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Supply chain dynamics drive demand for Gauteng industrial property

Low vacancies spur investor activity with many companies consolidating facilities to reduce operational costs

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The resilient industrial property sector has experienced a resurgence in demand, driven mainly by well-located new and modern logistics and warehousing facilities.

Demand is expected to continue into 2023 as some areas in Gauteng are facing stock shortages resulting in rising rentals and low vacancies. E-commerce and last-mile logistics including courier businesses partnering with big logistics and distribution companies are driving demand in the sector.

Tenants are also looking to consolidate into larger facilities in centralised nodes, with significant demand in and about logistics hubs with easy access to major transport routes.

"The industrial property sector, which slowed due to economic uncertainty, is now recovering, driven by changes in supply-chain dynamics and an increase in manufacturing activity," said Investec Property Fund (IPF) joint CEO Darryl Mayers.

IPF is a JSE-listed real estate investment trust (Reit) that owns a diversified portfolio of 85 properties in the retail, industrial and office sectors valued at R14.9bn. It also owns 35% of Izandla Property Fund with 45% of its balance sheet consisting of its pan-European logistics portfolio.

At the end of March, the fund's industrial portfolio was valued at R3.3bn and counted 31 assets, including warehousing, standard units and high-grade industrial, high-tech industrial and manufacturing properties.

Mayers said its assets are well-located in established nodes and continue to enjoy consistent and stable demand with low vacancies, which is likely to result in rental growth driven mainly by contractual escalations.

"Industrial rental growth benefited from heightened leasing activity in which large single-tenant expiries were relet in the last quarter," he said.

Vacancies were 1.6%, with rental escalations having risen slightly to 7.6% in March 2022 from 7.5% during the same period in 2021.

Gauteng-based broker Nicola Neil-Boss of 9 Holdings said there has been a significant increase in rentals in 2021 as a result of rising building costs, especially the price of steel.

On new industrial developments, net rentals rose to about R75/m^2 from R68/m^2, while on existing stock rentals they increased from R60/m^2 to R65/m^2 for prime industrial space.

But Raymond Roos, MD at Asset Property Group, said rentals in older and more established industrial areas have not moved at all mainly due to the effects of the Covid-19 pandemic.

"New developments have seen slight rental growth of 6%-8% driven mainly by tenants looking for new, modern industrial buildings," he said.

Tenants of logistics facilities are prepared to pay more for P-grade (premium) and A-grade buildings with good height instead of older facilities that have limited storage space. Roos said.

P-grade offices are newer developments, which often have green elements including renewable energy, water- efficiency or gathering installations and energy-saving lighting.

Top locations

Neil-Boss and Roos said centrally located areas close to major transport routes and OR Tambo International Airport are sought-after. These industrial areas include Pomona, Jet Park, Plumbago, the new Eastport industrial area and the R21 corridor, where companies such as Fortress Reit, Equites Property Fund and JT Ross are developing new logistics and warehousing facilities.

Fortress is developing the R2bn Pick n Pay distribution centre to centralise its regional supply chain at Eastport. Roos said dem `s high for facilities measuring between 10,000m^2 and 20,000m^2.

Developer confidence is boosting demand as tenants are signing long leases for new space along the N3 corridor close to the Rand Airport, where Redefine Properties and Abland are developing S&J Industrial Estate. Improvon is developing the Rand Airport Commercial Park.

Companies in tech, logistics, food and e-commerce have taken occupation of industrial facilities in Linbro Park, Longmeadow and Midrand, which are still considered favourable locations, said the brokers. There is also demand at Longlake and Westlake for smaller facilities that start at about 3,000m^2.

"There is good appetite for large boxes of more than 10,000m^2 as companies move to consolidate several facilities to improve efficiencies and reduce operational costs," said Neil-Boss.

Smaller units measuring about 500m^2 are taken up by courier companies, e-commerce businesses, start-up businesses and large companies wanting more locations close to their customers, she said.

Warehouses of between 2,500m^2 and 3,000m^2 are still very popular with tenants with stock shortages along the N1 and N3 highway in areas such as Midrand and Linbro Park, said Neil-Boss.

Investments

Not only leasing activity has seen an uptick. Investors are also buying well-located assets in areas with high demand.

William Amerseder, business development executive at Aucor Property, said there has been an increase in transaction volumes across the investment and owner-occupier markets as the industrial and logistics sectors realign to the postpandemic market changes.

"We've sold properties for owner-occupiers who are either expanding or reducing space, and investors who may be aligning their portfolios with amended strategies in the current market," Amerseder said.

In June Aucor sold a privately owned Pomona industrial portfolio, comprising six properties, for R250m, which demonstrates strength in the Pomona industrial market as there has not been much on the market of similar quality and size.

Reits are the main sellers of noncore industrial property assets to focus on developing modern facilities in strategic locations, thus opening up investment opportunities for smaller local companies, Neil-Boss and Roos said.

"Owner-occupiers and private investors are the main buyers of industrial property assets currently while Reits prefer to buy and develop their own facilities," Roos said.

Increasingly, more companies are looking to own their facilities with rising interest in rent-to-buy scenarios, as well as joint-ownership models, and developers have become more flexible in the deal structure, Neil-Boss said.

mhlangad@businesslive.co.za