

## **SA OFFICE VACANCY RATES ARE MOVING TOWARDS MARKET EQUILIBRIUM**

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by FRANCOIS VIRULY

South African vacancy rates in non-CBD nodes are gradually moving back to their equilibrium position.

In a number of markets, vacancy rates are moving towards their “natural” rate – namely their average long term position. The natural vacancy rate takes into consideration that markets rarely reach a zero vacancy rate because of the movement of tenants between buildings and markets. In SA the natural vacancy rate is estimated at between 7 percent and 8 percent. The moment vacancy rates decline below their natural rate, rentals tend to strengthen and exceed the inflation rate, which also means that the natural vacancy rate provides a critical forecasting indicator for the sector.

In recent years vacancy rates in large metropolitan areas have started to differ. In the past three years Pretoria and Johannesburg’s average vacancy rates have tended to remain close to the 9 percent mark, while in Cape Town non-CBD nodes, strong demand and limited supply have resulted in vacancy rates declining to 6.04 percent. Premium markets with low vacancy rates include Melrose and Waverly (3.5 percent), Waterfall (2.0 percent) and the V&A Waterfront (3.7 percent). According to the SA Property Owners Association (Sapoa) average vacancy rates for A and B Grade offices in decentralised nodes in Pretoria was 9.55 percent, 9.53 percent in Johannesburg, 7.69 percent in Durban, and 6.55 percent in Cape Town.

At the height of the SA property cycle in 2007, office vacancy rates declined to a mere 2.62 percent in Cape Town, 0.94 percent in Durban, 3.69 percent in Johannesburg and 1.65 percent in Pretoria. Recently published data from StatsSA indicate that building activity in the commercial property sector is declining. Building plans in the office sector in square metres declined by 41.5 percent from January to July 2016 compared to the same period a year ago. Developers are taking a more cautious view of the market in an attempt to keep supply and demand in equilibrium.

In the medium term, the performance of the SA office market will be influenced by the performance of the overall economy, the decision by tenants to look for modern space and improved efficiencies, and a slowdown in building activity.

**Francois Viruly is Associate Professor at the UCT- Nedbank Urban Real Estate Research Unit.**