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# Indicator Watch for the South African Commercial Property Market Cycle

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INDICATOR	% CHANGE/ CURRENT	Movement	IMPACT ON THE PROPERTY MARKET
<b>Cycle position Summary</b>	The high vacancy rates in the office sector remain of concern and is starting to impact on the dynamics between the A and B grade office market sectors. There is growing evidence that the B grade office market is finding it difficult to compete in this market.		
<b>GDP Growth</b>	3.1% Q3 2011 QOQ Δ (Unadjusted)	↑	Although economic growth for Q3 2011 showed some improvement, the Treasury has lowered its forecast for growth in 2012 from 3.4% to 2.7%. The Manufacturing sector has been weak and is slowing, and the much needed strength of consumer spending is unlikely to maintain current levels of economic growth post-December.
<b>Interest Rate</b>	9% Prime Current	→	The Reserve Bank is unlikely to raise interest rates in the current economic climate, and with inflation still rising this means that rates are likely to remain unchanged for foreseeable future. The SA property sector will need to rely on its fundamentals rather than a possible decline in interest rates.
<b>Inflation Rate (CPI)</b>	6.3% January 2012 Current	↑	Inflation sneaked upwards this month, from 6.1% in December. This puts it further out of the Reserve Bank's target range and closer to the 6.6% peak forecast for Q2 2012. The rise in energy and administered prices will remain of concern to the sector in 2012.
<b>Manufacturing Production</b>	2.4% December 2011 YOY Δ	↓	Manufacturing Production lost pace again in December, down from upwardly revised growth of 2.8% in November. While the PMI improved in Q4 2011, the outlook is uncertain amidst weak international demand and rising administered prices; some economists expect negative growth by the end of Q1 2012, whereas the Reserve Bank believes 2012 will see some improvement.
<b>Retail Trade Sales</b>	8.7% December 2011 YOY Δ	↑	The Retail sector continues to show considerable strength and should underpin the sector in 2012. Retailers and developers continue to show a strong appetite for investments and developments in smaller towns where retail expenditure is being buoyed by social grants.
<b>ABSA House Price Index</b>	-2.7% December 2011 YOY Δ	↓	Contraction in real prices of medium-sized houses was marginally worse in December, compared to a revised figure of -2.4% in November. This is the fourth consecutive month of contraction and ABSA expects real prices to deflate further this year on the back of continued strain on consumers and inflation remaining above the 6% level. Yet we take the view that the affordable housing sector provides interesting opportunities.

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<b>Building Plans Passed (Residential) - Real Terms</b>	18.95% December 2011 YOY Δ	↑	Growth of residential Building Plans Passed in terms of square metres improved marginally in December, following 17.35% in November. While this is some improvement, activity is expected to remain relatively low in 2012 on the back of lacklustre performance of house prices. Overall, 2011 saw a 4.21% improvement in activity compared to 2010.
<b>Building Plans Completed - Real Terms (Residential)</b>	-5.59% December 2011 YOY Δ	↑	Building Plans Completed contracted by a marginally improved rate in December, following -7.8% in November. Overall, 2011 was down 3.67% compared to 2010, reflecting weak supply which is likely to continue into 2012.
<b>Building Plans Passed (Non-residential) Real Terms</b>	30.5% December 2011 YOY Δ	↑	Building Plans Passed posted positive growth in December, following contraction of 18.38% in November. The overall picture for 2011 is also positive, reflecting a 10.18% improvement over 2010. This indicates that activity in the non-residential sector is improving and developers are beginning to find new opportunities, no doubt aimed at a future recovery in demand for space.
<b>Building Plans Completed – Real Terms (Non-residential)</b>	8.71% December 2011 YOY Δ	↓	Supply growth in terms of Building Plans Completed remained positive in December but fell from 13.07% in November. Supply for 2011 as a whole contracted by 18.09% compared to 2010 reflecting the weak overall demand in the current market where most sectors continue to contend with large amounts of vacant space.
<b>BER Building Cost Index</b>	5.6% Q3 2011 YOY Δ	↑	The BER building cost index surged to 14.5% in Q4 compared to 6.4% in Q3 2011. This is being driven by some improvement in construction activity. We further expect that if government manages to undertake the capital expenditure announced in the recent National budget, this could lead to upward pressure on building costs with negative implications for building activity in the commercial and residential sectors.
<b>Cement Sales</b>	22% January 2012 YOY Δ	↓	Cement sales growth was robust in January, posting 22%, up considerably from a slow December (0.2%). This will be due in some part to a recent uptick in plans passed in the building industry, as well as ever-present infrastructure projects which are set to increase according to the recent budget speech.
<b>Movement of the Property Clock</b>	We are not shifting the property clock this month, but generally take the view that in 2012 the retail sector will outperform the office, and industrial sectors. Yet the office sector should see a considerable tightening up of vacancy rates as the year progresses.		
<b>Quote of the Month</b>	Marna van der Walt, CEO of JHI Properties, commenting on the office market; 'While office vacancies are seemingly stable, high vacancies as well as limited demand is placing tenants in a good position to negotiate rentals down. In addition, rental escalations are not keeping pace with rising operating costs, with increasing utility costs far exceeding the inflation rate. As a result this is placing downward pressure on the net operating income of buildings and therefore affecting property values.'		
<b>Sources</b>	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		

### Mortgages in the SA Residential Market

HOUSE SALES			
Deposit Requirements Intact (Source OOBA)			
Indicator	Jan 2012	Jan 2011	% change
Average Purchase Price	R850 589	R797 011	6.7%
Average Deposit (as % of purchase price)	15% (R127 689)	14.6% (R116 816)	2.7%
Average initial decline Ratio(first bank decline)	50.3%	40.0%	4.3%

**Comment :**

- The table above suggests that banks are rejecting some 50.3% of loan applications, up from 40.0% in Jan 2011.
- The average price of a house in SA has moved from R797 011 in Jan 2011 to the present R 850 589 and increase of 6.7% . This increase is most likely driven by the lower end of the market.

### Viruly Property Clock

