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Johannesburg Real Estate Overview – Q1 2012

Uncertainty in the local and global economy, risks to the inflation outlook and low levels of construction activity is dampening prospects for growth. However, recently announced spending on infrastructure projects could boost prospects for much needed jobs.

The commercial market is beginning to favour landlords in the prime office accommodation as they are beginning to achieve asking gross rentals and reduced vacancies albeit limited speculative completions.

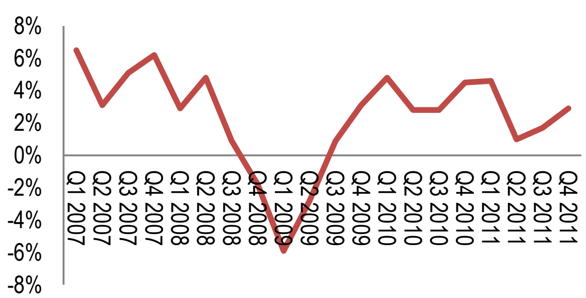
Although investors are starting to commit to speculative developments in anticipation of a turnaround and vacancies have reduced, the industrial market still favours occupiers indicated by shorter lease tenure and lack of robust rental growth.

Economic Overview

Key Economic Indicators		
Current Statistics	**Q4 2011**	**Q1 2012**
Real GDP (% change)	2.9	2.7 (est annual GDP)
Unemployment (%)	23.7	n/a
Monetary policy rate (%)	5.5	5.5
Consumer Price Index (% change)	6.1	6.0
Domestic Producer Price inflation (%)	10.2	8.3 (Feb 2012)
Source: Statistics SA, International Monetary Fund		

South African output registered a better than expected growth of 2.9% in the last quarter of 2011. Major contributions to this growth is attributed to the performance of the secondary sector in retail and wholesale as well as the tertiary sector in general government services, finance and real estate. Despite this improvement from Q3 2011, the Treasury and the IMF have cut growth projections for 2012 and 2013 to 2.7% and 3.4% respectively as a result of expected weak global growth and uncertainty in the major economies that are South Africa's trading partners.

Figure 2: Real GDP Growth



Source: Statistics SA, 2012

The first quarter of 2012 was also characterised by an improvement in the number of jobs created, retail sales and manufacturing production and a marginal fall in inflation to the upper limit of the target range. The volatile Rand exchange rate and Brent crude oil prices, uncertainty on the inflation outlook and impact of the recurring European debt crisis is putting a damper on the local economy, reflected by the business confidence levels reported recently.

The Reserve bank left the Repo rate at 5.5% in the recent meeting in March 2012 in an effort to stimulate local economic demand. The IMF, however, recently cautioned that it may be necessary for South Africa to further cut its interest rate to stimulate growth if there is a protracted slowdown.

Unemployment

The South African economy created over 100,000 jobs in the first 2 months of 2012, according to Adcorp Employment Index. With growth projections revised downwards and other external risks, it is unlikely that South Africa will create the much needed employment opportunities to absorb all the jobs lost during the 2008-09 global recession period. However the recently announcement in the Presidential national address on significant infrastructure expenditure is expected to further create employment opportunities in the weak economic climate.

Business and consumer confidence

Business confidence dropped to levels last seen in early 2010, post 2009 recession period, dipping 3.8 index points to 95.7 in March 2012. The surveyed business community is concerned about uncertainty in the weak local economy, risks to the inflation outlook, low levels of construction activity as well as the global uncertainty.

The consumer confidence index, which measures the level of optimism that consumers have about the performance of the economy, remained unchanged at +5 index points in the first quarter of 2012.

The petrol and electricity price increases and the incoming e-tolling on Gauteng Province roads are expected to negatively affect consumer spending in the next few months resulting in cautious spending and slowing demand.

Office Market Overview

Key Office Market Indicators		
Current Statistics	**Q4 2011**	**Q1 2012**
Prime Gross Rent (R/m^2 per month)[1]	185	205
Prime Yield (%)	8.5	8.5
Overall Johannesburg Vacancies (%)	10.3	9.8
Johannesburg CBD incl. Braamfontein Vacancies (%)	17.4	16.2
Grade P Vacancies (%)	4.9	4.7
Total Gross Leasable Area (GLA) ('000 m^2)	8,522	8,568
Development Pipeline (m^2)	338,000	358,000
Completions (m^2)	46,423	4,000

[1]Prime rent represents the top open market rent that could be expected for an office unit of the highest quality and specification in the best location in a market, as at a survey date.

Source: SAPOA, Jones Lang LaSalle

Demand

- Net absorption of office accommodation was positive this quarter, driven by take-up of existing older stock as there was limited speculative stock completed.
- Sandton and Bryanston continue to be nodes of choice for office accommodation where heightened activity was noted in this quarter.
- Some of the notable large deals in the market during in this period are the take up of over 16,000m^2 by the law firm CLA Cliff Dekker in Sandton and the 3,000m^2 office lease by Huawei Technologies SA in Bryanston.

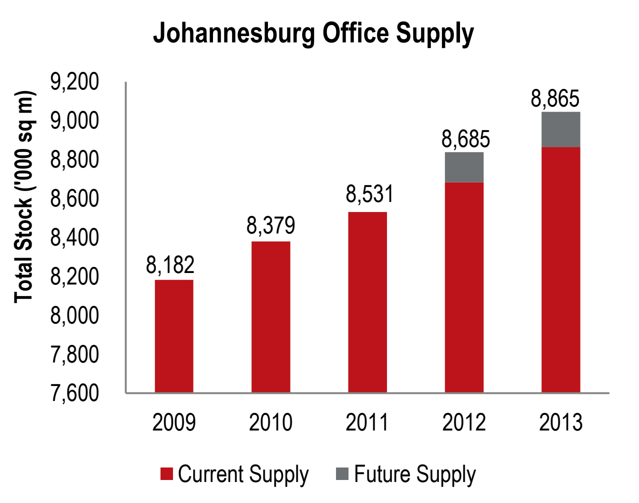
Supply

- This quarter saw the least number of new development completions with most scheduled for later in 2012.
- Change in office stock was insignificant and was based on regrading of buildings rather than completions. The effect was an increase of Grade A stock which now represents 52% of the total Johannesburg stock.
- The development pipeline increased by 19,000m^2 in Q1 2011 to reach 358,000m^2. Investors are still conservative in committing to new speculative developments due to uncertainty, thus non-speculative developments represent 64% of the pipeline in the next 2 years. With all the committed construction activity in the Johannesburg area, office stock is expected to reach over 8,6 million m^2 in 2012 and 8.8 million m^2 in 2013.

Indicative Development Projects			
Current Statistics	**Approximate Size (m^2)**	**Node / Submarket**	**Opening Date**
Illovo Edge Phase 2	4,000	Illovo	Q2 2012
Standard Bank Building	69,000	Rosebank	Q3 2012
Culross on Main	7,000	Bryanston	Q3 2012
Alice Lane	14,000	Sandton	Q3 2012
Alexander Forbes new Head Office	36,000	Sandton	Q4 2012
Muswell Road Campus	18,103	Bryanston	Q4 2012
6 Sandown Valley Crescent	12,000	Sandton	Q4 2012
Athol Tower	10,000	Sandton	Q2 2013
Katherine and West	20,000	Sandton	Q2 2013
Multichoice	24,000	Randburg	2014 (est)

Source: Jones Lang LaSalle

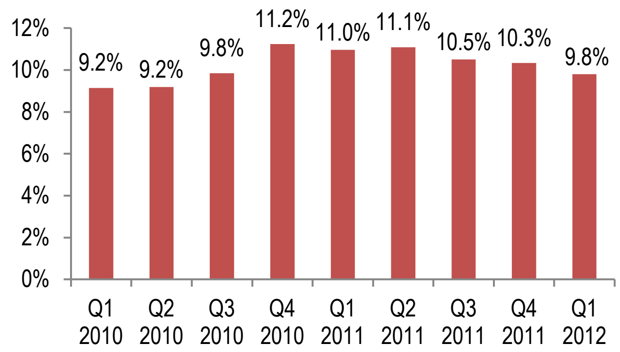
Figure 4: Johannesburg Office Supply



Source: SAPOA, Jones Lang LaSalle

Vacancies

Figure 5: Vacancies

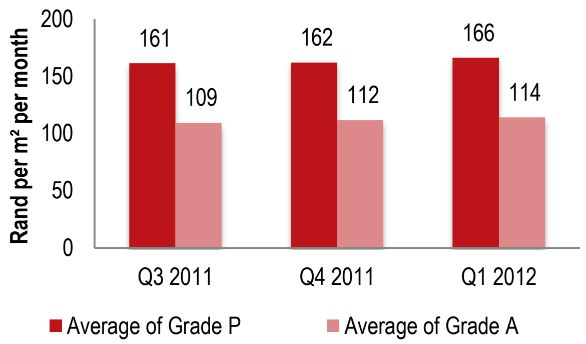


Source: SAPOA, Jones LaSalle

- Johannesburg offices vacancies reduced to levels below 10% for the first time since 2010. This quarter represents the third successive decrease in total vacancies, dropping to 9.8% in Q1 2012 compared to 11,0% in the same period last year. This is attributed to the market absorbing the current stock as committed new speculative development is currently limited.
- Grade P office vacancies decreased marginally from 4.9% in Q4 2011 to 4,7% in the current period.
- Reduced vacancies were also noted in Braamfontein mainly attributed to older buildings being converted into residential buildings.

Rental Performance

Figure 6: Johannesburg gross rental performance

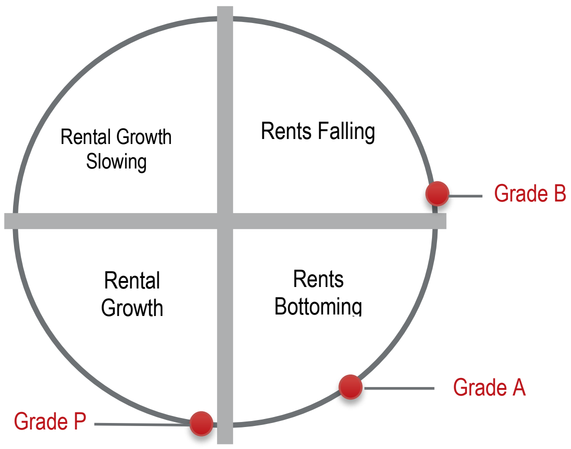


Source: Jones Lang LaSalle

- Average rentals for Grade P increased by 2.6% this quarter driven by the continuing demand for quality office space in prime nodes.
- A notable deal this quarter includes the achieved gross rental of R205/m² for Grade P offices in the Melrose Arch.
- Average rental growth in Grade A office space is also gaining momentum, increasing by 2,0% this quarter. Grade A gross rentals in the Sandton area averaged R162/m² this quarter. Meanwhile, rentals are softening in secondary nodes as landlords compete to reduce high vacancies.

Market Outlook

Property Clock - Offices



Source: Jones Lang LaSalle

- The Johannesburg Property clock for Grade P rent ticked a few points past the bottom level of the cycle to reflect the beginning of the growth cycle.
- For Grade P offices, the market is beginning to favour landlords as they are achieving asking gross rentals. This quarter was also characterised by reduced vacancies and limited speculative completions.
- Grade A and B gross rentals are expected to fall, with market conditions for these classes continuing to favour the tenants.
- Although the number of companies liquidating dropped by 40% year on year to March 2012 , the continuing trend of occupiers consolidating operations and relocating to alternative nodes, in so doing leaving vacancies in their wake presents a major concern in the commercial market.
- Johannesburg will require robust economic activity to attract new large occupiers to create property activity last seen pre-recession.

Industrial Market Overview

Key Industrial Market Indicators

Current Statistics	Q4 2011	Q1 2012
Prime Gross Rent (R/m² per month)	58	58
Prime Yield, (%)	9.5	9.0%
Take-up (m²)	49,900	83,317
Completions (m²)	41,000	4,000
Vacancies, %	7.1	6.7
Development Pipeline (m²)	100,000	92,800

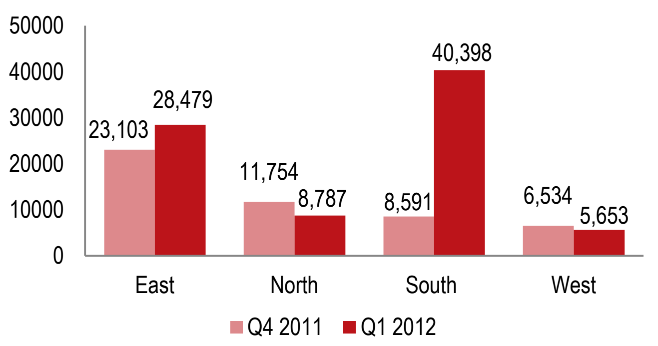
Source: SAPOA, Jones Lang LaSalle

Demand

Take up increased 67% in Q1 2012 to reach over 83,000m² compared to the previous quarter. This was due to an exceptional deal where a major occupier, Sena Trucking leased over 33,000m² of industrial space in the south of Johannesburg. As such, the south of Johannesburg experienced increased demand which contributed 48% of the total take up. The demand in the south is driven by the fact that the node has a mix of new and older buildings and offers relatively competitive rentals as well as good infrastructure.

With the exception of the above deal, the eastern node remains the most favourable area for industrial accommodation, contributing to 34% of total leased space in our sample. Total take up for the east amounted to over 28,000m² in the current period, up from 23,000m² in Q4 2011. The popularity of this node is due to its strategic location to the airport, ease of accessibility and good transport infrastructure.

Take-up by area



Source: Jones Lang LaSalle

Supply

Total indicative development pipeline is estimated at 92,000m², of which approximately 70% are speculative developments expected to be completed later in 2012. This could potentially increase industrial stock to over 5.8 million m² should all planned developments break ground. These planned developments are predominantly located in the Midrand area in the north and areas such as Longmeadow and Meadowdale in the eastern node as well as Raceway in the south.

A notable completed development in the period under review is the N1 Business Park in the northern node for 4,000m².

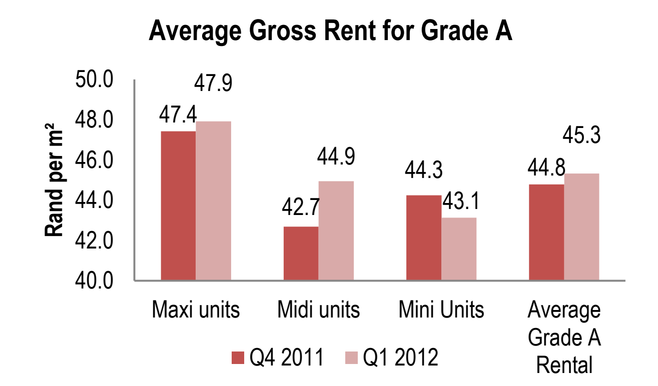
Vacancies

The first quarter of 2012 saw improved vacancies which now stand at 6.7% in Q1 2012 down from 7.1% of the previous quarter. The reduction in vacancies was driven by the large absorption of lower graded space in the south and enhanced by limited completions in this quarter.

Rental performance[1]

Grade A average gross rentals increased by 1.2% this quarter due to performance of the maxi and midi units. However mini unit rentals reduced marginally from the last quarter as Landlords are still attracting tenants by reducing rentals to close portfolio vacancies.

Average Grade A Gross Rental (m² / month)



Source: Jones Lang LaSalle

1 Our industrial market analysis is based on tracking gross rentals in the Mini, Midi and Maxi units, defined as:

Mini Units: 250m² to 1,000m²
Midi units: >1,000m² to 5,000m²
Maxi units: >5,000m²

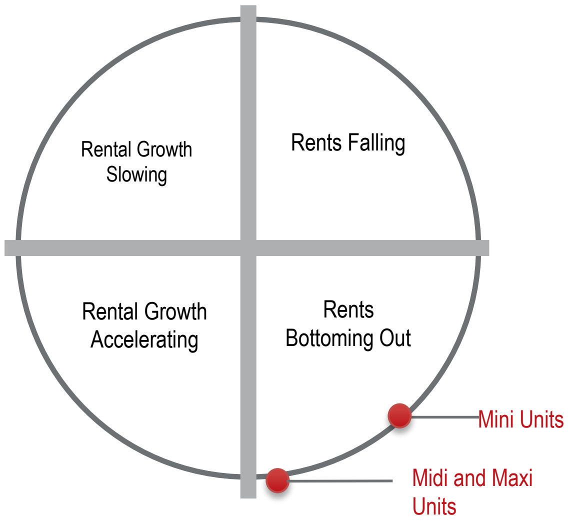
Indicative Development Projects – Q1 2012

Project	Size (m²)	Location	Expected Date of Completion
Meadowview Business Park	28 000	Meadowview	Q2 2012
Corporate Park South Building 6	2 276	Midrand	Q2 2012
Longmeadow Business Park	12 260	Longmeadow	Q3 2012
Raceway Industrial Park	11 267	Germiston	Q3 2012
Raceway Industrial Park	6 529	Germiston	Q3 2012
Mostyn Park	22 506	Mostyn Extensions	Q3 2012
N1 Business Park	10 000	Midrand/ Centurion	Q3 2012

Source: Jones Lang LaSalle

Market Outlook

Property Clock - Industrial



Source: Jones Lang LaSalle, 2012

The industrial market property clock for Midi and Maxi units ticked a few points down towards the half past mark. Although investors are starting to commit to speculative developments in anticipation for when the market starts to turnaround, the market still favours occupiers characterised by shorter lease tenure and lack of robust rental growth.

Much like the commercial sector, large business growth and investment injection is required to realise robust activity and market demand in the industrial market.

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Our principal objective is to work with and support the firms business lines to identify and investigate the latest market trends as well as providing the following services:

- **Client research mandate**
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