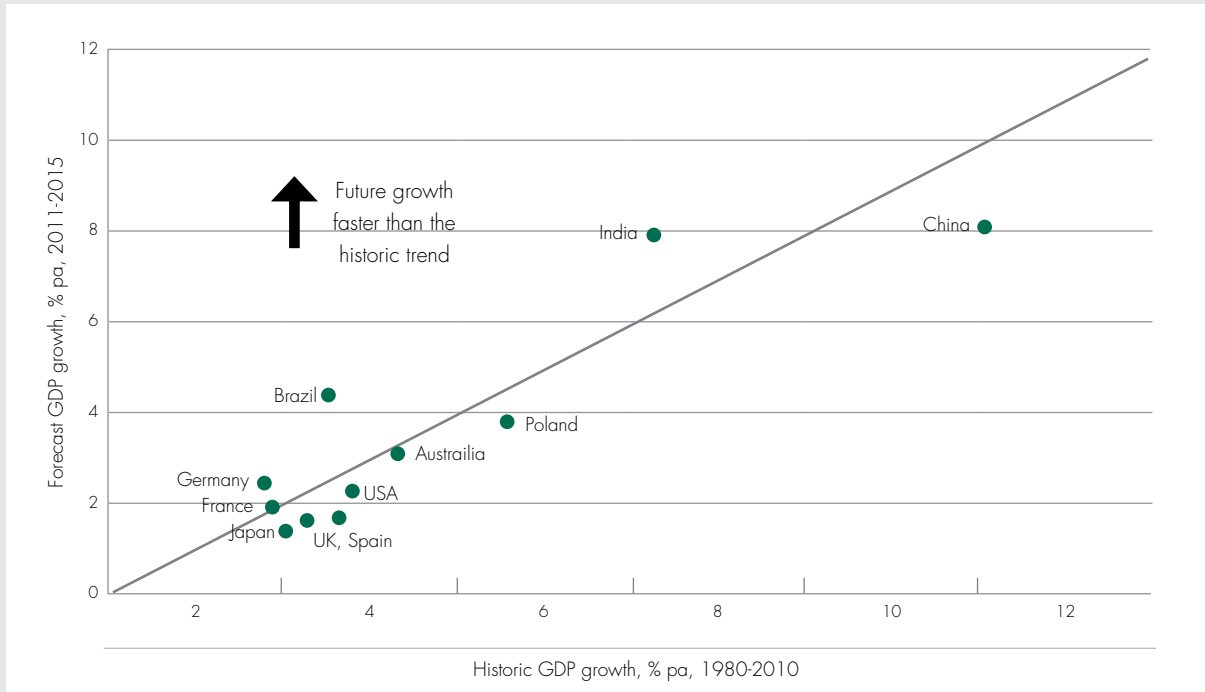
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With economic prospects in the United States substantially downgraded and economic growth in the core Eurozone losing momentum, the near term outlook for the global economy has also deteriorated.

An unsustainable debt trajectory in the US, underlined by Standard & Poor's (S&P) historic downgrade; the continued

incapacity to solve the sovereign debt issues in Europe; as well as diminishing economic growth in Asia have all contributed to an increased probability of a double-dip recession. This has progressively become the principal rather than the downside scenario for most forecasters, spreading woe across the world financial markets, and sending most of the major stock markets below their key historic thresholds.

Historic and Forecast GDP Growth, % PA



Source: Economist Intelligence Unit (EIU)

One result of the worsening economic climate is that base interest rates are likely to be held low for longer, with potential for another round of quantitative easing in the US and the United Kingdom. This means that the current, relatively high level of inflation is likely to be sustained in the near term. Nevertheless, as a spare capacity is building up due to weakening economic growth, inflationary pressures should subside in the medium term. In turn, the result of prolonged loose monetary policy is that government bond yields are reaching new historic lows and these are unlikely to normalise until 2014/15.

The implication on the developed market property market is twofold. For prime property, which is in part priced as a fixed income substitute, it is likely that yields will stay low for some time with potential further inward movement. In a world of increased volatility, worried investors are looking for safety.

This was demonstrated by gold prices breaching historic highs (at least until very recently); government bond yields

reaching historic lows; and the Swiss Franc appreciating to an unsustainable level for the domestic economy, prompting the Swiss Bank to peg it to the Euro. Super-prime property fulfils a similar role and this is why it is likely that prime property yields in major locations such as London, New York, Tokyo and Paris will be pushed once again to their historic lows.

For secondary property, which is priced according to the underlying economic fundamentals, the outlook is also bleak. Weaker economic activity means that both staff appointments and consumer spending growth will remain weak, which translates into lower leasing activity. Nevertheless, given that rental values are already economic, and below their long-term trend in most of the developed countries, it is debatable if they will fall much further. A more likely scenario might be that rents stagnate. In addition, high inflation erodes both income received as well as real estate capital values.



## The US

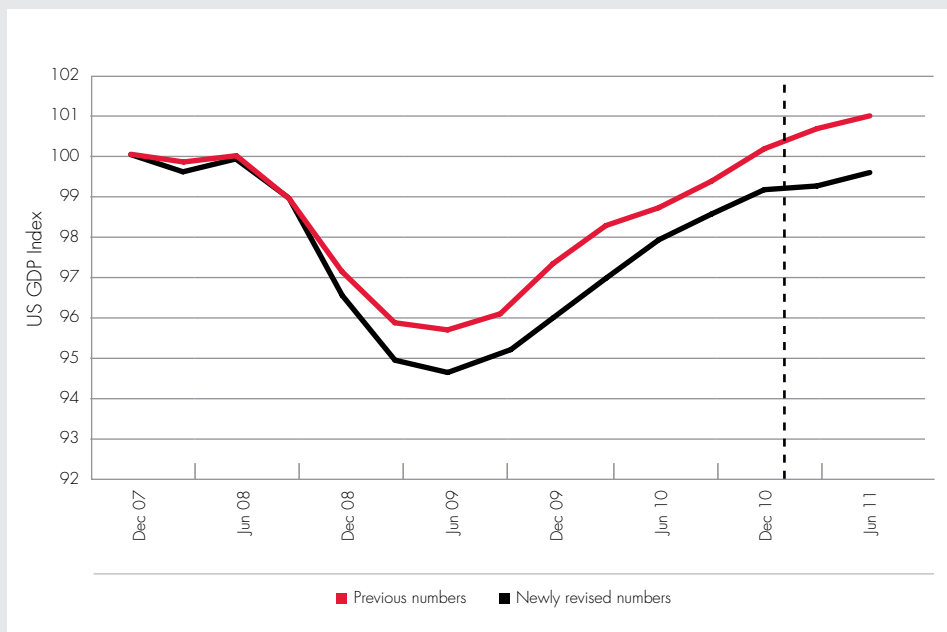
Although the US government increased the debt ceiling, it failed to address long-term fiscal challenges, prompting S&P to downgrade the US credit rating. Furthermore, US economic conditions have deteriorated, with the labour market decelerating sharply, suggesting that the near term economic recovery will not be as strong as previously anticipated. Accordingly, in August GDP growth was downgraded from 2.5% to 1.8% for 2011 and from 3.0% to 2.4% for 2012 on consensus forecasts. In particular, hiring and thus employment growth is expected to remain weak.

What this means for the property market is that leasing activity will slow down, particularly in the office sector as

the major financial institutions have announced a new round of job shedding. New regulatory restrictions that will be imposed on financial institutions in combination with the deleveraging process imply that the availability of residential mortgages will remain low. This should provide a boost to the leasing activity of multi-family housing. With consumer sentiment remaining low, together with high unemployment and weak wage growth, retailers are likely to remain cautious about taking new space, which will curb rental value growth in the retail sector.

The US economy is far weaker than previously thought as indicated by the graph below.

GDP Rebased to 100 at the Cyclical Peak in 4th Quarter 2007



Source: EIU and NBER

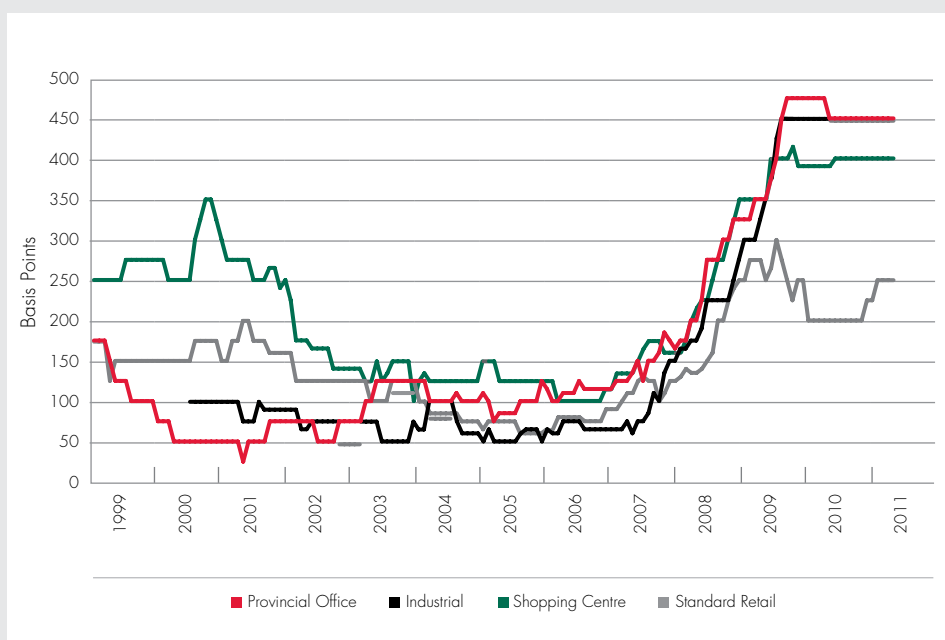
## The Eurozone

With the Irish, Greek and Portuguese governments left without access to financial markets, and rising concerns that two of the major Eurozone economies – Italy and Spain – will need to be bailed out, there are renewed worries about the sustainability of the monetary union in its current form. Furthermore, with France, the Eurozone’s second biggest economy, losing its triple A credit rating, the main question is whether there ever would be enough capital, let alone German political will, to bail out these countries.

Private consumption will remain constrained by high

unemployment – over 20% in Spain – stagnating if not contracting wages, and by concerns of coming higher taxation and public spending cuts. In response, retailers are consolidating their operations, favouring the dominant shopping or prime high street locations, which in turn will keep the best quality retail afloat. Consequently, shopping centres and retail parks in less prominent locations will struggle to keep their occupancy levels, and some will become obsolete. Prime rents in major CBD office markets have, to a high degree, recovered and in a few markets such as Paris, Helsinki and Vienna, are close to their previous peak levels. On the other hand, a recovery is still pending in the CBDs of fiscally challenged countries.

Gap Between Secondary and Prime Valuation Yields, bps.



Source: CBRE Valuation Team, September 2011

## Asia

Although China and other Asian economies have shown signs of moderation, consensus forecasts indicate continued robust expansion with the Chinese economy expected to generate a growth of 9.0% and India 8.2% in 2011. Japan, where a steep fall in economic activity battered business and consumer confidence following the nuclear disaster in March, is expected to rebound next year after the contraction in 2011. In Australia, while consumer-driven sectors may remain subdued, resource-related sectors driven by Chinese imports will continue to thrive.

A weak Japanese economy will put further pressure on strained occupier markets in Japan. However, on the prime

end, rental values should be stable at the worst with potential increases for the best quality space thanks to tight supply. On the back of slowing economic activity, there are also signs of moderation in leasing activity and thus slowing rental value growth in Singapore.

Chinese prime office markets will continue to be buoyant thanks to demand outstripping limited supply of good quality space, in spite of a substantial development pipeline. The prime retail sector will also continue to perform well thanks to a healthy expansion of international retailers. In contrast, the residential property market is likely to cool down in response to tighter lending conditions.

For the 12 months ended 31 December 2011, the SA Listed Property Index recorded a total return of 8.93%. Of the four traditional asset classes, SA listed property performed best in

terms of total return, followed by bonds (8.80%), cash (5.71%) and equities (2.57%).

## Returns per Asset Class %

ASSET CLASS	DEC 2011	12 MONTHS
SA Listed Property Index	2.10%	8.93%
Bonds - All Bonds Index	0.70%	8.80%
Cash	0.45%	5.71%
Equities - All Share Index	-2.45%	2.57%

Source: Catalyst Fund Managers, RMB Credit Research

The 2011 financial year was shaped by significant credit events, political change and indecision, and natural disasters, all of which contributed to financial market volatility. The main drivers of the volatility were concerns surrounding the possibility of European sovereign debt defaults and their contagion, which affected investor sentiment for most of 2011. Other significant events included the impact of a US sovereign credit rating downgrade, the tsunami in Japan and political uprisings in North Africa and the Middle East.

Unlike direct property, listed property share prices are marked-to-market every day and prices immediately reflect changes in expectations and outlook. Listed property share prices are not immune to financial market volatility. Despite this short-term volatility, SA listed property exhibited its resilience as a source of stable cash flows and income growth by achieving a satisfactory total return performance in 2011. Over the long term, the total return from SA listed property will be driven by the income, plus growth in the income. What we know is that as at 31 December 2011 the historic rolled income yield of SA listed property was 7.93%. The question is, what is income growth likely to be?

Simplistically, the drivers of income growth are annual rent escalations, positive (negative) reversions on lease expiries, change in vacancy levels, earnings enhancing/dilutionary property transactions, changes in operating costs and changes in debt-funding costs.

### Annual rent escalations

Escalations continue to be the largest driver of income growth for SA listed property companies. Every year they have, on average, 80% of their existing leases contracted to escalate at a rate of between 6 and 10%, with the remaining portion being renegotiated on expiry of the lease. Despite the weakening economic environment, most local listed property companies continue to achieve similar escalation rates on new lease contracts.

### Positive (negative) reversions on lease expiries in the year

Direct real estate conditions remain challenging and market rental growth over the past two years has significantly lagged escalation rates, most noticeably in office and industrial. On average, national consumption growth and trading density growth (which underpin retail rental level growth) have lagged escalation rates. Unless we see significant rental level growth over the short term,

it is likely that most companies will move into a negative reversion cycle on their expiring leases.

### Change in vacancy levels

An increase in vacancy levels across most portfolios was a significant driver of lower income growth over the past two years. The consensus is that the vacancy levels have troughed, but given the current economic climate, net new demand remains subdued. As a result, the positive effect that vacancy reduction has on distribution growth is only expected to filter beyond a 12- to 18-month time horizon.

### Earnings enhancing/dilutionary property transactions

Strong competition in the direct market has made it difficult for SA listed property companies to do transactions that are immediately accretive to income. Most of the recent high-profile transactions, such as the V&A Waterfront and Attfund Retail, have been neutral or dilutionary to income in the first year.

### Changes in operating costs

Rising electricity costs and municipal rates (with a reduction in service delivery) has driven operating cost growth in excess of rental revenue growth over the past few years. A large portion of these costs are recoverable from the tenant but they still increase the overall cost of occupancy for the tenant. This inhibits the landlord's ability to increase rental levels on expiry of the lease. This trend is expected to continue over the short term.

### Changes in debt-funding costs

SA listed property companies typically have the interest rate levels on a portion of their loans fixed for the loan period, while a certain portion is left floating. The floating portion is susceptible to short-term interest rate changes. Recent low short-term interest rates have led to lower interest costs for local listed property companies. Over the past few years, fixed debt as a percentage of total debt has declined, as many companies have elected to leave their debt floating as fixes or swaps expire. This is beneficial in the short term, especially as short-term rates are expected to stay low for longer, but does decrease the hedge against short-term rate increases in the future.

As at 31 December 2011, the historic rolled income yield of SA listed property was 7.93% (31 December 2010: 7.70%).

The outlook for distribution growth in 2012 remains reasonable but lower than in the past few years. Assuming distribution growth of 5%, the forward yield from listed property at 31 December 2011 is 8.33%. This compares favourably to the South African Benchmark Overnight rate of 5.35% (31 December 2010: 5.34%), and the yield to maturity on the long-term government bond index of 8.08% (31 December 2010: 8.15%).

Assuming moderate growth in GDP over the short term (and no large external shocks), the major risk to total

returns is a weakening in capital markets. Like bonds, listed property share prices are inversely related to the movement in listed property income yields. Listed property income yields are highly correlated to other fixed-income yields, especially in the short term.

Listed property is a long-term investment, and over the long term the total return will be driven by the income yield plus growth in that income. Listed property remains an attractive alternative to cash and bonds over the long term.

### Historic Performance for 2011 Individual Stock Performance %

TOTAL RETURN	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	YTD
REIT Index	-2.11	2.73	-1.86	5.87	1.29	-1.69	-1.32	-1.42	1.11	4.79	-1.10	-0.84	5.17
PUT Index	-3.58	0.20	1.55	3.84	0.57	0.45	1.95	2.90	-1.69	3.93	-1.30	3.03	12.19
PLS Index	-4.35	-1.72	3.92	3.74	-0.19	1.48	1.47	2.65	-2.23	2.02	-0.74	1.77	7.73
SA Listed Property Index (SAPY)	-4.19	-1.20	3.35	3.71	0.10	1.17	1.60	2.76	-2.11	2.55	-0.94	2.10	8.93
Capped Property Index (PCAP)	-3.51	-0.25	1.83	4.27	0.45	0.38	0.54	1.15	-0.84	2.98	-0.98	0.87	6.91
FORTRESS-B	0.00	-1.85	9.96	7.37	0.00	6.21	4.62	17.65	20.24	1.48	12.50	-0.93	106.01
CAPCO	9.87	0.60	8.75	2.74	6.82	5.54	-2.17	-7.41	10.36	6.07	2.73	1.52	53.94
SYCOM	-5.84	4.05	-0.10	4.78	1.41	0.19	-0.24	10.36	-7.69	5.82	5.72	4.78	24.15
INVESTEC PROPERTY FUND	0.00	0.00	0.00	9.47	-0.96	1.94	-0.48	-1.34	-0.10	3.40	7.51	2.10	23.06
SA CORPORATE	-3.15	2.93	6.09	3.13	-0.91	1.53	2.11	0.29	-0.16	1.54	0.00	4.85	19.43
FORTRESS-A	-1.33	-0.45	3.42	-0.46	-1.01	4.26	4.80	2.63	3.05	1.26	0.41	1.23	19.07
ACUCAP	-2.86	-3.97	5.36	6.10	-4.11	5.42	1.83	3.18	4.56	-0.67	0.41	1.49	17.23
CAPITAL PROPERTY	-1.34	0.97	1.27	3.02	0.12	0.49	4.13	4.72	-1.16	4.09	-1.80	0.80	16.12
RESILIENT	-3.54	-2.36	1.90	3.77	0.19	0.67	4.94	2.52	-0.18	3.99	-0.68	3.21	14.97
FOUNTAINHEAD	-6.86	-1.84	-0.81	6.80	-0.14	2.06	0.16	4.65	-0.74	4.63	-3.30	5.69	9.82
GROWTHPOINT	-6.11	-1.39	5.79	5.38	-0.66	1.16	0.49	4.08	-3.84	4.00	-0.33	0.87	9.08
VUKILE	-5.14	-1.44	4.25	-0.21	3.59	1.09	0.49	-0.49	1.06	1.74	-0.96	5.14	9.04
REDEFINE	-4.63	-1.57	2.04	4.40	1.47	0.90	3.06	2.60	-3.61	0.63	-0.30	1.26	6.01
HOSPITALITY-A	6.59	-3.27	2.13	0.00	2.94	2.93	-2.85	-1.07	-5.15	5.98	-2.26	-0.77	4.56
PREMIUM	-3.23	0.00	12.67	0.00	-9.21	10.47	-3.36	-5.70	1.95	-0.20	-4.74	7.91	4.23
VIVIDEND	-1.98	-2.02	-2.06	0.21	-1.47	-0.85	2.80	-3.77	0.00	5.43	2.85	5.05	3.76
VUNANI	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.42	0.56	0.00	-2.64	2.86	2.13
HYPROP	-4.37	-0.57	1.85	-0.64	0.00	2.83	0.00	4.13	-1.67	-0.25	-3.12	3.30	1.15
OCTODEC	-2.33	-1.79	12.42	0.54	0.08	-1.11	-4.49	-6.18	5.96	-5.92	-6.55	12.32	0.62
NEW EUROPE PROP	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DIPULA-A	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.12	-0.93	0.12	0.59	-1.08	-1.20
ARROWHEAD A	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-2.07	-2.07
REBOSIS	0.00	0.00	0.00	0.00	-2.50	0.31	1.02	-0.51	-3.05	4.71	-3.10	0.62	-2.70
ARROWHEAD B	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-3.79	-3.79
CAPSHOP	-0.71	5.00	-5.51	8.53	1.94	-4.42	-5.54	-7.41	5.36	5.68	-0.84	-6.17	-5.62
EMIRA	-0.87	-3.72	2.23	2.09	4.32	-3.20	0.15	-5.84	-2.62	4.46	-3.61	1.28	-5.81
DIPULA-B	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.57	-12.07	-1.96	5.00	0.39	-5.88
REDEFINE INTL	-4.92	7.61	-3.31	-5.13	4.10	0.79	-1.88	1.11	-5.20	2.16	-10.73	-1.64	-16.92
HOSPITALITY-B	-0.47	-13.33	-3.32	-3.57	-0.62	-6.83	-12.00	-9.09	-8.78	0.00	-3.40	-0.98	-48.02

Source: Catalyst Fund Managers

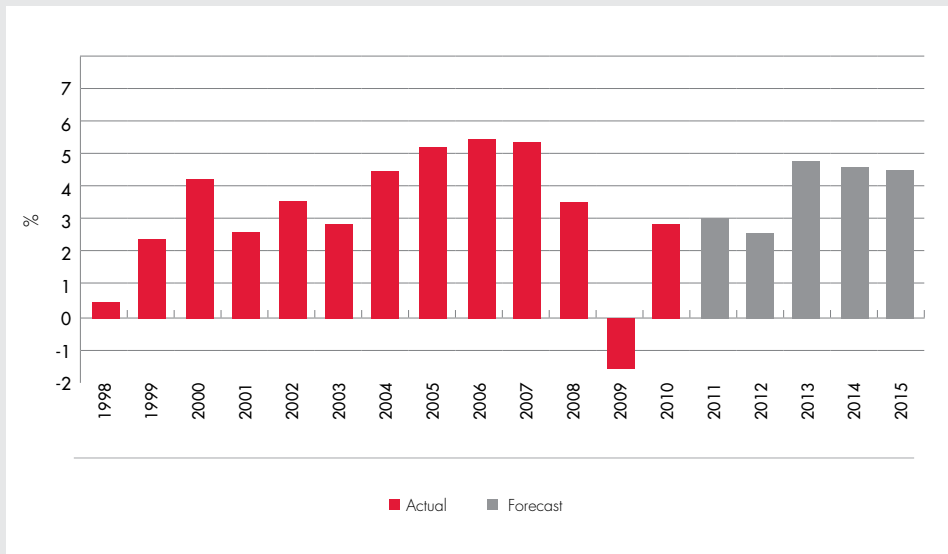
The South Africa property market has passed through the trough of the Physical Market Cycle and started to move into the Recovery phase. This is where the demand for space starts to increase and, as a result, the oversupply of space is reduced or absorbed. As excess space is taken up, vacancy rates start to decline because of limited new supply, income starts to increase or move sideways and capitalisation rates remain stable or start to decline. The positive expectation of the market allows landlords to increase their rentals, starting off at a slow pace. Unfortunately there is no way of predicting the duration of this phase or when the market will move into the Expansion phase.

Current experience in the local market for both offices and

industrial space is that occupiers are 'compressing' space: they are attempting to maximise efficiencies by either achieving more people/m<sup>2</sup> in the case of offices or more pallets/m<sup>2</sup> in the case of warehousing. This may prolong the Recovery phase.

According to Oxford Economics, the National Accounts data for the third quarter of 2011 confirmed that domestic demand continues to be the driver of the economy, with consumption and investment growing at 0.9% and 1.4% in the quarter respectively. In addition exports had a sharp fall, contracting by 0.7% of GDP. As a result there was a significant drag on the overall growth with GDP only growing by 0.4% quarter-on-quarter.

### Economic Growth of South Africa



Source: Oxford Economics

Consumer spending growth was based on solid fundamentals, this was reflected in wage increases and a 2.7% growth in employment compared to the same period a year earlier. Economists are expecting that earnings growth will slow down and unemployment will rise as the

worsening conditions in the global economy feed through to developing countries. As a result the forecast for consumer spending has been adjusted to 2.8% in 2012 and 4.7% in 2013. GDP will expand by 2.5% in 2011 and 4.8% in 2012.

### Total Return % PA

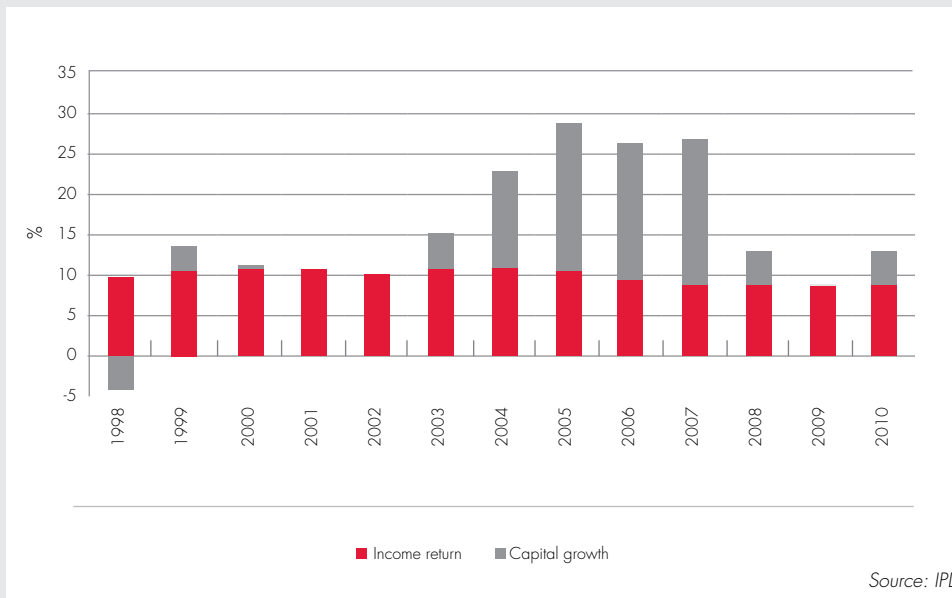
SECTOR	2003	2004	2005	2006	2007	2008	2009	2010
Retail	17.42	26.26	32.76	27.85	25.83	11.15	8.89	13.05
Office	8.96	16.46	25.14	24.97	30.53	13.92	8.03	13.96
Industrial	17.68	24.50	32.63	32.49	35.28	18.16	8.67	13.55
Other	23.51	27.80	21.29	21.69	25.84	19.31	12.16	11.95
All Property	15.23	23.40	30.02	27.22	27.66	12.95	8.79	13.29

Source: IPD

Total returns per sector as reflected in the previous table have remained positive, with an All Property return of 13.3%. The

office sector reported the strongest growth at 14% followed by industrial and retail at 13.6% and 13.1% respectively.

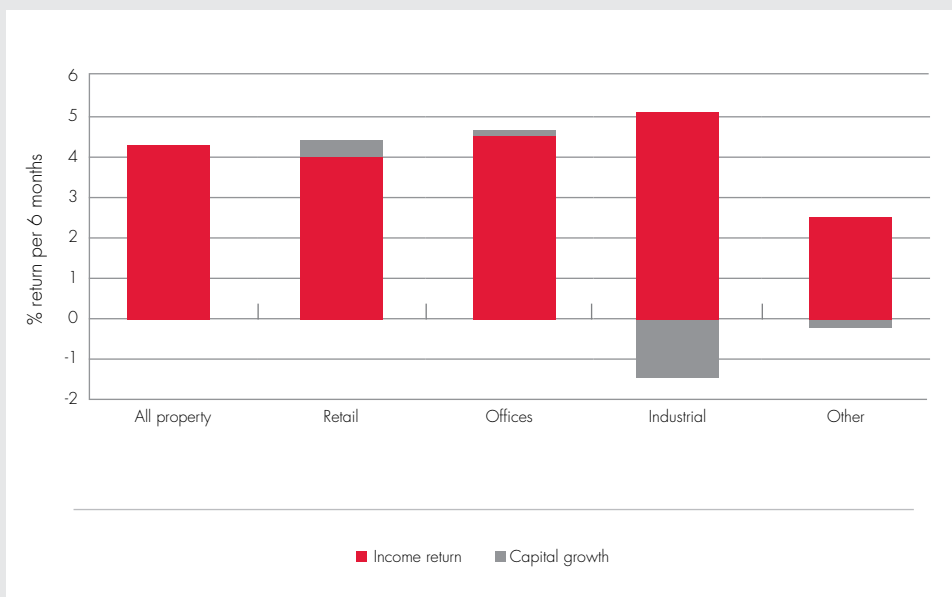
### All Property Total Return



According to IPD, and as shown in the graph below, the All Property Total Returns for the first six months of 2011 ending 30 June were 4.3%. Industrial and other properties showed a

negative capital growth rate of 1.5% and 0.2% respectively, indicating that these sectors remain under pressure and that growth is income driven only.

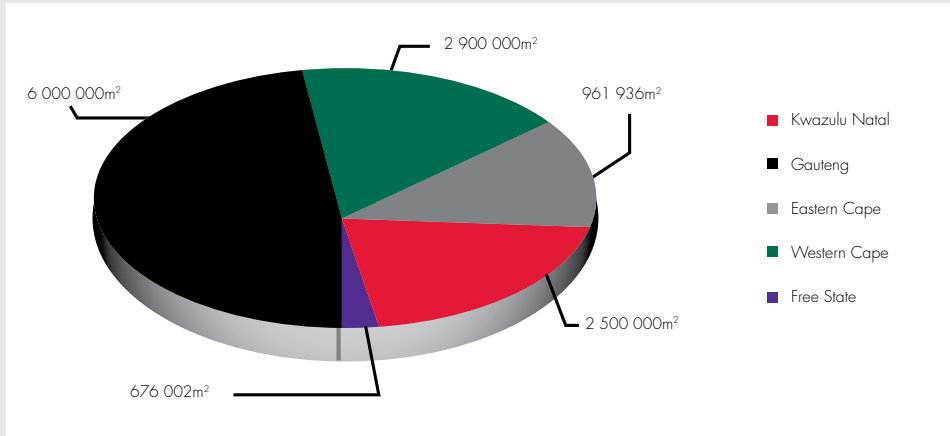
### All Property Biannual Indicator



In South Africa shopping centres remain the main retail sales point, primarily as a result of their having been developed specifically for the business of retail sales, facilities and services.

Gauteng has the largest retail footprint followed by Western Cape and KwaZulu-Natal.

Breakdown of Enclosed Shopping Centres per Region

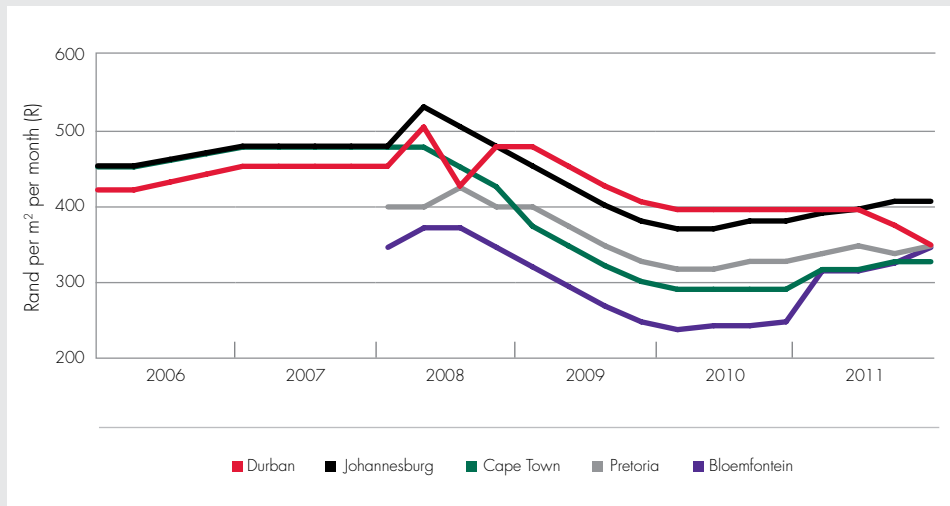


Source: SACSC

Shopping centre gross rentals have remained fairly stable in Cape Town and Johannesburg, while Pretoria is starting to show an upward trend. Durban has experienced a downward trend since the second quarter of 2011. This can largely be attributed to the increase of new shopping centres that came online over the last 24 to 36 months. This linked to the weak economic conditions in the region, led to a reduction in disposable income and,

as a result, the demand for goods and space followed suit. Bloemfontein on the other hand has experienced an upward trend over the same period. This is due to a higher demand for space and retail offering with limited prime space available. In general smaller retailers remain under pressure and if South Africa follows the trends currently experienced in Europe we could see the closure of some of the smaller traders as a result of the weakening global economy.

Gross Shopping Centre Prime Rentals

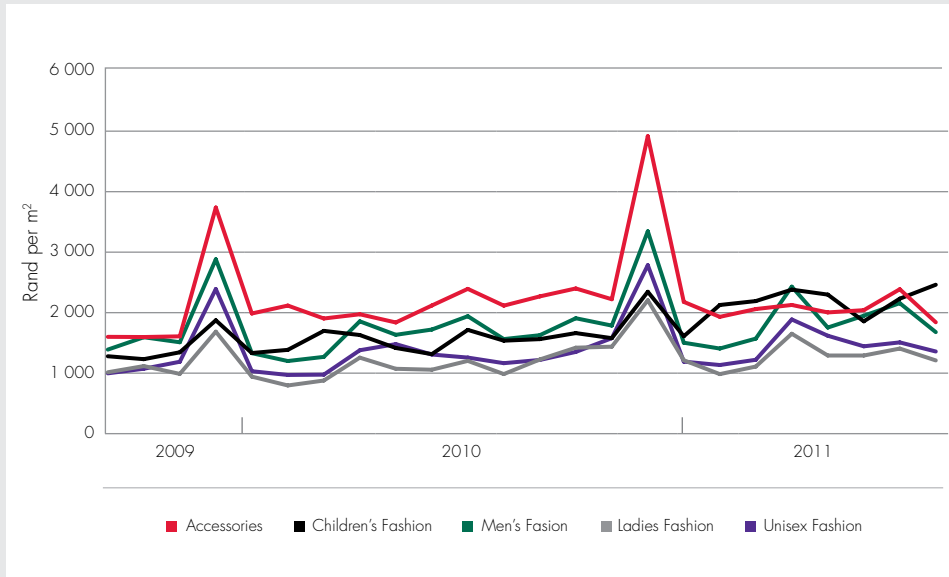


Source: Broll (These rentals are gross and reflect prime 80m² to 100m² space)

The nominal sales growth for Apparel (on next page) has grown by 11.3% in December compared y-o-y over the same period. For the fourth quarter of 2011 nominal sales growth was 10.3%, Mens Fashion was the top performer with 14.8% growth. Accessories were the

worst performer over the same period and remains in a negative growth rate of 1.3%. This is an indication that this component of the merchandise category remains under pressure and we predict that this trend will continue in 2012.

### Apparel Trading Density per m<sup>2</sup>

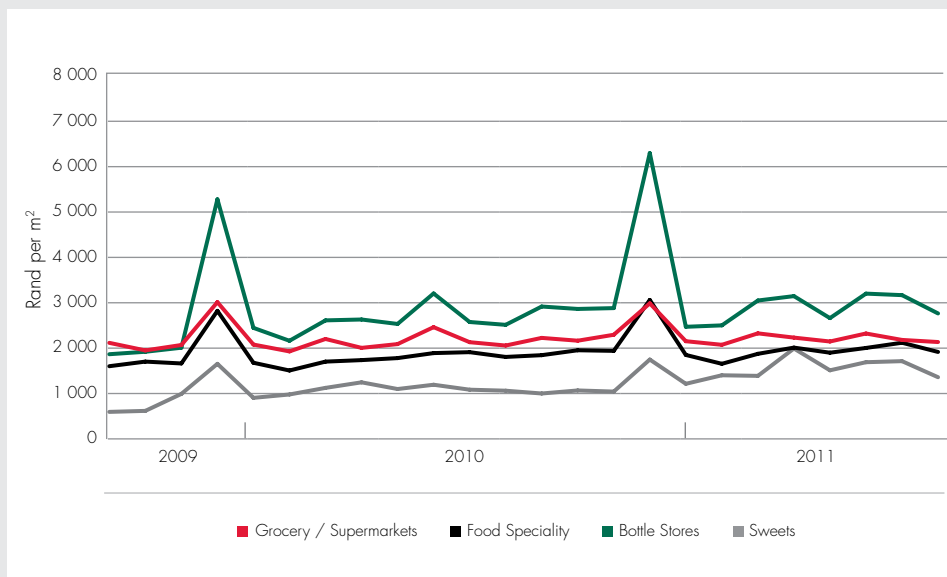


Source: Broll

The food category accounts for approximately 19% of all space occupied in Broll managed centres. Bottle stores had the highest monthly sales growth at nearly 10%, followed by Food Services, Grocery/ Supermarkets and Food Speciality with 7.2%, 6% and approximately 4% nominal sales growth respectively compared to December

2010. For the fourth quarter of 2011 Bottle Stores remained the top performer with nominal sales growth of 12.4% followed by Food Services at 11.8%. Overall the nominal sales growth in centres managed by Broll larger than 20 000m<sup>2</sup> have been fantastic averaging 11.4% for 2011.

### Food Trading Density per m<sup>2</sup>



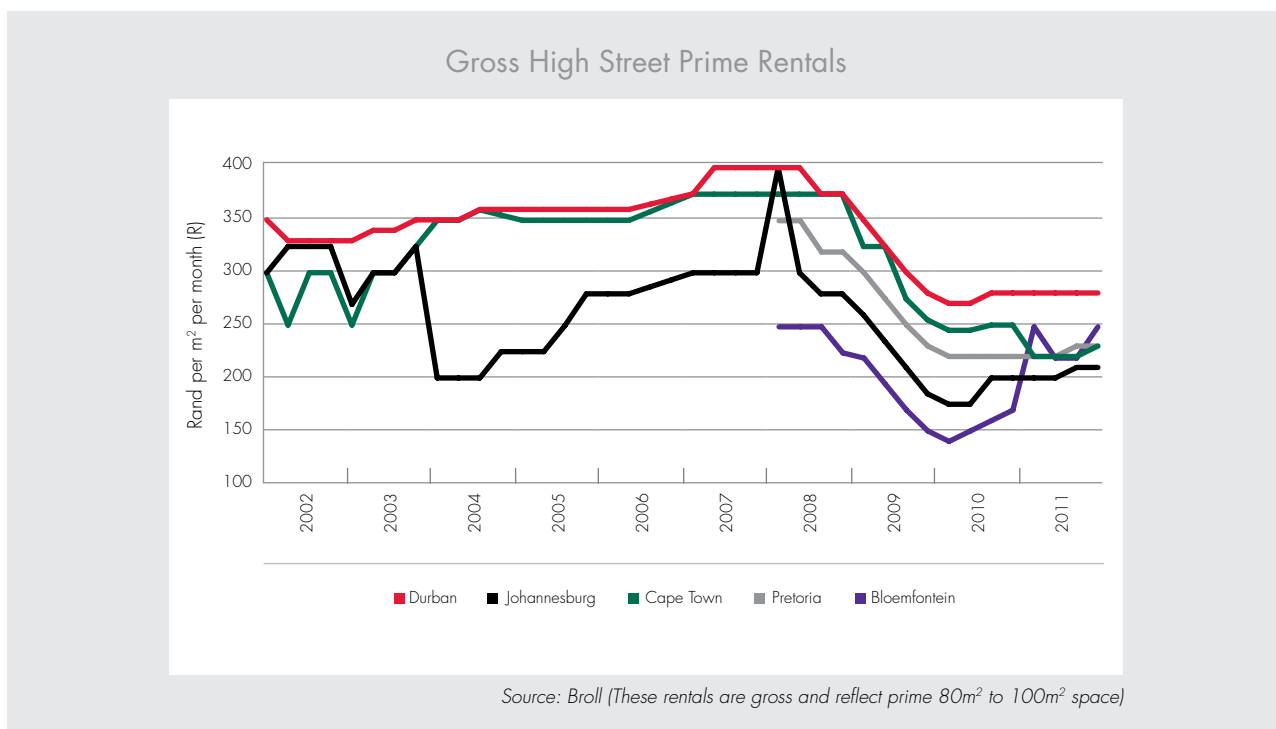
Source: Broll

High Street gross prime rentals have remained fairly stable during 2011, with Bloemfontein being the exception. The city has experienced a very active period and vacancies of high street space have reduced considerably. The increase in rental rates can be attributed to the supply of space declining and continued increase in demand.

We continue to track the rentals of high street properties situated close to Gautrain stations, and with more stations coming online it will be interesting to see what the effect of the higher foot traffic has on the respective areas.

However, overall rentals are still substantially lower than the high rentals that were achieved before the recession.

Operating expenses remain a point of concern and both landlords and tenants continue to feel the negative effect of the increases. Effective management of this issue is becoming a priority in all shopping centres. Retailers are more educated about the costs involved and are demanding that management agents and landlords make concerted efforts to effectively reduce the costs to both parties.



Capitalisation rates for prime retail stock have remained stable in the fourth quarter of 2011. However, the rates of secondary retail markets have weakened over the same period.

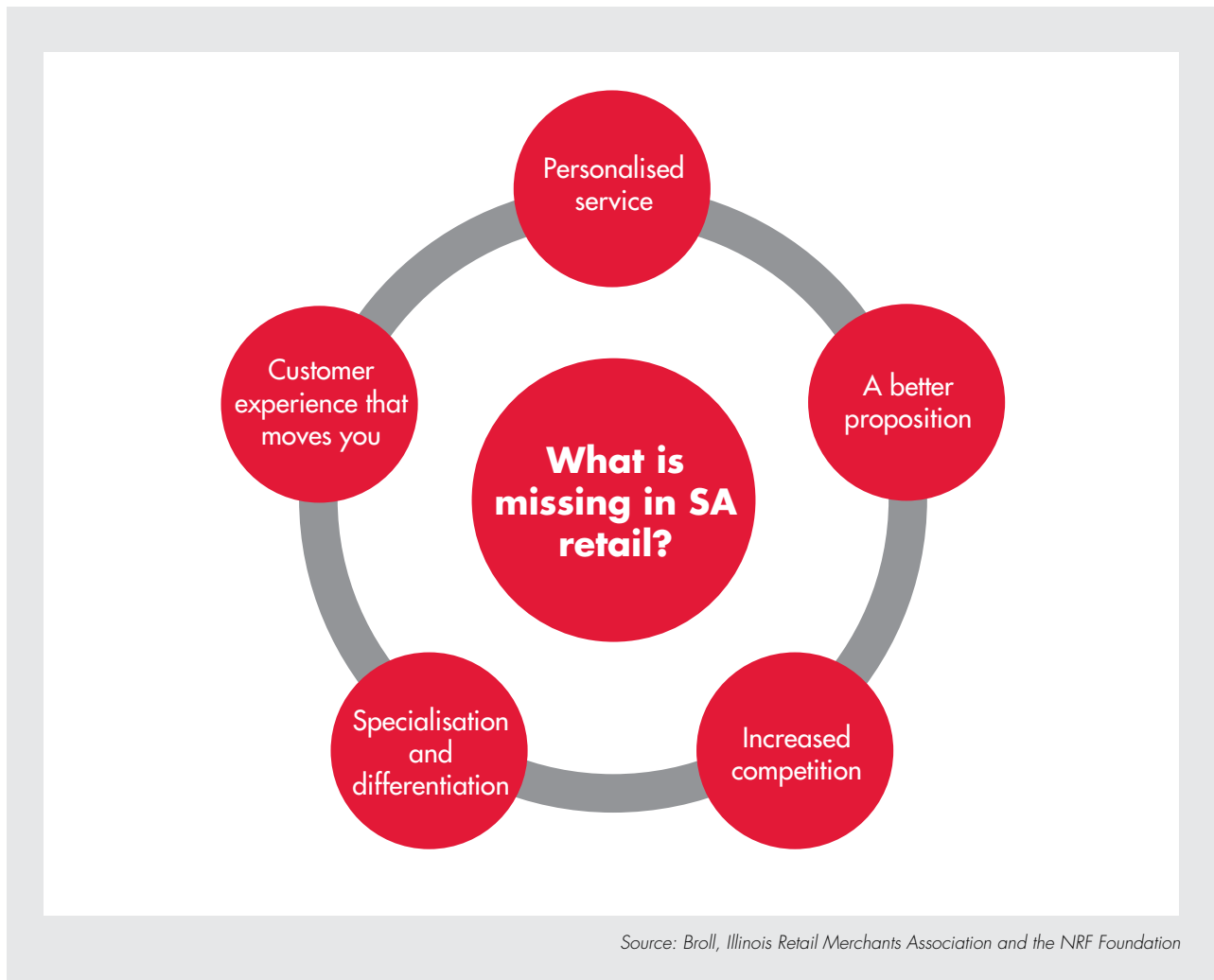
### Capitalisation Rates 4th Quarter 2011

		RANGE	TRENDING
<b>Retail</b>			
Shops			
Prime	8.50	↔	9.50 Stable
Secondary	10.00	↔	12.00 Weaker
Shopping Centres			
Prime	7.00	↔	8.50 Stable
Secondary	9.00	↔	12.00 Weaker
Retail Warehouse			
Solus - Prime	9.00	↔	9.00 Stable
Park - Prime	9.00	↔	9.00 Stable
Supermarkets			
Prime	8.50	↔	8.50 Stable

*Source: Broll*

As the diagram below indicates, modern consumers want more. They want value for their money, with personalised service that creates an experience they can relate to, and which allows them to communicate their experience in various mediums that suit them. Specialisation with a difference is vital, and as

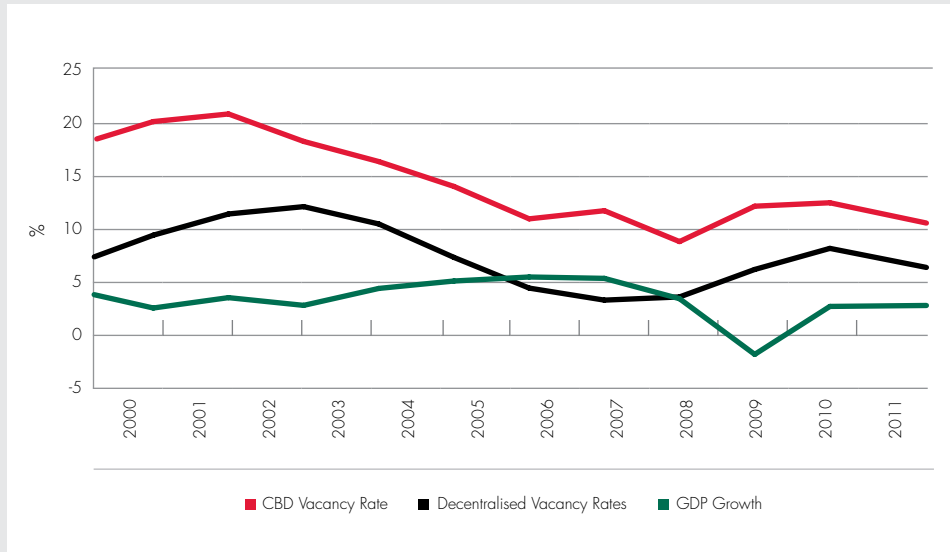
more and more national tenants grow their box offering this is becoming a fundamental differentiating tool. Introducing and developing a local cultural element that reflects the uniqueness of the community they serve is proving a valuable competitive edge for many centres.



Tenant mix remains one of the most challenging factors affecting the success of a shopping centre. Frequently, adding independent retailers as opposed to chain or franchise stores makes the tenant mix interesting. The South African consumer's profile has changed, with people becoming more demanding. The question is why did the retail market not keep up with this evolution and how will the industry grow and develop that missing link, taking new technology, new consumer profiles and future generations entering the market into account?



GDP Growth Compared to Vacancy Rates



Source: Oxford Economics and SAPOA

The graph above clearly indicates that the South African property market follows a similar trend to the local economy,

with a 12- to 18-month lag. This coincides in a similar fashion with the European property market.

Capitalisation Rates 4th Quarter 2011

		RANGE		TRENDING
Offices				
Prime CBD	8.25	↔	8.50	Stable
Secondary CBD	9.50	↔	11.00	Weaker
Major Provincial	10.00	↔	11.00	Weaker

Source: Broll

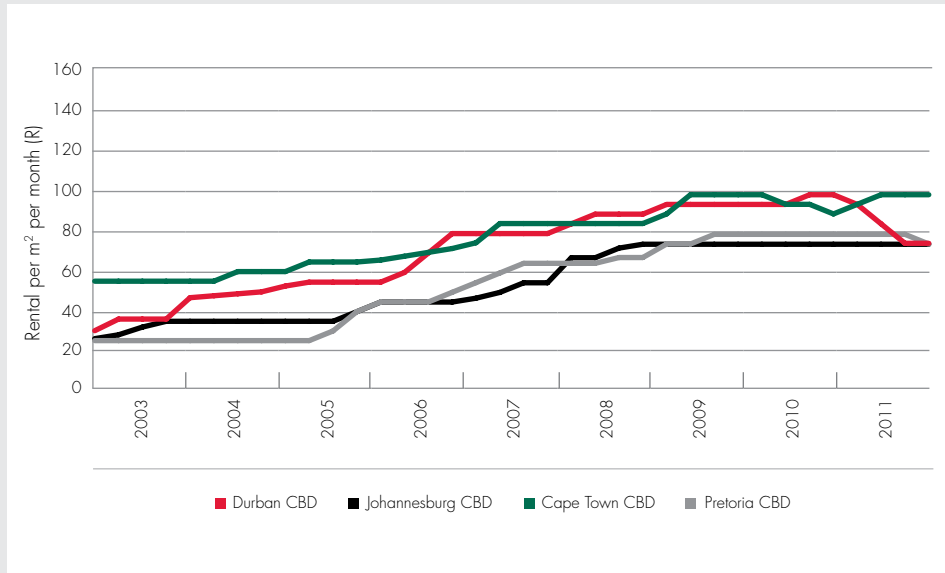
Capitalisation rates for prime office buildings have remained stable. However, the rates for secondary and provincial buildings have weakened over the last quarter. This can mainly

be attributed to the increase in vacancies and the drop in rentals achieved for these buildings.

A two-tier market is emerging in the office sector – prime grade and the rest. Gross rentals on prime space, large efficient floor space which can accommodate open-plan or high headcounts per square metre, are holding up. The remainder are under

severe pressure, forcing owners to consider refurbishments in order to compete or drop rentals. Developers have also had to drop land values in order to compete for purpose-build tenants because of oversupply.

### Gross CBD Office Rentals



Source: Broll (These are gross rentals and reflect A-grade space, there can be significant differences for B-grade space)

Gross rentals in the major CBDs have remained reasonably stable over the last two years, with little or no movement with the exception of Durban where rentals have dropped significantly. Durban also has the highest

CBD vacancy rate at approximately 21% for the last quarter of 2011. Vacancy levels in the major CBDs have followed an upward trend over the last five years as indicated in the table below.

### Normalised CBD Vacancy Rates

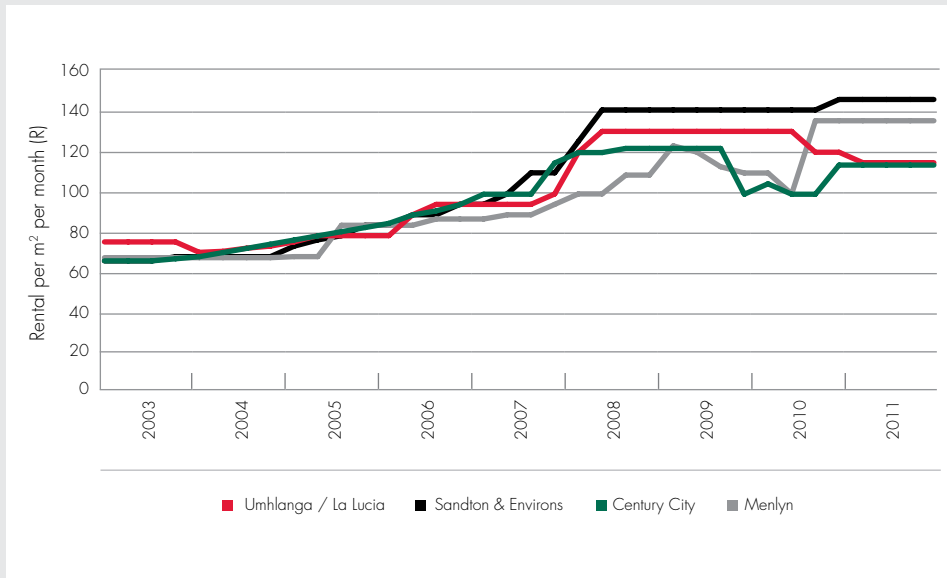
REGION	VACANCY RATE % IN THE LAST:		
	5 years	3 years	1 year
Johannesburg CBD	12.6	12.8	15.6
Pretoria CBD	3.3	3.7	4.3
Durban CBD	17.3	18.7	20.8
Cape Town CBD	9.5	12.3	10.2
National	7.6	9.1	10.1

Source: Broll

Gross rentals for decentralised office nodes in South Africa have remained fairly stable over the last 12 months. In some nodes rentals have decreased slightly mainly due to institutional owners'

willingness to accept deals at new lower levels. This reinforces the fact that it remains a tenant's market, and landlords are willing to negotiate to retain existing tenants and secure new ones.

### Gross Decentralised Office Rentals



Source: Broll (These are gross rentals and reflect A-grade space, there can be significant differences for B-grade space)

Vacancy rates in decentralised areas have continued to increase over the last five years. Johannesburg and Durban decentralised areas have the highest vacancy rate at 9.3%, with an increase of

nearly 2.6% and 5.3% respectively over the last five years. Cape Town is next with a vacancy rate of 7.6% which is an increase of 1.7%, this is the lowest increase over the same period.

### Normalised Vacancy Rates in Decentralised Areas

REGION	VACANCY RATE % IN THE LAST:		
	5 years	3 years	1 year
Johannesburg	6.7	8.5	9.3
Pretoria	4.2	5.7	7.2
Durban	4.1	5.7	9.3
Cape Town	5.9	7.3	7.6
National	6.0	7.6	8.6

Source: SAPOA and Broll

## **Gauteng**

In Gauteng the demand for prime-grade space in the range of 150m<sup>2</sup> to over 2 000m<sup>2</sup> has increased. The major office nodes in the region reflect a positive business sentiment and are seen as the prime office areas of South Africa. There are many leasing opportunities ranging from A-grade to prime grade space. The main movements on the leasing front are international companies and local business moving within their existing areas. The city improvement districts continue to work well and upgrade the public management in the area. Land available for development is limited as all the zoned land in these areas is owned by developers. Refurbishments are limited to B-grade buildings in specific areas as and when a tenant is secured.

Sales in this region have remained stable with the main demand coming from domestic owner-occupiers taking advantage of the current cycle of low interest rates to own their own space.

The impact of the Gautrain on property selection is still an unknown factor, but early acceptance has led to increasing use of both the train and bus services. The opening of the Rosebank Station and the route between Sandton and Pretoria has taken the service offering to a new level. For the first time in South Africa there is a high quality public transport system in place. The train and bus services have not necessarily led to a reduction on the utilisation of parking bays in buildings. The use by employees of their vehicles during the course of their business day, has led to cars being left at the office from Monday to Friday and taken home only at the weekend. The opening of the Johannesburg Park Station will increase the service offering even further and contribute to the transformation of the Johannesburg city centre. Investors are coming to the table and the CBD is benefiting from a variety of new developments. Some of these are still in the design stage and several others are already in progress.

## **Pretoria**

The Pretoria office market has benefited from the Gautrain. Office buildings round the Centurion and Hatfield stations have become more popular and now have low vacancies. Speculative developments for the 2010 FIFA World Cup are now experiencing the benefits of the new transport hub and vacancies continue to decline.

Some developers have secured government tenants in the Centurion area. There are several projects underway in the decentralised sector with many offering higher-grade space, which will potentially increase the attractiveness of these nodes. The city centre remains mostly tenanted by government and government-related organisations and vacancies in the larger office buildings remain low. The redevelopment of existing buildings around Pretoria station is scheduled to start in early 2012 with tenders already awarded by the Department of Public Works.

## **Bloemfontein**

The Bloemfontein office market is performing very well, with an increase in demand, sales and supply coming onto the market. The demand for space is mainly driven by local government contractors, the municipality, training centres and colleges.

There are several refurbishments taking place in the area, which should help to increase the profile of the city centre. Westdene, the main decentralised node in Bloemfontein, is also performing well and remains the area of choice for private sector and national businesses with satellite offices.

## **Cape Town**

Vacancies in the Cape Town office market are down to 10%, the market is showing early indications of improving and the numbers of day-to-day enquiries are increasing. There is a variety of new developments planned in Cape Town, but most of these are on hold until tenants have been secured for the space. Landlords are willing to negotiate and here it also remains a tenant's market. As in Gauteng there is an increase in the owner-occupier market, but there is still a gap between sellers' expectations and what buyers are willing to pay.

## **Port Elizabeth**

The economic conditions in the Eastern Cape are influenced mainly by the motor manufacturing sector and Port Elizabeth is no exception. Government, both local and provincial, is the main driver for space in the city centre and the large vacancies are slowly being filled. The demand for space has remained stable, while the supply of new space coming online has increased. The main demand for space ranges from 150 to 500m<sup>2</sup>. Domestic owner-occupiers are the main investors in the market.

Newton Park is the new business hub in Port Elizabeth. It is very accessible and all the major financial institutions are located there. Norvic Drive Office Park is a new high-quality development in the area that is set to raise the bar. The development will feature standalone buildings comparable with other top developments in the country, bringing the local market up to national norms. William Moffett Drive still offers development opportunities and consists mainly of A-grade buildings. The outlook for the next 12 months remains stable.

## **Durban**

Demand and sales in the main decentralised areas of Durban have remained stable since the beginning of the year. However, the supply of space coming online has increased over the same period. The current demand is for space in the range of 150m<sup>2</sup> to 500m<sup>2</sup>.

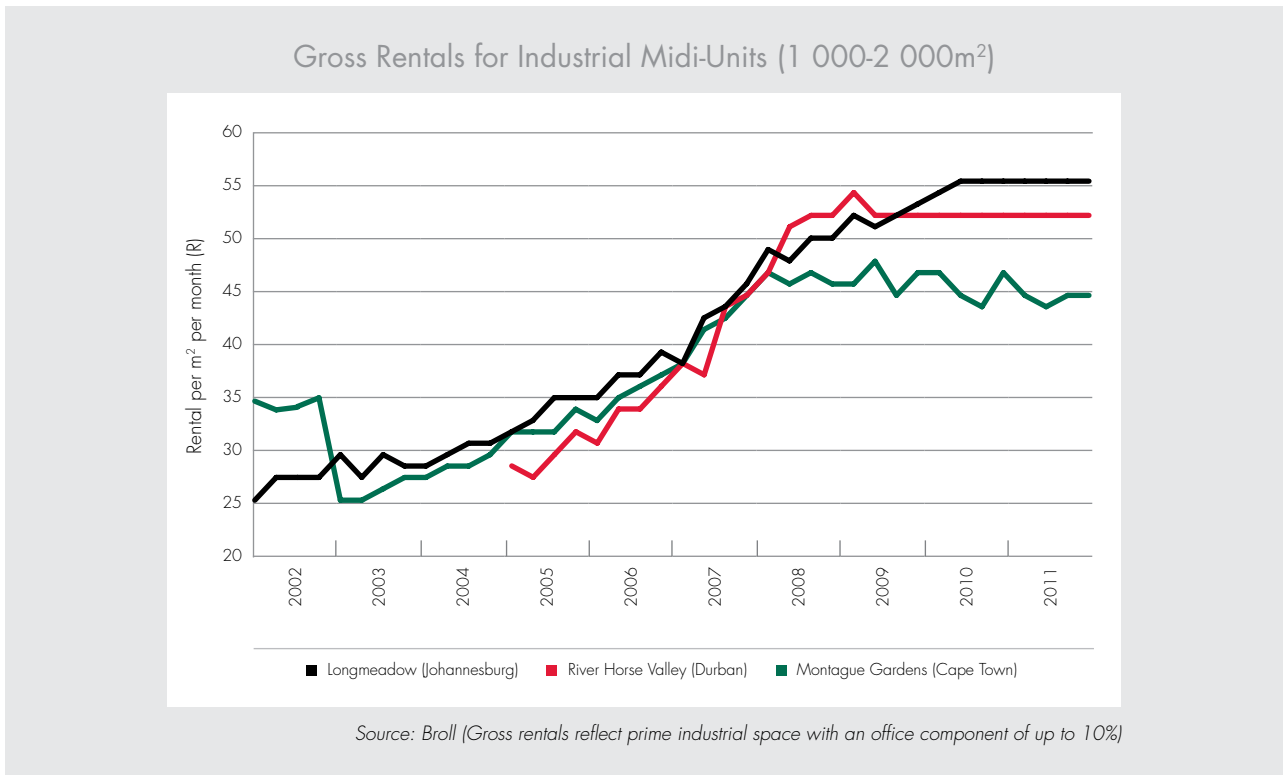
The Umhlanga/ La Lucia Ridge area consists mainly of A-grade buildings and remains the destination of choice for national and regional head offices, financial institutions and law firms. Sales are mainly driven by domestic owner-occupiers and domestic private individuals. There is no land available for development and were new land to be released this would be at a premium. The area also offers easy access to all the major routes, all amenities and the new airport.

The Durban city centre continues to see the refurbishment of older buildings to A-grade space with allowance for additional parking bays. The letting market remains weak. Enquiries are starting to increase but the commitment levels are low.

Classified as the 'least sexy', the industrial sector remains an easy entry point for investors, and this can range from small basic warehousing units to big distribution centres and purpose-built manufacturing units with precise specifications. The main challenge facing this sector is the potential to lose tenants if the economic downturn continues and small- and medium-sized tenants go insolvent.

According to Oxford Economics the manufacturing sector historically accounts for 19% of South Africa's

GDP. After recovering from the July strikes, industrial output has declined again; manufacturing and mining production contracted by 3.6% and 8.1% respectively for the month of October. Economists are predicting that domestic demand will slow down due to the worsening global conditions to 1.5% in 2012, down 0.6% from 2011. The continued pressure on the manufacturing growth-rate could influence the performance of the industrial property sector.



Gross rentals for prime industrial midi-units in prime areas have remained fairly stable since the third quarter of 2009. According to the SAPOA Industrial Vacancy Survey the All Industrial Vacancy Rate is currently at 4.2%, an improvement

of 1.5% compared with the same period a year earlier. Warehousing has the highest vacancy rate at 6.0%, followed by light manufacturing and standard modular units at 4.7% each with high-tech/high-grade the lowest at 1.5%.

## Gauteng

Demand for industrial space in Gauteng remained stable over the fourth quarter of 2011, with mini (less than 1 000m<sup>2</sup>) and larger (in excess of 2 000m<sup>2</sup>) units driving the demand for space. At the same time the supply of space is declining and as a result rentals should start to move upwards as space becomes limited. Sales activities in the prime areas have also remained stable for the same time period.

As stock levels decrease, more vacant land has been put back on the market exerting downward pressure on land values.

## Bloemfontein

The Bloemfontein industrial market remains stable, with leasing enquiries ranging between 200m<sup>2</sup> and 500m<sup>2</sup> and a limited

demand for bigger space. In general there has been a small increase in rental levels. In addition there has been an increase in the frequency of refurbishments and upgrades to properties; landlords that are willing to upgrade their premises are achieving higher rentals, especially in the warehousing sector.

## Cape Town

Vacancies in Cape Town industrial units are still up in most nodes; however, the lack of new speculative developments should see this decreasing. There is still strong demand for good quality industrial investments and investors are also taking the opportunity to buy well-priced older properties. Owner-occupiers are entering the market again as interest rates remain low and banks are starting to lend more. Growth is driven

by warehousing and logistics companies and the bulk of the activity is in the larger warehousing sector. Desirable warehousing offers internal unfettered height of at least nine metres, generous yard space to accommodate large vehicles and good access to highways. Furthermore, easy access to public transport and an abundant labour market remain popular. The Airport, Airport Industria, Montague Gardens and the central nodes remain the premium locations for logistical and warehousing companies. Land sales are consistent but slow but there are signs that this is starting to increase.

**Port Elizabeth**

Demand for industrial properties in Port Elizabeth has remained stable. This has coincided with a decrease in sales and an increasing supply of new space coming online. The demand for space ranges between 500m<sup>2</sup> and 1 000m<sup>2</sup>. The main industrial nodes are: Markman, which is in close proximity to Coega and the national roads, and where leasing activity is slow; Neave, which is close to the city centre and has good infrastructure; and Deal Party, which offers good clustering, accessibility and infrastructure. Leasing activity in these nodes is buoyant, with good tenant demand. The main investors in these areas are private individuals.

**Durban**

Conditions in the Durban industrial market have remained largely unchanged in the last 12 months. There is still a gap for large high-quality warehousing space. However, the current economic conditions are preventing developers from expanding their portfolios. Umhlanga and the industrial nodes south of the city centre remain the most popular. The projected economic growth around the King Shaka Airport has not materialised, mainly due to the downturn in the global markets and the subsequent knock-on effect this has had on exports.



Capitalisation Rates 4th Quarter 2011

		RANGE		TRENDING
Industrial				
Prime Distribution	8.50	↔	9.00	Stable
Prime Industrial Estate	9.00	↔	9.50	Stable
Major Provincial	10.00	↔	11.00	Weaker

Source: Broll

Capitalisation rates for industrial properties remain stable for the fourth quarter of 2011, ranging from 8.5% to 9.0% for prime distribution properties and 9.0% to 9.5% for prime industrial estate properties.

Operating expenses remain a concern in the manufacturing sector, especially with users of large volumes of power and water.

Sub-Saharan Africa (SSA) continues to experience an increase in demand for real estate solutions in a very complex structure of emerging markets. The challenges and risks facing companies entering this market remain broad and include inadequate infrastructure, political and social instability, inefficient government bureaucracy, corruption, poor education levels and lack of access to finance, to name only a few. On a positive note, construction is booming, and elevated oil prices, natural resources and other commodities have increased GDP growth to 5.6% per year for the continent since 2000. According to the IMF's latest forecast, six of the 10 fastest growing economies in the next five years will be in SSA.

Many South African companies have already taken note of SSA's immense growth potential, and of the renewed determination that governments and business are demonstrating to address risks and challenges. A large number of South African retailers and property developers have already recognised the favourable demographics of a rapidly growing population and labour force, as well as a growing middle class, and rapid urbanisation. As a result, they have made an early entry into SSA or have included the region as part of their long-term planning.

**Nigeria**

**Retail**

The demand for retail space in Nigeria has increased significantly during the past 12 months, driven by the growth in urbanisation and consumerism, and a growing middle class. The backlog of formal upmarket retail developments has brought a flood of new proposals to the drawing board and it is estimated that 250 000m<sup>2</sup> (GLA) of retail space will come on stream during the next 24 months. As a result of the recent lifting of the textile ban and interest from SA national retailers such as Woolworths, Foschini, Truworths, Famous Brands, Mr Price, Spur, Pep etc. it may not be long before we see

larger malls of between 30 000m<sup>2</sup> and 40 000m<sup>2</sup>, stocking more international brands, being developed. However, finding suitable sites with good access remains a challenge.

The average basic line-shop rental in shopping malls managed by Broll ranges from US\$45 to US\$80m<sup>2</sup> per month. Basic rental excludes operational costs, which range between US\$7 and US\$11m<sup>2</sup> per month. Lease escalations vary between 5% and 8% a year, with an average lease period of between two and five years. Turnover rentals have now been introduced in one mall and as the market matures, other Landlords are likely to follow suit.

Centres that offer an excellent location, adequate parking, competitive rentals, accessibility and a good tenant mix have a competitive edge.

**Offices**

While the overall demand for office space in Nigeria has remained stable since the beginning of 2011, the supply of new space coming online has increased over the same period. New developments comprising mostly A-grade space are being driven by the increase in demand from international tenants and the apparent lack of A grade offices that meet international standards. Leases range between two and five years and lease escalations of between 7% and 10% are common.

Leases are generally paid in advance, with two years being the norm and thereafter annually in advance. Rentals in Nigeria are quoted exclusive of operating costs which can range between US\$3 and US\$9m<sup>2</sup> a month.

The main investors are domestic owner-occupiers followed by domestic private individuals who are often prepared to hold out on vacancies for long periods until their rental demand is achieved. This partly explains high nodal vacancies coupled with increasing rentals.

Nigeria Office Rentals and Land Values 4th Quarter 2011

Node	Grade	ANNUAL BASIC RENTALS IN US\$ per m <sup>2</sup>		VACANCY RATES (%)	LAND VALUES IN US\$ per m <sup>2</sup>	
		Range			Range	
Lagos - Victoria Island	A	800	↔ 1 100	20	1 000	↔ 1 600
Lagos - Ikoyi	A	800	↔ 1 000	-	1 100	↔ 1 900
Lagos - Lekki	B	150	↔ 200	20	400	↔ 700
Lagos - Lagos Island	B	100	↔ 250	25	600	↔ 800
Lagos - Ikeja	B	100	↔ 200	25	200	↔ 750
Abuja - CBD	B	200	↔ 350	-	-	↔ -

Source: Broll



Victoria Island is close to the main commercial centre of Lagos and has a high demand for space with good public management systems. Buildings comprise mainly A-, B- and C-grade with high values. Business sentiment in the area is very positive. Land for development is limited and some landlords have started refurbishing older buildings.

Ikoyi is an upmarket area offering good accessibility and an improving infrastructure. Planning regulations are very strict. Buildings are mainly A- and B-grade and demand for space remains high due to easy access and low traffic congestion. It has the highest recorded land values, but supply is limited.

Lekki offers affordable rentals in B- and C-grade buildings and is very popular with small businesses and start-up companies that want to keep their overheads as low as possible. Demand for space in the area is average, but it is fast emerging as a developing node with good public management.

Lagos Island is the oldest commercial node; it offers good accessibility and is close to the main financial institutions. Business sentiment is good and the area offers B- and C-grade buildings. There is a variety of refurbishments and upgrades happening, resulting in several urban renewal projects.

Ikeja is close to the airports, industrial areas and major markets and comprises B- and C-grade buildings. Demand for space in the area is relatively low. There is a significant number of refurbishments taking place, particularly on smaller developments.

## Ghana

### Retail

The retail market in Ghana has seen an increase in demand with a number of small (< 5 000m<sup>2</sup>) retail developments coming online. South African national retailers and international brands continue to enter the market albeit at a more conservative pace when compared with Nigeria. Accra Mall (20 000m<sup>2</sup>) is the only premier shopping centre in Ghana and attracts more than

7 million shoppers a year. The high GDP growth supported by the discovery of oil, a growing middle class, and the movement towards urbanisation and consumerism, has resulted in renewed interest from developers and it is estimated that approximately 110 000m<sup>2</sup> of retail space will come on stream over the next 12–24 months.

The basic line shop rental for shopping centres ranges from US\$35 to US\$65m<sup>2</sup> a month, and basic rentals exclude operational costs which range from US\$7 to US\$9m<sup>2</sup> a month. Lease escalations average 7% a year, and the length of leases average between three to five years.

### Offices

The demand and supply of office space coming online has increased. Developers have recognised the demand for A-grade/premium grade offices in prime locations and a number of developments are expected to be completed within the next 18 to 24 months. It is also expected that new developments will demand basic rentals ranging from US\$35 - US\$40 on completion.

The length of leases ranges from two to five years and lease escalations are normally between 5% and 7% a year. Leases are generally paid in advance with the norm being quarterly or bi-annually, and thereafter quarterly in advance. Rentals in Ghana are quoted exclusive of operating costs, which range between \$4 and \$5m<sup>2</sup> per month.

The old CBD offers easy access to businesses, has good road infrastructure and most of the financial institutions are based there. The area consists mainly of B-grade offices and is primarily occupied by corporate institutions and government agencies.

The new CBD has a competitive edge offering modern state-of-the-art infrastructure coupled with a serene working environment. The location gives easy access to and from the other parts of the city and it is the area of choice for new global companies entering the market. The West Ridge is emerging as the financial

district or hub of Accra. Demand for office space is extremely high due to the proximity to Government offices, Ministries and other departments. Plans have been approved to start the development of a number of buildings all larger than 5 000m<sup>2</sup>. At the same time, the refurbishment of selected older properties in the area has started or will commence early in 2012. The buildings will be given a modern look and offer improved facilities such as CCTV monitoring and air-conditioning.

Airport City currently enjoys the highest demand for prime space in Accra. It has the most sophisticated and high-spec office infrastructure. The proximity to the airport and residential areas makes it convenient and easier for corporate organisations to locate their offices there. The area is characterised by high-rise A-grade properties that attract high-end tenants. All available land is sold and earmarked for development into commercial and retail space.

Office development in East Legon is increasing due to the demand for space driven by the well-planned neighbourhood and reliable access roads coupled with modern buildings. There is also a trend towards converting residential properties into offices. However, those developments have inadequate parking and often lack facilities normally associated with commercial nodes, such as public transport.

In Tema there is brisk activity within the Port, so demand for office space is minimal and ranges from 50 to 150m<sup>2</sup>. Most institutional firms have their own purpose-built administrative offices, hence the low demand.



### Ghana Office Rentals and Land Values 4th Quarter 2011

Node	Grade	MONTHLY BASIC RENTALS IN US\$ per m <sup>2</sup>		VACANCY RATES (%)	LAND VALUES IN US\$ per m <sup>2</sup>			
		Range	Range		Range	Range		
Old CBD	B	8	↔	14	15	-	↔	-
Ridge (New CBD)	B	17	↔	20	5	250	↔	375
Airport City	A	25	↔	30	5	375	↔	450
East Legon	B	13	↔	18	30	175	↔	250
Tema	B	10	↔	18	25	125	↔	200

Source: Broll

### Industrial

The industrial market in Ghana has remained stable since the beginning of 2011. The demand for warehousing is normally for space that exceeds 1 000m<sup>2</sup> and includes a minimum of 500m<sup>2</sup> of yard space. Lease escalation is in general subject to negotiations but normally does not exceed 5% for leases negotiated in US\$. On average the lease period is for a

minimum of five years and tenants are, as a rule, required to settle the rental up to two years in advance. The main investors are foreign entities and organisations.

The Spintex Road area which was initially zoned industrial has turned into a mix-used area and it is largely populated

by residential buildings though there are commercial properties within this enclave.

Tema is also known as the harbour city. The area has an established road infrastructure and has mainly A- and B-grade industrial buildings. Ghana does not have a well-recognised standard for grading industrial properties but this is fast changing as new buildings are increasingly built to international quality norms. Due to an increase in demand for good quality finishes in industrial properties, new developments are now adhering to these standards. The majority of the properties in the area are for heavy industrial purposes, both state and privately owned.

The North and South Industrial areas consist mainly of light industrial properties due to the close proximity of the business hub of Accra and local legislation preventing heavy industrial properties near these areas. The road infrastructure in this area is good and the majority of businesses in the city centre prefer to have their warehouses in this area.

## Malawi

### Retail

The Malawi retail property market has experienced an increase in new supply coming online, while the demand for space has remained stable. The demand for space ranges from small to large, but the current economic and political environment is creating negative sentiment towards the country and as a result a number of South African national retailers have put a hold on their plans to enter the Malawian retail

market. Some of the issues include the lack of foreign exchange and excessive import duties. Leases escalate at 10% and the length of the leases is between three and five years. Gross rentals achieved range between US\$9.4m<sup>2</sup> and US\$25m<sup>2</sup> depending on the location and size of the store. Malawi has a limited supply of shopping malls, and the development pipeline is limited.

## Namibia

### Retail

In Namibia the supply of retail space has declined while demand and sales have remained stable. The demand for space varies between 150m<sup>2</sup> to 500m<sup>2</sup> and leases escalate at 8% per annum. Retail in the Windhoek CBD offers a competitive tenant mix, abundant parking and high foot traffic.

### Office

The office market has seen a decline in sales while demand and supply have remained stable. Leases escalate at 7% and prime buildings in the CBD can achieve rentals as high as R145m<sup>2</sup>.

### Industrial

The industrial market experienced an increase in demand, supply and sales over the first nine months of 2011. Leases escalate at 8% and the average lease period is three years. Industrial areas that offer good visibility, easy access and abundant parking can obtain rentals ranging from R32m<sup>2</sup> to R65m<sup>2</sup>.



**Standard capitalisation rate (Cap rate):** It is the expected net operating income for year one, assuming the entire building is let at open-market rentals, divided by the purchase/transaction price, normally expressed as a percentage. This calculation ignores VAT, transfer duty and income tax, and assumes a cash transaction (in contrast to a paper-based sale).

**Central business district or downtown (CBD):** This is an area of concentrated high economic activity. The user can differentiate between the metropolitan CBD (e.g. the Johannesburg CBD) and a decentralized CBD (the Sandton CBD).

**Decentralised nodes:** Town and regional planners differentiate between local decentralisation (from the metropolitan CBD to the suburbs) and regional decentralisation (to outlying areas of the country).

#### Industrial-building grades:

**Prime:** A property in which space is easily lettable because it satisfies each of the following prerequisites: Generally in a good condition; satisfactory macro access (i.e. access to freeway), proper loading facilities, eaves >4 m (excluding micro/ mini units), clear spans, on ground level, adequate three-phase electrical power and satisfactory micro access (i.e. from street to building). The eight conditions above are prerequisites for space to be considered prime. However, a building may possess additional enhancements.

**Secondary:** This is industrial space which is not classifiable as prime because it does not satisfy all eight prerequisites for prime space listed above. Such space is typically old buildings or structures, which have been haphazardly renovated. It would have poor access, too little yard space or office accommodation, inadequate goods lifts, no three-phase power and obsolete electrics and ablution facilities. Such space is often (but not exclusively) found in highly urbanised areas.

#### Office building grades defined by quality of finishes and facilities:

**P-grade:** (Premier grade): Landmark quality, modern space which is a pace-setter in establishing rentals and provides good views/environment; prestige lobby finish; on-site undercover parking; quality access to/from attractive street setting; premium presentation and good security. High parking ratio of (+5/100m<sup>2</sup>) basement parking and the building is generally less than 10 years old and well maintained.

**A-grade:** Generally not older than 10 years, unless renovated; prime location; high-quality finishes; adequate on-site parking; air-conditioning. Adequate parking on site- mostly shaded or covered and the building is generally 10-30 years and/or major renovation.

**B-grade:** Generally 10 to 20 years old; accommodation to

modern standards; prime location, air conditioning and on-site parking.

**C-grade:** Generally 20 to 30 years old; in fairly good condition although finishes are not up to modern standards; good location; may have on-site parking and is unlikely to have central air-conditioning.

**Office vacancies:** This is the floor area available for leasing at any given time, irrespective of whether there is still a valid lease over the space. Often expressed as a percentage of the stock in rentable m<sup>2</sup>.

**Office demand:** Office stock less office space vacant (space on the market for renting irrespective of whether there is still a valid lease over the space). In other words, demand is office space occupied.

**Office stock:** Total rentable office space.

**Office take-up:** Change in office demand. Where take-up is positive, it can also be called the growth in demand.

**Office vacancies:** This is the floor area available for leasing at any given time, irrespective of whether there is still a valid lease over the space. Often expressed as a percentage of the stock in rentable m<sup>2</sup>.

**Outgoings (operating costs):** In the case of office buildings, the following items are included under total gross outgoings, irrespective of who pays for these: cleaning, repairs & maintenance, common-area electricity & water (not tenant's), security, management (excl. head office overheads), all leasing expenses: broker's commission and in-house payroll, advertising, tenant installations & relocations (unless recovered), buy-outs, etc., Municipal tax., insurance (fire & SASRIA). In the case of self-insurance, the landlord's provision should be included, refuse & sewerage less recoverable amount, external & common area repairs & maintenance and audit fees.

**The following items are excluded:** VAT, head office overheads, tenant's own electricity and water, tenant installations/relocations recovered, internal maintenance, and recoverable refuse & sewerage.

#### Rental:

**Gross rental:** The total rental payable by the tenant, excluding VAT, the tenant's own electricity and water charges, but including other operating costs recovered by the landlord (if any), as well as promotion expenses payable by the tenant in the case of shopping centres.

**Net rental:** The amount payable by the tenant, excluding VAT and excluding operating costs recovered by the landlord (if any).

## Broll Research

Our research department focuses on providing clients with knowledge-based research on the retail, office and industrial property sectors. We specialise in converting property data into useful market knowledge. We pride ourselves on the fact that we add value to our clients' portfolios, hence empowering them to make well informed decisions and improve the performance

of their investments. Broll Research uses the comprehensive databases of buildings under Broll's management (R51 billion), as well as the Broll Broking database of actual deals concluded in various markets, as the basis of all our research. **For further information please contact Sanett Uys at [suys@broll.co.za](mailto:suys@broll.co.za).**

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