Industrial Market Dynamics

Research

South Africa

Q1 2025

jll.com

JLL SEE A BRIGHTER WAY

Contents

Key trends

1 Location still matters, but for different reasons

- Location decisions are increasingly influenced by proximity to suppliers or courier hubs, access to clients or specific markets, the availability of parking for staff and customers, safety and security in the area, and traffic flows.
- Nodes once considered peripheral are now experiencing rising demand, especially those offering lower costs and good accessibility.

2 Demand still outstrips supply

- There is very limited logistics stock of greater than 15,000m^2 available in the three core metropoles. Vacancies in 'legacy' industrial portfolios are also decreasing.
- Urban logistics developments are similarly experiencing rising demand as e-commerce and q-commerce proliferates.

3 Leasing momentum steady despite economic uncertainty

- Tenant retention rates continued their upward trajectory, with most reversions being flat or positive.
- Average contractual escalation rates remain steady at c. 6.5% (exceeding inflation), although the trend of more flexible lease structures is still apparent.

4 Passive industrial development pipeline

- Despite the acute supply shortage, the supply pipeline has not accelerated all that quickly in response. This is due, in part, to high development costs, both in terms of construction inputs and funding costs.
- Developers remain hesitant to undertake large projects on a speculative basis, and large occupiers, in their endeavour to optimise costs, ultimately prefer a custom product.

By the numbers

11.0 million
Existing inventory (sq.m.)

450,000
Under construction (sq.m.)

40%
Logistics proportionate share of existing inventory

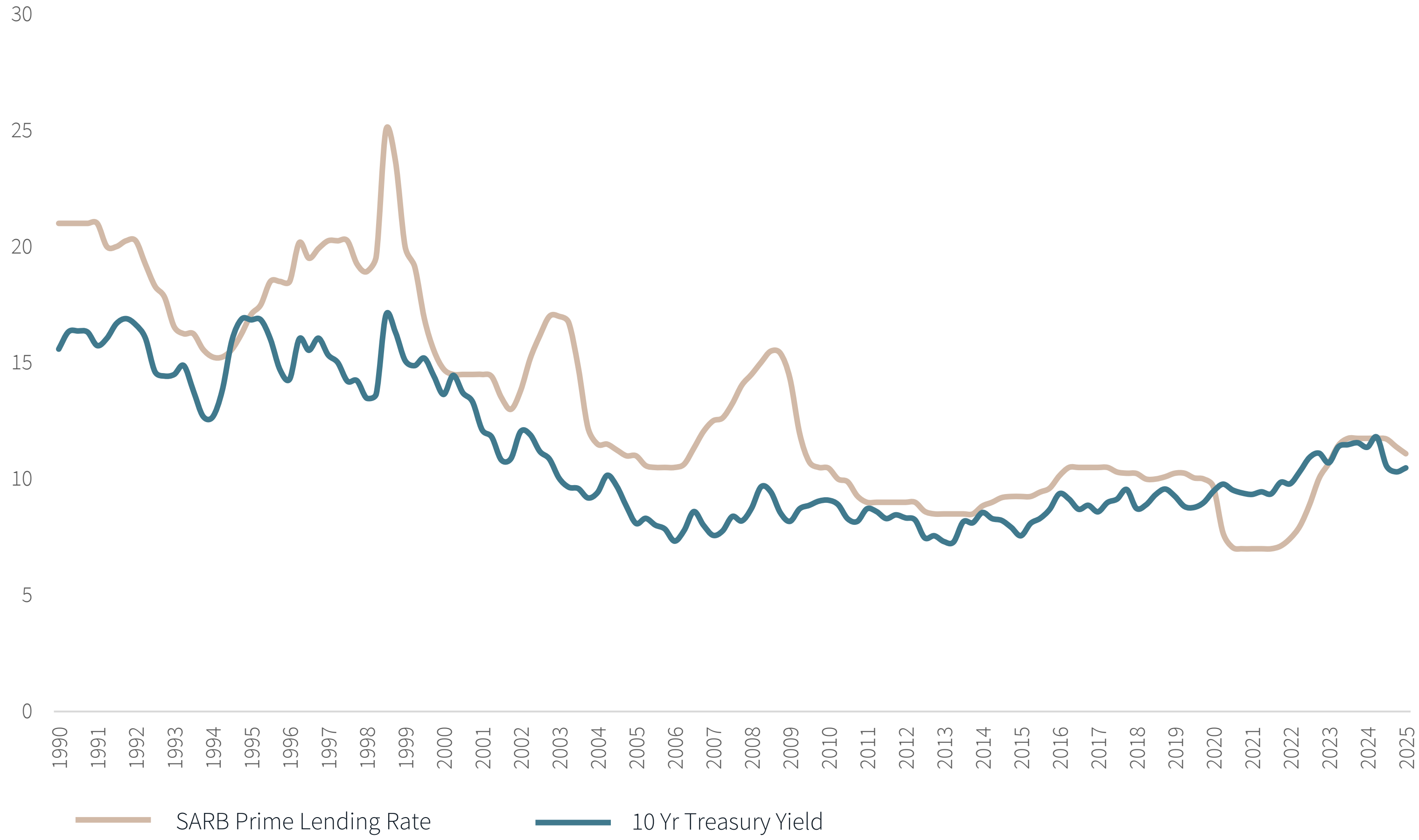
0.5%
Logistics vacancy

Economy

- Following a few quarters of greater certainty, political risk in South Africa has picked up once more, and combined with global headwinds, the economic forecast has tempered. The prospect of further interest rate cuts has also abated somewhat on account of these factors, meaning consumer and business expenditure over the short term will trend sideways at best.
- Unemployment remains a key constraining factor in the South African economy, and following two consecutive quarters of decline totalling 160bps, the national unemployment rate remained at 31.9% in Q1. At the end of Q4 2024 trade industry and business services created the greatest number of new full-time jobs.
- CPI inflation is expected to trend relatively level in the coming months, with Oxford Economics maintaining a positive outlook despite the updated forecast of 3.8% headline inflation for the year (from 3.7% previously). A gradual increase in H2 2025 is anticipated. Regardless, interest rate cuts will likely only resume in 2026, with the latest (end March) MPC committee meeting resulting in no change to the headline rate.

Interest rates and government bond yields

Central bank interest rate and gov't bond yields (%)



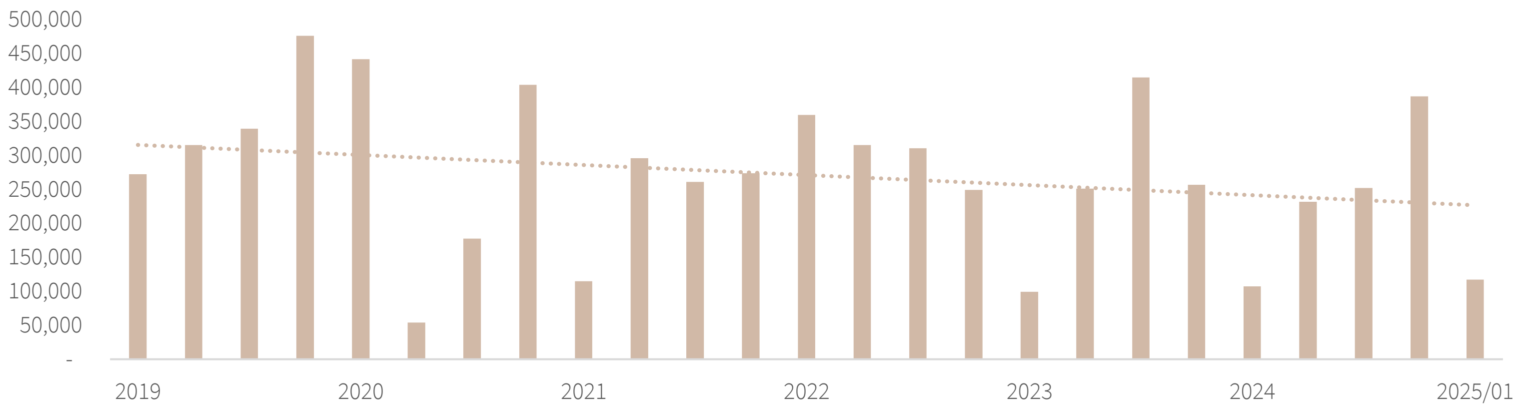
Source: JLL Research, Federal Reserve, 2024

Development activity

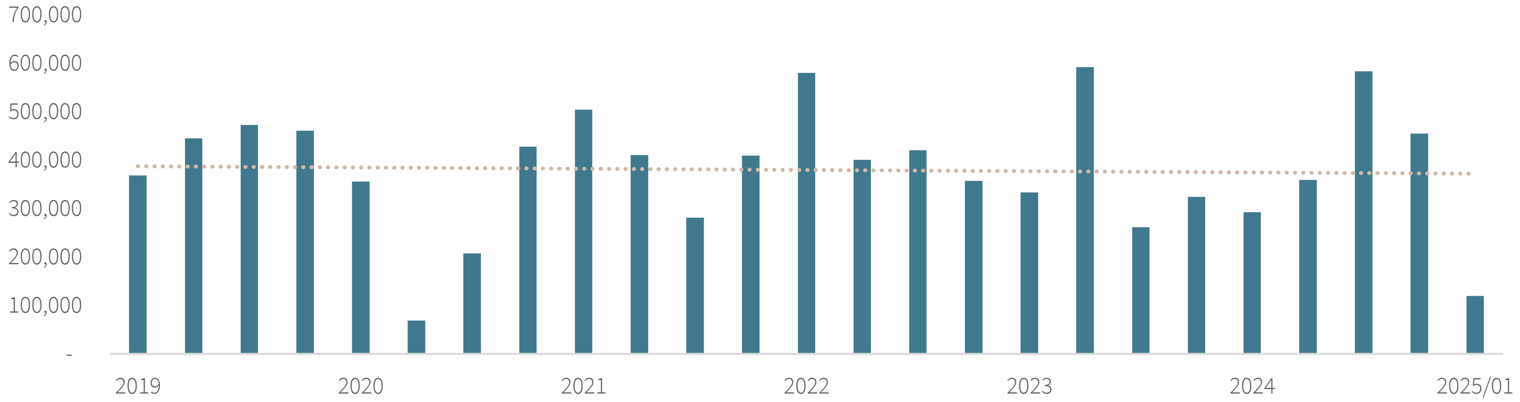
- Limited supply entering the market largely due to the cost of funding being prohibitive for many developers. Moreover, technological advancements and the critical imperative to improve cost efficiency from an occupier perspective results in most new development being highly customised to the end-user's preference, with a 'generic' option not necessarily being feasible.
- The supply gap is further exacerbated by the lack of availability of large, zoned land in key node as well as difficulties associated with the delivery of municipal infrastructure.
- This is further demonstrated when reviewing the slowdown in deliveries, versus the trajectory of plans being submitted to and passed by local councils. The deceleration is more pronounced with regard to deliveries, suggesting that several projects do not progress past planning stages.
- This situation will eventually lead to a major supply shortage, particularly if the current level of demand grows or is maintained. Rental growth potential within this sector is therefore noteworthy, although affordability factors (giving the struggling local economy) will eventually impose a price-ceiling.

Historical deliveries and pipeline

Quarterly deliveries (sq.m.)



Quarterly plans passed (sq.m.)

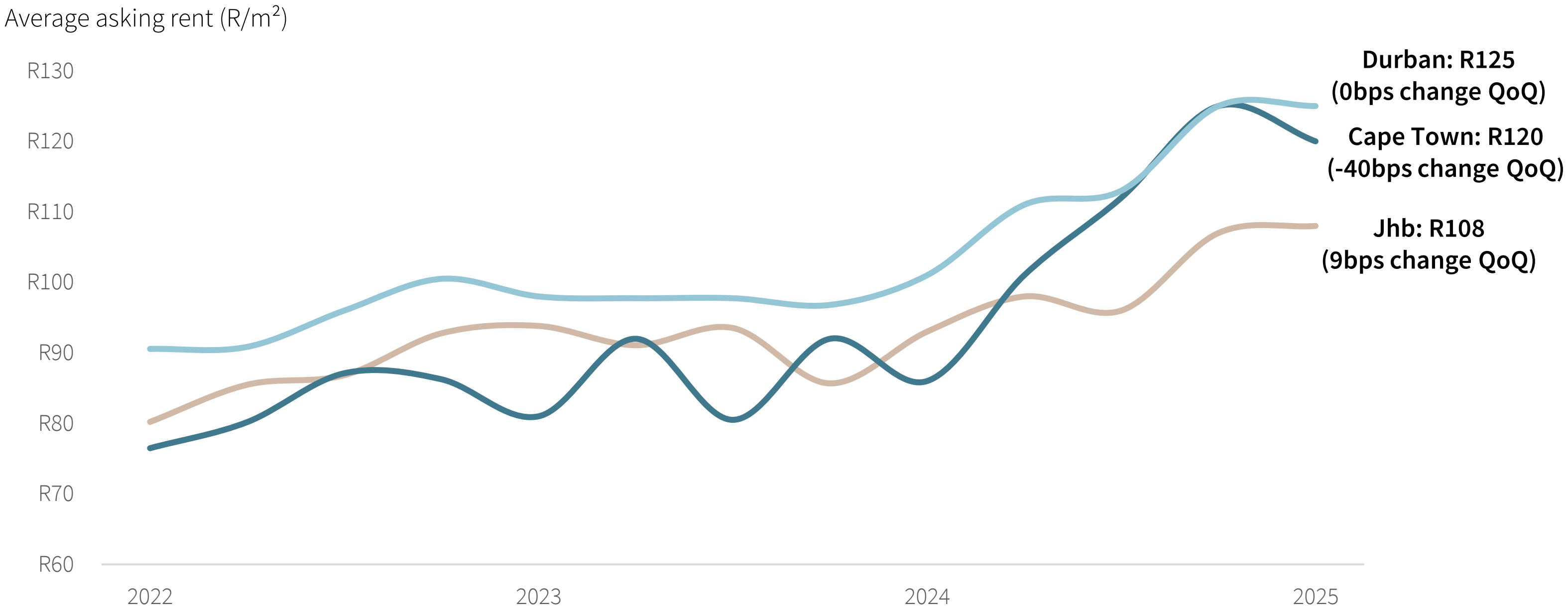


Source: JLL Research, StatsSA2025

Leasing Activity

- The industrial, and specifically logistics, sector remained the most favourable property sector in SA going into 2025, with both income and capital value growth achieved. The dichotomy within the sector continues notwithstanding.
- Outperformance within the logistics subsector is driven by continually strong demand stemming from the retailers and the 3PL operators. Limited supply facilitates a more competitive environment, with properties measuring between 5,000sq.m. and 15,000sq.m. being quickly taken up.
- Sustainability remains a critical consideration as occupiers chase cost savings and greater business continuity potential. Energy-efficient warehouses and those equipped with solar power and water-saving measures are borderline imperative.
- Linked to this is the growing importance of location particularly as there is an acute shortage of contemporary stock available. Nodes along key distribution channels such as Airport Industria in Cape Town, Pomona in Johannesburg, and Hammarsdale west of Durban therefore display stronger demand fundamentals.

Historical direct asking rents



Source: JLL Research, 2025

Rents

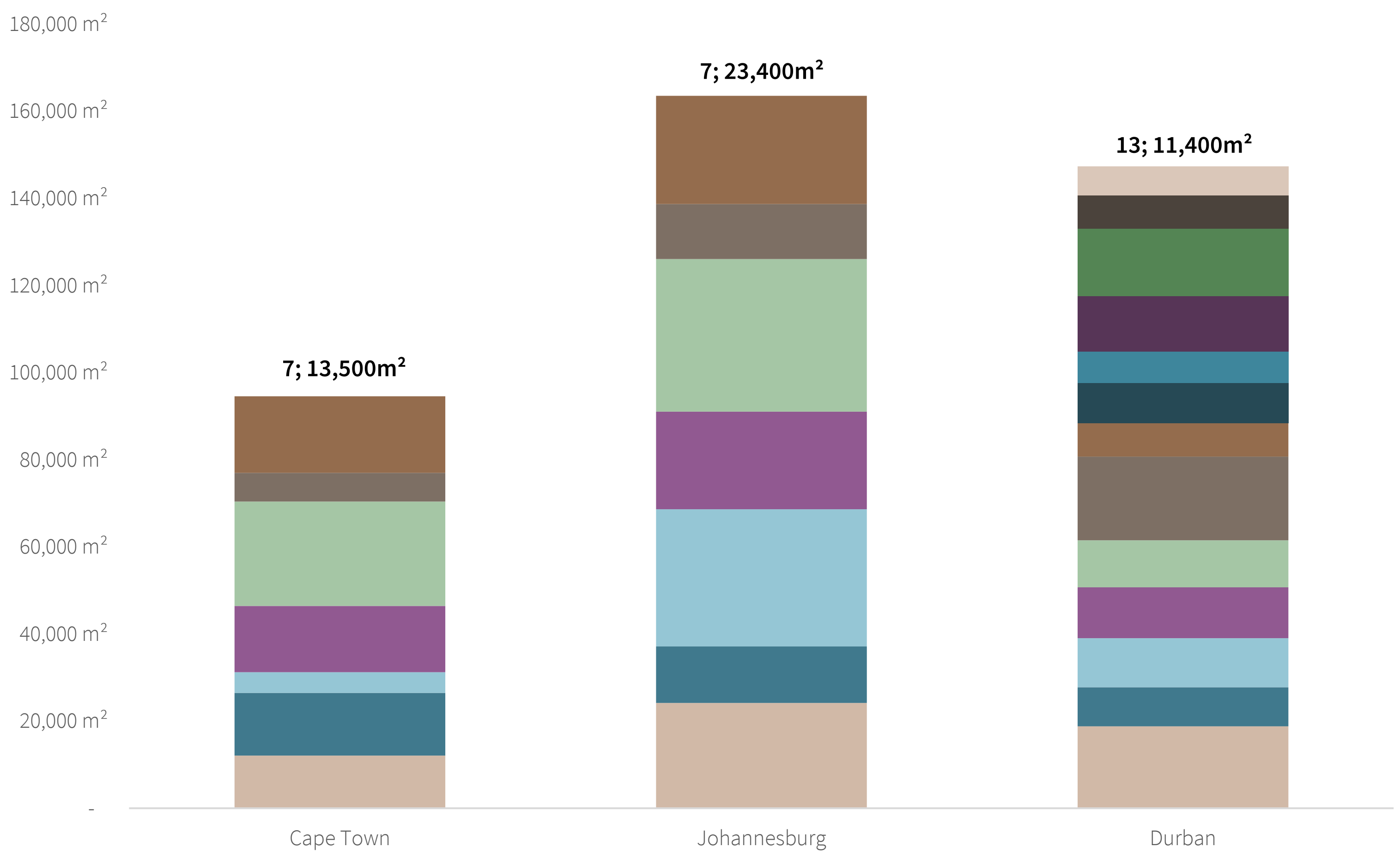
- Logistics is the only subsector within the South Africa's commercial real estate landscape where real market rental growth is achievable at present. Property owners are better able to pass on rising construction and operating costs through to tenants, and rental reversion rates on lease renewals are typically positive. Low vacancy rates within the sector support these income growth fundamentals.
- Quarterly rental movements over the past three years have been erratic on account of the impact of new developments coming to market, and the sporadic timing of these new additions.
- Market rentals within the prime logistics submarket are largely a function of development cost, and although most of the recent largescale DCs were developed to a specific client-led specification, the premium rentals achieved have been proven in the speculative developments as well.

Proactive warehouse planning and strategising imperative

- Multinational blue-chip tenants are increasingly engaging directly with developers to plan their future warehouse needs, driven by several key factors. This shift is a response to underinvestment and the need for supply chain consolidation, as well as a desire to remain competitive in a rapidly evolving market.
- Global sustainability commitments are making eco-friendly facilities a necessity, while the operational efficiencies of modern warehouses offer significant cost savings. Additionally, tenants are prioritizing secure park environments with reliable infrastructure.
- These combined drivers are prompting large companies to take a more proactive and strategic approach to their warehouse planning, recognising the critical role these facilities play in their overall business success. This is especially evident in the coastal regions.
- The bulk of development noted in KZN relates to the Giba Business Estate. It is unclear what the status of this development is, however it is likely that not all of the units (c. 128,000m² together) will be completed in the near to medium term.

Institutional development pipeline per metropole

Number of projects and planned lettable area



Source: JLL Research, 2025

Prime rental growth waning as price ceiling nears

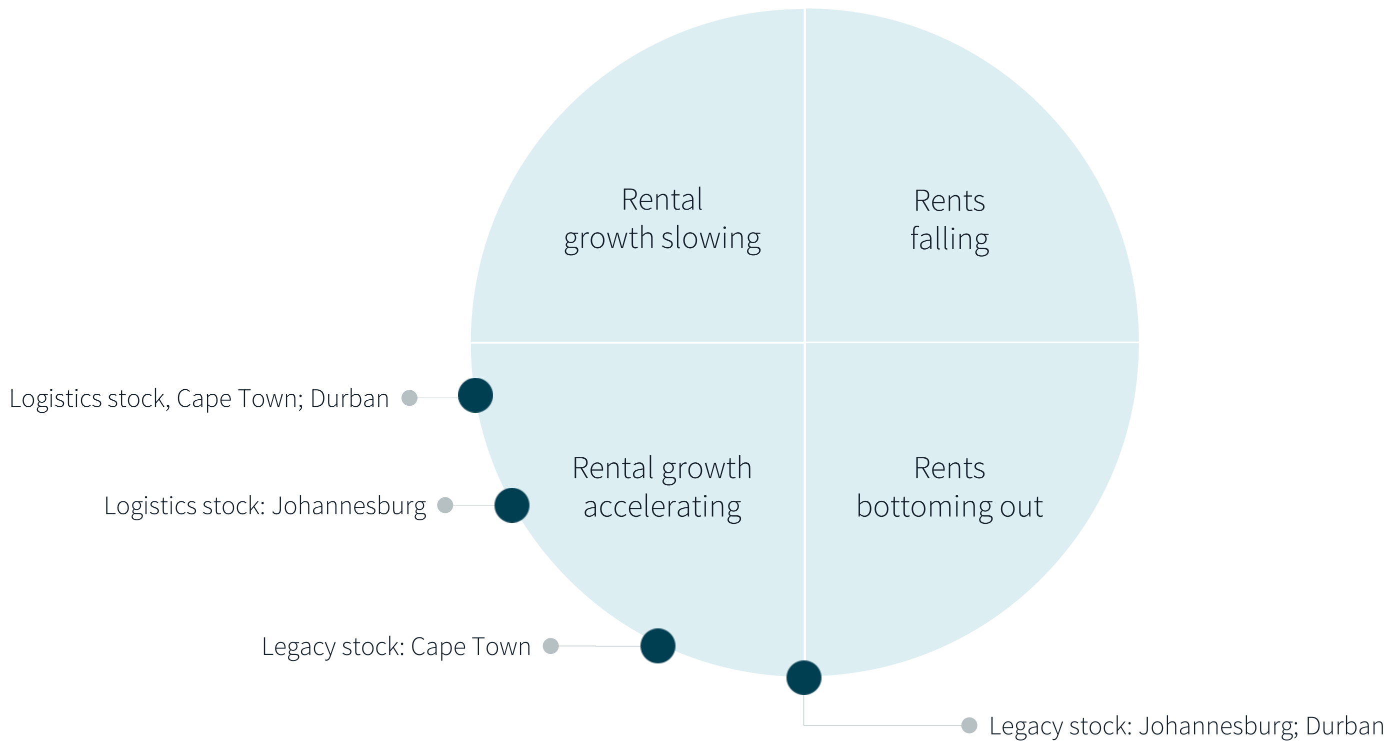
- Despite the strong basis underlying performance within the sector, users/occupiers remain price-conscious, and therefore a price-ceiling will likely come into play over the short to medium term. The extent of the ceiling has not yet been determined.

- The three core markets under consideration have different underlying drivers of demand, resulting in differing rental performance trends. The Port of Durban underpins the bulk of industrial demand in the region, with issues related to the port operations doing little to curb demand for surrounding real estate.

- Transport and distribution-related infrastructure in Cape Town, alongside the region's growing economy results in strong demand for warehousing and manufacturing facilities in the metropole. Supply in this region is limited by more finite land availability, resulting in upward pressure on rentals.

- The greater Johannesburg's industrial demand stems from the region being the nation's economic core, and the surrounding industry already based there. Underlying fundamentals are weakest within this region however, due to concerns regard infrastructure, service delivery, and safety and security.

Industrial rental clock

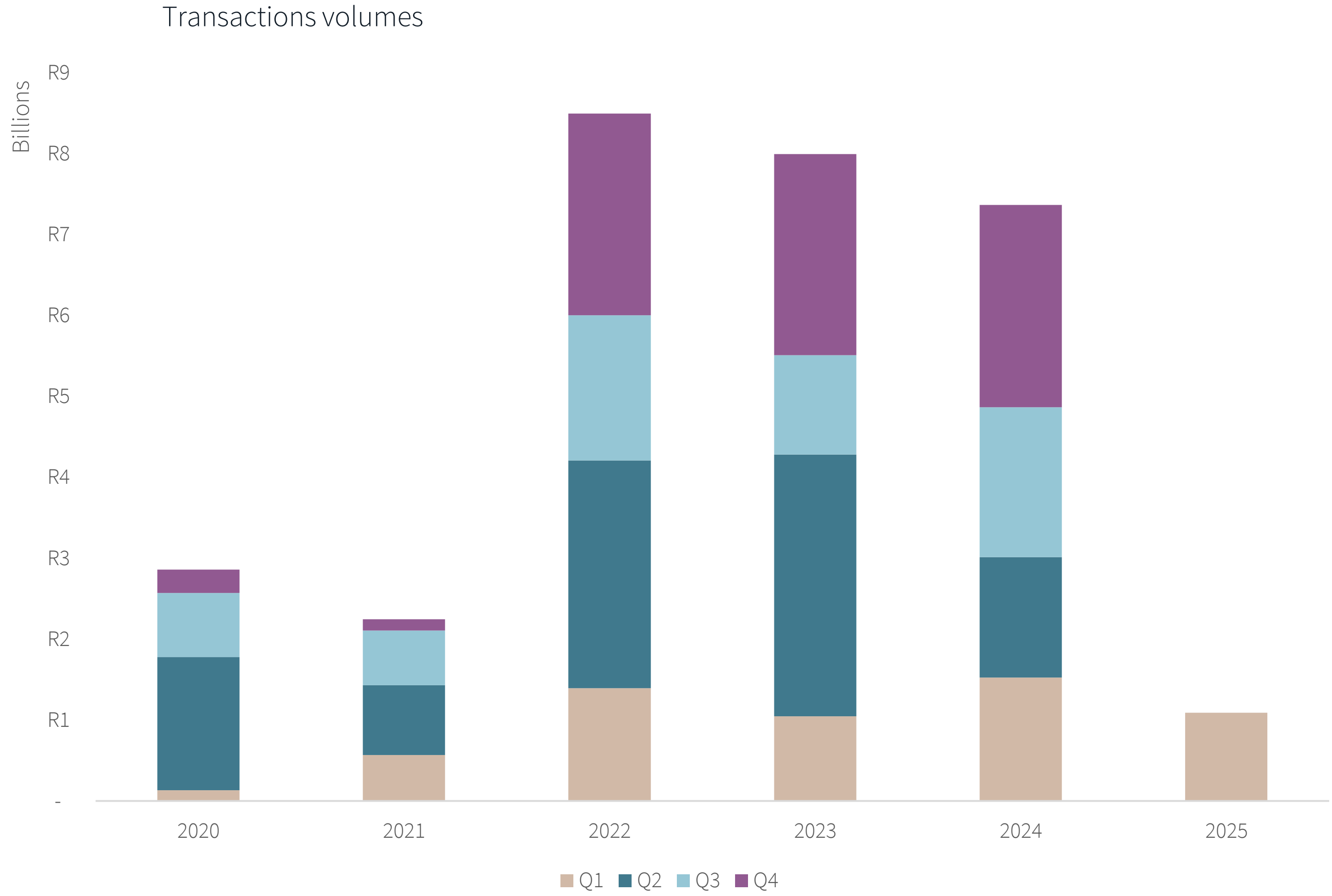


Source: JLL Research, 2024

Capital markets

- MSCI total return for the industrial sector was 13.2% in 2024. This positive return was driven by robust occupier demand, limited supply, low vacancies, and building cost inflation which has put upward pressure on existing market rentals.
- Although investment into the sector declined in 2024 overall, this was due to largescale DCs being very tightly held, rather than due to a lack of appeal. In fact, more, lower-value transactions were recorded year-on-year, indicating rising demand.
- Provisionally, over R1billion investment deal flow was registered in Q1 2025, however this total will probably increase. Regardless, it is unlikely that Q1 2024's aggregate will be achieved.
- The apparent pause on interest rate cuts by the SARB is a possible driver of this declining trend, as is the prevailing economic and political uncertainty faced in South Africa and globally.

Historical industrial & logistics transaction volumes



Source: JLL Research, 2024

Outlook

- The logistics subsector is poised for further growth through 2025. Despite the headwinds faced, demand growth stemming from heightened consumer spending and business investment is set to outstrip limitations imposed by global uncertainty, and moderate local economic growth conditions.

- Performance within coastal regions, as opposed to the inland hubs surrounding Johannesburg, and particularly in Cape Town and surrounds will likely lead the charge. Underlying fundamentals within these regions are stronger, and in the case of Cape Town, better governance results in a greater influx of demand since the operating environment, or ease of doing business, is more amenable.

- The demand and supply imbalance is exacerbated by the limited new supply entering the market across all core metros. While rental growth rates are within territories that warrant new and speculative development, developers remain hesitant to engage in the same. This is due to the drive, by occupiers, toward greater cost efficiencies, which results in a custom designed and built space being preferred. Technological advancements compound this issue.

- The sector also continues to experience low vacancies, empowering landlords in lease negotiations and resulting in positive reversions on reletting and renewals. This trend is expected to persist through 2025. The supply shortage has pushed development strategies to the forefront for many landlords, though challenges exist in securing suitable land parcels, with competition from data centre developers. Strategic locations offering proximity to transport hubs, skilled workforce, and robust infrastructure will become harder to source and secure.

- Some institutional property owners have reported rising interest and activity among the legacy industrial subsector as well, with positive impacts on vacancy levels. Should the projected economic growth forecast for 2025 be achieved, this may signal a recovery within this subsector as well, as businesses turn to more affordable alternatives. Although the forecast growth is not major (1.6%) it is more than twice that achieved in 2024 which is encouraging.

JLL SEE A BRIGHTER WAY

Research authors

Mieke Purnell
Research Manager
Research
Sub-Saharan Africa
Mieke.purnell@jll.com

To find out more about JLL services, contact:

Wayne Godwin
CEO
Hotels & Hospitality
Africa
wayne.godwin@jll.com

Pepler Sandri
Senior Director, Investment Sales & Acquisitions
Capital Markets
Sub-Saharan Africa
Pepler.sandri@jll.com

Grant Kirchmann
Senior Director
Tenant Rep
Sub-Saharan Africa
grant.kirchmann@jll.com

Hugh Hardy
Transactional Director
Tenant Representation
South Africa
Hugh.hardy@jll.com

Research at JLL

JLL's research team delivers intelligence, analysis and insight through marketleading reports and services that illuminate today's commercial real estate dynamics and identify tomorrow's challenges and opportunities. Our more than 550 global research professionals track and analyze economic and property trends and forecast future conditions in over 60 countries, producing unrivalled local and global perspectives. Our research and expertise, fueled by
real-time information and innovative thinking around the world, creates a competitive advantage for our clients and drives successful strategies and optimal real estate decisions.

About JLL

For over 200 years, JLL (NYSE: JLL), a leading global commercial real estate and investment management company, has helped clients buy, build, occupy, manage and invest in a variety of commercial, industrial, hotel, residential and retail properties. A Fortune 500 company with annual revenue of $20.8 billion and operations in over 80 countries around the world, our more than 111,000 employees bring the power of a global platform combined with local expertise. Driven by our purpose to shape the future of real estate for a better world, we help our clients, people and communities SEE A BRIGHTER WAYSM. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated. For further information, visit jll.com<http://www.jll.com/>