Johannesburg, South Africa

Johannesburg is the economic and financial hub of South Africa and accounts for 40% of economic activity of the wealthiest province in South Africa.

- The South African property market outperformed European property for the second year in a row. Regional shopping centers are still the most highly regarded property type, followed by industrial leaseback and decentralized offices. Cap rates still point south, and are unlikely to face upward pressure in the near term.

- Inventory levels rose strongly in manufacturing as well as in the wholesale, retail and motor trade sectors, consistent with the general buoyancy of demand in the market. The manufacturing sector is expected to continue to perform well, which should sustain low industrial vacancies and support the upswing in industrial rentals.

- Retail outperformed all assets classes with a record return of 30.1%. With 24 shopping centers under construction nationally, including four regional malls over 40,000 SM, there has been some concern that a retail oversupply alongside a potential slowdown in consumer spending, may place pressure on rental rates. However, retail continues to outperform the other sectors, and seems destined to do so for another year.

- The South African property market is gearing itself for the introduction of REITS in the near future. The current market has a well-developed listed property sector, which has mimicked REITS in a number of ways, with just a few issues outstanding, such as capital gains taxation.

- Despite recent interest rate hikes, and expected deterioration in short-term inflation, long-term inflation expectations are still positive and the market is buoyant. At worst, there may be a decrease in the number of transactions by owner occupiers and private investors who are generally more interest-rate sensitive than institutional investors.

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