

HVS Market Pulse: Johannesburg

May 9, 2019 / By Lolwethu Luthuli

Market Profile

Johannesburg has become a destination of choice for business due to an outstanding reputation for quality and affordability. As of 2018 the city had an estimated population of 8.3 million. The city generates 16% of South African GDP and employs 12% of the national workforce. Johannesburg is the home to the Johannesburg Securities Exchange (JSE) that is rated as one of the top 20 exchanges in the world in terms of market capitalization.

PASSENGER ARRIVALS – 2018	AIRPORT PASSENGERS – 2018 YTD	AVERAGE RATE -USD: ZAR – 2018
-2.2% vs 2017 10.5 million	+0.3% vs 2017 21.1 Million	-0.3% vs. 2017 13.3 ZAR

Source: Airports company South Africa 2018

The Johannesburg economy reflects successive waves of development and decline; this is fundamentally because the city is moving away from the mining industry towards an economy that is based on services and trade along with high-value manufacturing, in line with the global trends. A new "Diversity Property Fund" committed R12 billion to the redevelopment of the inner city. The first phase of retail commercial and residential space in the Jewel City Precinct is expected to come to the market in 3rd quarter of 2019.

Sandton continues being a vibrant metropolis with commercial, residential and retail developments. Some of the huge developments in Sandton scheduled to be launched in 2019 include the Advocates and 129 Rivonia Road. Developments that are still under construction include Koru Central and Sandton Gate the completion of construction is estimated to be in 2024. 2019 shows a positive outlook although the presidential elections bring uncertainty to the country.

Economic Indicators - South Africa

	2018 (A)	2019 (F)	24 MONTHS FORECAST
GDP GROWTH (%)	0.8	1.4	
CPI (%)	4.8	5.3	
EXCHANGE RATE (USD:ZAR)	13.3	13.25	

Source: IMF, 2019

Economical Background

The appointment of State president Cyril Ramaphosa brought in many changes to the cabinet. An increase of 1% in VAT was also introduced. The outcomes of the upcoming election scheduled for May 2019 remains uncertain, but it is likely to have an impact on the South African economy.

Summary

The City of Gold benefits from its commercial Centre reputation and will continue to attract investors from across Africa and further afield. Rosebank continues to be a fast-emerging area in Johannesburg with vibrant commercial, residential and retail developments.

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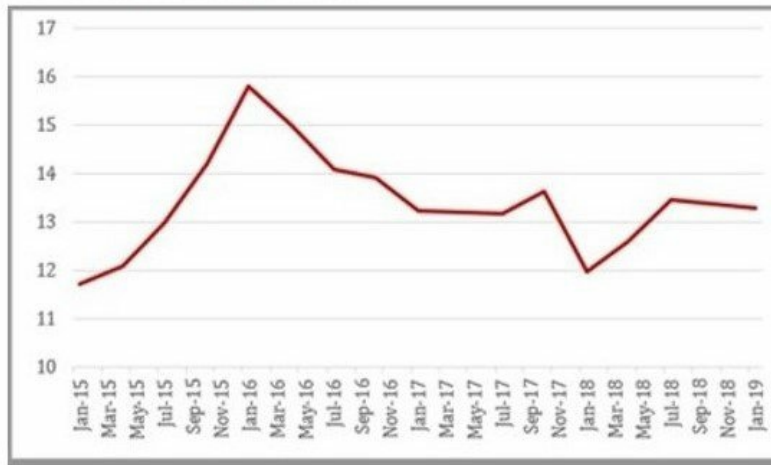
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South Africa has a better outlook than previously expected; GDP showed an improvement of 0.1% in 2018 compared to 2017, this is expected to grow further in the upcoming years. Unemployment increased by 0.5% in 2018 from 2017, this is expected to decrease as political situation stabilizes after the election. Elections scheduled for May 2019 brings uncertainty to most foreign investors.

Exchange Rate USD: ZAR



Source: Ferates.com

Hotel Performance

Johannesburg benefits from corporate travel rather than leisure. This has led the city to remain as South Africa's most powerful commercial centre. The Hotel market in Johannesburg continued to struggle in 2017 with a decline of 1% in guest nights but an improvement on the 4% decline of 2016. Hopefully this indicates the market has reached the bottom of the occupancy cycle and will now start to increase. ADR edged up to 3% in 2017 leading to an increase in average room revenue. The Johannesburg market is expected to rebound in the coming years as the economic conditions pick up.

The continued development of new offices will lead to increased demand for hotels, especially in commercial hubs like Sandton and Rosebank. It is also important to note that the fluctuations in the exchange rate of South Africa Rand has a huge impact on hotel performance.

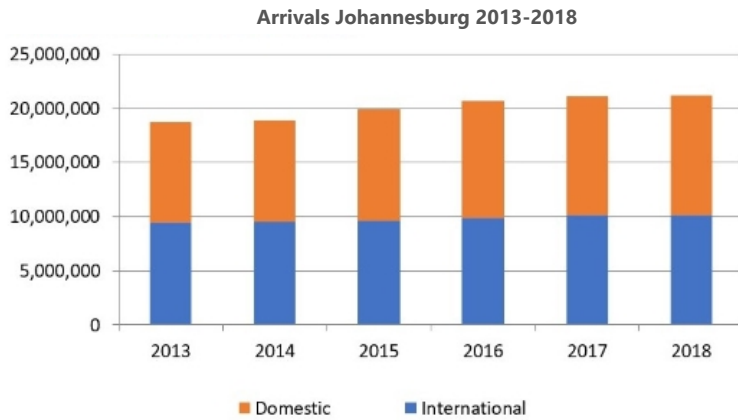
Hotel Pipeline 2019-2022

Property	Rooms	Status
The Houghton Johannesburg	61	2019
The Peel Hotel	14	2019
The Capital Melrose	109	2019
Marriott Executive Apartments Melrose Arch	200	2020
Marriott Johannesburg Melrose Arch	150	2020
Ibis Sandton Summit	290	planning 2021
Novotel Sandton Summit	150	planning 2020
Radisson Red	216	planning 2020
Growth Point Hotel	100	Planning 2020
The Galleria Hotel	100	planning 2022

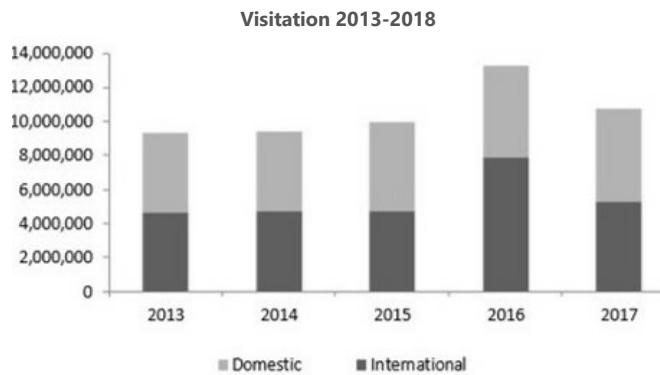
Source: STR, 2017

Tourism Demand

The total number of international tourists arriving and staying in South Africa is steadily increasing at a compound rate of 5.3% over the last six years. Leisure and holiday accounts for over 70% of international arrivals followed by business and conferences at around 20% of arrivals. With an unstable Rand, indeed, while a weak currency may make South Africa a very cheap destination for international tourists, domestic travelers, mainly corporate, may struggle and reduce their travel expenses.



Source: Airports company South Africa 2018



Source: Airports Company South Africa, 2018

Hotel Supply

Hotels that are under construction and are scheduled to be open in 2019 include: the 61-room Houghton Johannesburg; 14-room the Peel hotel and 109-room Capital Melrose. 150-room Marriott hotel and the 200-room Marriott executive apartments in Melrose Arch are scheduled to open in mid-2021. Towards the other side of the market hotels that are in the planning stage include The Red Radisson 216-room ;290 Ibis Sandton summit; 150 Novotel Sandton Summit; 100-room Growthpoint hotel; 171-room Pullman Sandton and the 100-room Galleria hotel. Brands who are not already represented in city continue to search for properties and there is no evidence of a fall in demand for representation in Johannesburg.

Investment Market

Johannesburg has become an internationally renowned and vibrant metropolis that continues to develop which means there is huge opportunity for growth. The hotel market is growing fast as the city develops. As the political and economic situation improves, investors are likely to show further interest in the City of Gold.

Outlook

Rosebank continues to be a fast-emerging area in Johannesburg with vibrant commercial, residential and retail developments. There are number of new developments coming to the Sandton market in 2019 this include the luxury apartments scheduled to be launched on the 27 of March 2019, the Advocates opening in April and 129 Rivonia Road scheduled to be opening early 2019. The Kgoro Central is still under construction and the completion is estimated to be in 2024, the Sandton Gate development is also still under construction. The City of Gold benefits from its commercial centre reputation and will continue to attract investors from across Africa and further afield. Elections scheduled for May 2019 brings uncertainty to most foreign investors but as soon as the new government officials are sworn into office hopefully they will provide a working framework that will focus on

taking the whole economy forward.