

## **What 2009 holds for different sectors**

After a tough 2008, the year started on a positive note with a huge 19% drop in petrol prices and some food prices due to a good agriculture season.

However, economist predicts a bleak first half of 2009 with economic growth coming very close to a recession, with the overall outlook for economic growth during 2009 predicted to be between 0,5% and 1%.

Property services company JHI gazes into the crystal ball to see what's ahead for the various property sectors in 2009.

The retail sector

One of the biggest concerns for 2009 is increased liquidations and rising unemployment. December has seen more liquidations of companies since mid 1990's and South Africa has been in a labour recession for a while which is predicted not to end in the immediate future. Liquidations lead to higher unemployment which means less buying power which will increasingly affect the retail sector.

Furthermore, the retail sector is increasingly being affected by high interest rates and inflation as well as a contraction in household spending. The smaller retailers in particular are the worst affected, with national retailers, especially retailers in durable goods and discretionary categories, also feeling the pinch but it is expected that they will survive the downturn. Smaller, struggling retailers would have the biggest impact on centre owners as it will increase vacancies and a loss in rental income.

This situation is expected to drag well into this year, however, tightening credit controls by banks as well as the 50 basis point cut in the interest rate in December have helped improving the debt position of households. This together with further cuts in interest rates (economists predicts at least 300 basis points by the end of the year) may ease some pressure on the retail sector in the medium term as the effect of the cuts will take some time to filter through.

## The office sector

During 2008 the office sector was characterised by rising rentals and low vacancies and this is expected to remain as rising building costs and supply constraints, due to Eskom's quotations for developments requiring power of 100kVA and above, will continue to put upward pressure on prices and development costs. Rentals of R160/sqm to R180/sqm are currently the norm for new developments coming on stream during the course of the year.

## The industrial sector

The decline of the manufacturing sector during the latter part of 2008 highlights the strain of factories and consumers. The global economic crisis has also put a damper on external demand for goods and the contraction in consumer spending has affected the demand for imported products. All these factors are not good news for the industrial sector, which has been the best performing sector in the SA commercial market over the last few years.

However, manufacturing production will mostly affect factory space and it is not anticipated that warehousing and distribution space will be dramatically affected. It is expected that manufacturing will continue to struggle during the course of the year, but possible interest rate relief is expected to boost manufacturing from the fourth quarter onwards which is some light at the end of the tunnel for the industrial sector. Furthermore, current lease structure pertaining to factory space (long term leases) will also cushion landlords against the possible effects of the slowdown in manufacturing.

## Other factors

At the end of 2008, cement producers announced an increase of approximately 16% for various types of cement which will put further strain on development budgets and profit margins, making marginal developments unfeasible and therefore curbing the supply of commercial space.

Continued increases in utilities, especially electricity, will continue to put owners and tenants under pressure. Larger landlords have already felt the effect of these costs as tenants are requesting better rental terms from landlords as they are struggling with higher occupancy costs.

In conclusion, the overall performance of the commercial market is highly dependant of the reduction in interest rates, positive economic growth and an upturn in the global economy. It is expected that the commercial market will take strain during the first half of the year with smaller tenants under enormous pressure, however, the effect of lower inflation, petrol prices and possible further interest rate cuts will see improved market conditions in the latter part of the year.