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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 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.		
<b>GDP Growth</b>	3.6% Q1 2011 QOQ Δ (Unadjusted)	↑	The South African Economy is slowly rebounding, with the manufacturing sector largely driving the economy. Yet rising inflationary conditions and the risk of rising interest rates could slow the economy as one approaches the end of the year (see leading indicator below). The construction sector is failing to show any real growth with the figure for Q1 2011 being 0% for the sector. The sector has shown four quarters of declining growth and is lagging the rest of the economy.
<b>Interest Rate</b>	9% Prime Current	→	The SARB has left the repo rate unchanged at 5.5% at its third meeting of the year. Emphasis was placed on current inflation pressures and concerns of the inflation rate exceeding the upper limit of the inflation target. The bank has said it would not hesitate to act if the inflation rate exceeded the target range for a prolonged period. Some analysts predict an upward revision of interest rates starting at the end of 2011 or beginning of 2012. Low interest rates are set to stay for the short term, which helps feasibilities on new projects; the challenge lies with securing finance from the risk-averse banks.
<b>Inflation Rate (CPI)</b>	4.2% April 2010 Current	↑	The MPC expects inflation reach the upper limit of the inflation target in Q4 of this year and to average 5.1% in 2011 and 6.0% in 2012. The nature of the inflation is a concern as it seems to be cost-push rather than demand-pull. For property owners this continues to be a heavy burden in the form of rising utility costs. A rising inflation rate should lower real interest rates during the rest of year.
<b>Manufacturing Production</b>	4.6% March 2010 YOY Δ	↓	Year-on-Year Manufacturing Production showed moderate growth for March 2011, with the motor vehicles, parts and accessories and other transport equipment division once again contributing heavily to this growth. Q1 of 2011 also posted a 4.1% growth in Manufacturing compared to the same period of 2010, with higher production in eight out of the ten manufacturing divisions. Industrial property owners will start to see increased enquiries for space going forward, albeit at a slow rate.

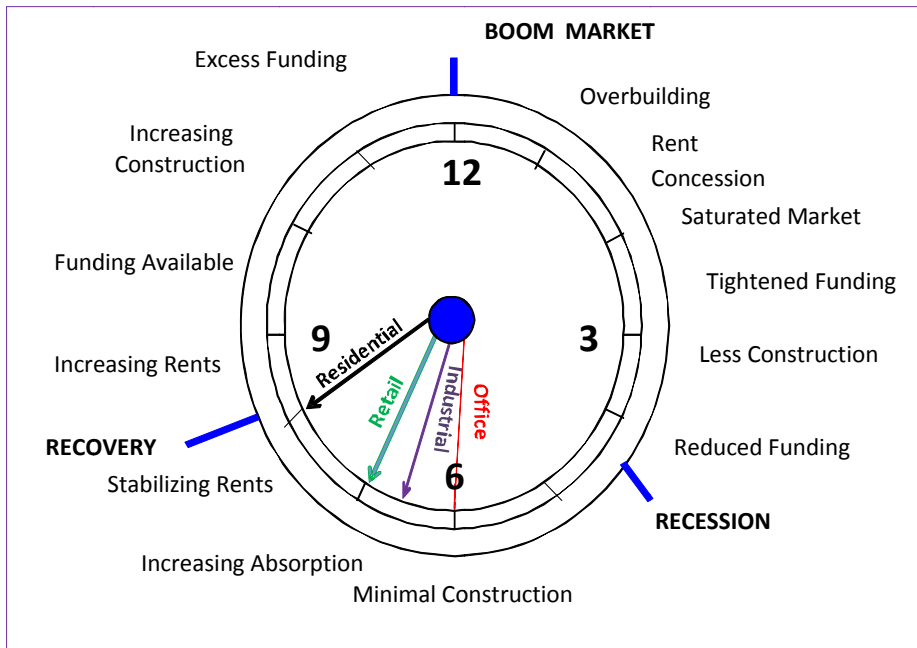
## May 2011

<b>Retail Trade Sales</b>	5.1% March 2010 YOY Δ	↓	There is speculation that household consumption expenditure is beginning to level off after several quarters of positive growth and this will be an added concern to Retail Sales, which has now slowed for its third consecutive month down from 8.3% in December 2010. Anecdotal evidence suggests that major national retailers continue to perform relatively well, with independent line shops taking the most strain.
<b>ABSA House Price Index</b>	-3.9% March 2011 YOY Δ	↓	While the residential sector saw an improvement in 2010 , this was largely driven by declining interest rates .Consumer inflation, rising utility and transport costs as well as low levels of credit extension continue to hamper the growth in prices in the residential sector.
<b>Building Plans Passed (Residential) - Real Terms</b>	30.27% March 2010 YOY Δ	↑	The amount of Building Plans Passed for the Residential sector was the biggest positive contributor to the country's leading indicator in March, suggesting that there has been some take up of the excess stock that has been bogging the market down for some time.
<b>Building Plans Completed - Real Terms (Residential)</b>	3.7% March 2010 YOY Δ	↑	Data for the amount of Building Plans Completed for Residential property is showing encouraging signs. For the first time in several months it is showing positive growth and perhaps this is early signs of the beginning of a new growth phase in the Residential market.
<b>Building Plans Passed (Non-residential) Real Terms</b>	-45.78% March 2010 YOY Δ	↓	The Number of Building Plans Passed for Non-Residential property continues to be erratic and unpredictable with the latest figure of -45.78% contradicting Januaries large 207.3% year-on-year rise.
<b>Building Plans Completed – Real Terms (Non-residential)</b>	-42.7% March 2010 YOY Δ	↓	Last month the number of Building Plans Completed (Non-Residential) showed further contraction .The latest figure indicating a year-on-year contraction of 42.7%. As predicted, the previous figure seems to have been influenced by one or two large projects being completed and indications remain that significant renewed supply will only occur towards the end of 2011 or beginning of 2012.
<b>BER Building Cost Index</b>	-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%.
<b>Cement Sales</b>	1.1% April 2010 YOY Δ	↑	After four consecutive months of negative growth, Cement Sales for April 2011 has shown a 1, 1% improvement. This is possibly driven by an improved level of activity in residential construction activity as well as building activity by the public sector.
<b>Movement of the Property Clock (below)</b>	We are now placing the non –residential sector between 6 o'clock and 9 o'clock, with the retail and industrial sector leading the way. We have shifted the industrial sector ahead of the office sector; it is unlikely that this scenario will alter significantly for the rest of 2011.		
<b>Graph of the Month (see below)</b>	The graph-of-the-month depicts SA's leading, coincident and lagging indicators. . The leading indicator has actually worsened somewhat this month, suggesting that the economy could possibly be entering a double dip. While the coincident indicator improved in 2010, this was largely driven by a declining interest rate scenario.		

Sources

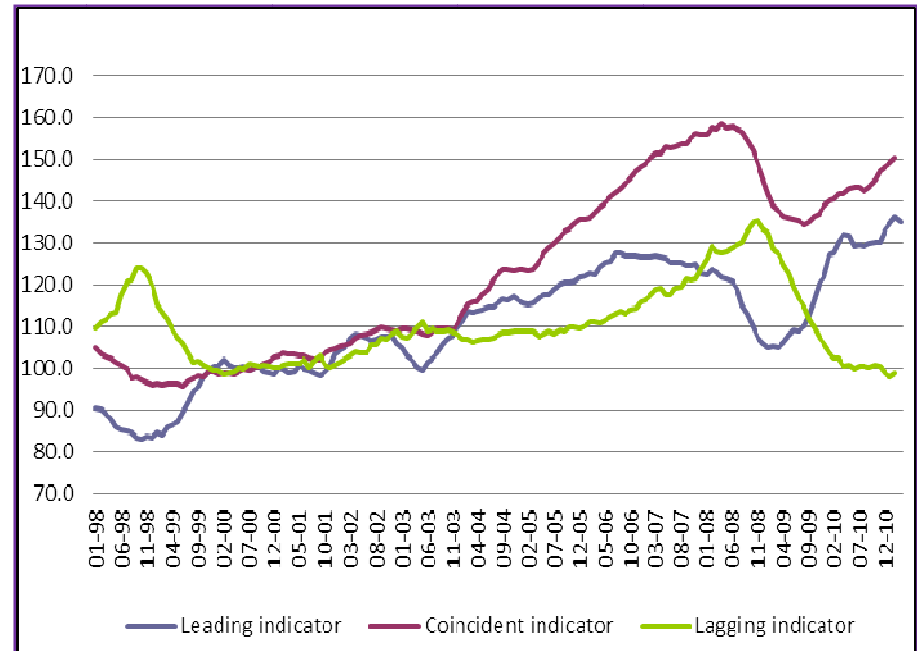
ABSA, FNB, C&CI, BER, IPD, SAPOA, Stats SA, Kagiso /BER PMI  
 (\*) Note : A green arrow can mean that the figure is still negative, but is improving.

Viruly Property Clock



VC

SA Leading, Coincident and Lagging Indicators



BER