

Property Economics Services

- Market Research/Presentations
- Feasibility Studies
- Market Forecasts
- Property Training

Indicator Watch for the South African Commercial Property Market Cycle

June 2011

 VIRULY CONSULTING PTY LTD
 Suite 38, Private Bag X 26
 Tel: +27 21 715 6350
 Tokai 7966 Cape Town
 E-mail: services@viruly.co.za
www.virulyconsulting.com

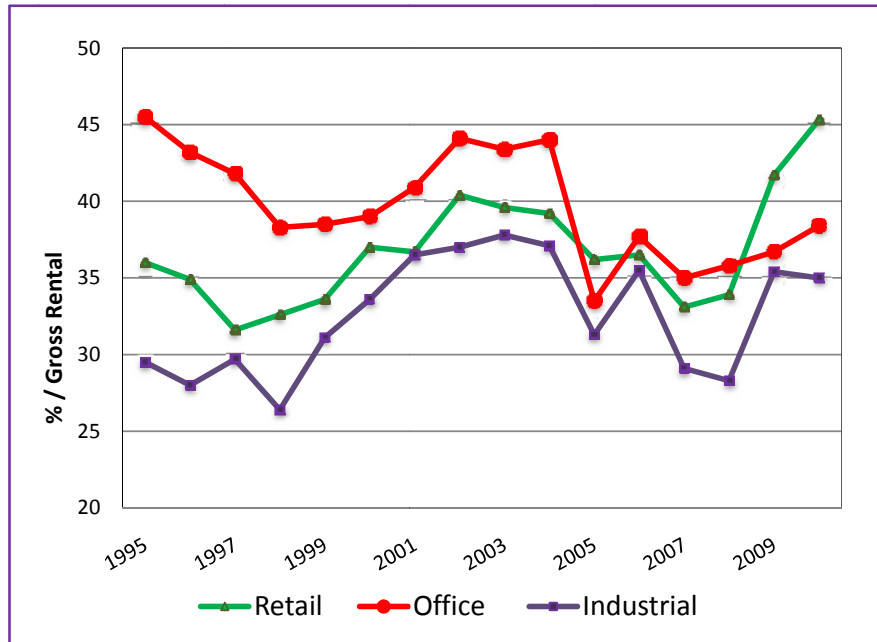
Indicator	% Change/ Current	Movement	Impact on the Property Market
Cycle position Summary	The leading indicator for the SA economy has turned downwards, added to this, there is little prospect in 2011 for a significant decline in interest rates required to stimulate the property sector. The construction sector has failed to show positive growth in Q1 2011 and is lagging the economy. Yet, we believe that the non-residential sector is mopping up space at present and vacancies should continue to decline in 2H 2011.		
GDP Growth	3.6% Q1 2011 QOQ Δ (Unadjusted)	↑	Manufacturing Production was pinpointed as the main driver of growth in Q1 2011 and the latest figures will therefore be a concern to continued economic growth. Conversely, the retail sector (including accommodation) which makes up 12% of the economy, surprised with good growth. This coupled with a fall in Business Confidence in Q2 2011 highlights the uncertainty surrounding the economic recovery at present; sustained economic growth in Q2 2011 is therefore not expected.
Interest Rate	9% Prime Current	→	Previous forecasts of an upward revision of interest rates starting at the end of 2011 are currently under question; with some economists pointing out the latest Manufacturing Production figures as a sign that the economy is not yet at the right point for rate increases.
Inflation Rate (CPI)	4.6% May 2010 Current	↑	The 4.6% year-on-year rise in CPI, a 12 month high, exceeded market expectations of 4.3%. High food and fuel prices contributed heavily and the cost-push nature of inflation has once again been highlighted. Rising utility costs remains high on many property owners' agendas.
Manufacturing Production	0.4% April 2010 YOY Δ	↓	The latest manufacturing production figures surprised to the downside and are cause for concern as manufacturing is the second-biggest sector in the South African economy and impacts on the Industrial sector of the market. Manufacturing production growth, down 3.7% month-on-month in April, has slowed most likely as a result of the combined effect of a strong Rand and economic concerns in Europe and Japan negatively impacting on exports. As a result, demand for industrial space is unlikely to rebound this year.
Retail Trade Sales	9.8% April 2010 YOY Δ	↑	While many economists expected the year-on-year growth figure for retail trade sales to remain at 5.1%, the April figure surprised to the upside at 9.8%. The textiles, clothing, footwear and leather goods industries, which saw sales increase at 16.9%, made the biggest contribution to this growth. Contradictory to this is the sharp decline in the confidence of retailers in Q2 2011 which lead an overall decline of the BER Business Confidence index. All this considered, shopping centre owners should be wary of the positivity reflected in the numbers this month. Also, major retailers are already facing lower

June 2011

			Walmart/Massmart prices; another market shift to be watched.
ABSA House Price Index	-5.7% April 2011 YOY Δ	↓	This is the sixth consecutive month that the ABSA house price index has been negative, while April's figure is also the largest negative growth in the last six months. The combined effect of constant interest rates, low levels of credit extension and consumer inflation is bound to hinder the growth of this sector in coming months.
Building Plans Passed (Residential) - Real Terms	-8.19% April 2010 YOY Δ	↓	April figures for the amount of Building Plans Passed for the residential sector have slipped back into negative territory. This follows encouraging growth in March of 30.27%, reflecting uncertainty in the housing market.
Building Plans Completed - Real Terms (Residential)	-6.16% April 2010 YOY Δ	↓	Similar to the amount of Building Plans Passed for the residential sector, the amount of Building Plans Completed also fell from a positive 3.7% growth in March to negative 6.16%, with subdued supply likely for the rest of the year.
Building Plans Passed (Non-residential) Real Terms	-17.28% April 2010 YOY Δ	↑	While growth has improved this month, it remains in the red. Any significant recovery in activity for the commercial sector is unlikely this year. The SA market can be said to lag the UK market which is plagued by uncertainty stemming from European debt-issues. The latest May results from IPD UK for commercial property returns are up for the past twelve months, yet down for the previous six months and three months periods respectively, which points to volatility in the current recovery.
Building Plans Completed – Real Terms (Non-residential)	4.05% April 2010 YOY Δ	↑	Some new stock coming on to the market has pushed growth for completed plans into positive territory. However this stock is predominantly located in premium nodes, particularly around Gautrain stations in Joburg as evident by construction activity, while other decentralised areas are experiencing little new space.
BER Building Cost Index	-5.3% Q1 2011 YOY Δ	↓	The BER Building Cost Index in Q1 2011 remained in negative territory. Contractors remain under pressure and margins are very tight. These negative escalations are the weakest seen in over twenty years. Yet the BER building cost index has somewhat improved compared to the final quarter of 2010 when the figure was -6.30%.
Cement Sales	-2.8% May 2010 YOY Δ	↓	Cement sales have slipped back into negative growth this month. As these sales are linked to construction activity, the residential and commercial markets are unlikely to produce any major increased demand for now, with the majority of any demand still coming from infrastructure projects.
Movement of the Property Clock (below)	We continue to place the non-residential sector between 6 and 9 o'clock, with the retail and industrial sector leading the way. We will be monitoring the residential sector which seems to be showing a weaker performance.		
Graph of the Month (see below)	The graph of the month (reflecting IPD figures) suggests that operating costs as a percentage of gross income continues to rise. This is largely being driven by the significant escalation in administered prices (Rates / Taxes and Petrol).		

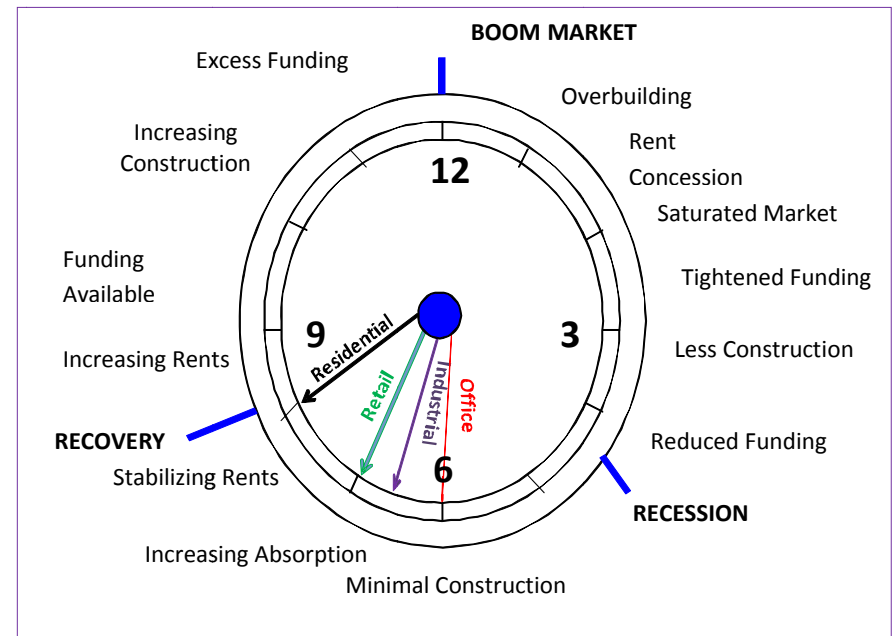
Sources ABSA, FNB, C&CI, BER, IPD, SAPOA, Stats SA, Kagiso /BER PMI
 (*) Note: A green arrow can mean that the figure is still negative, but is improving.

Operating Costs as % of Gross Rent



IPD

Viruly Property Clock



VC