



Indicator Watch for the South African Commercial Property Market Cycle

July 2012

Property Economics Services

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

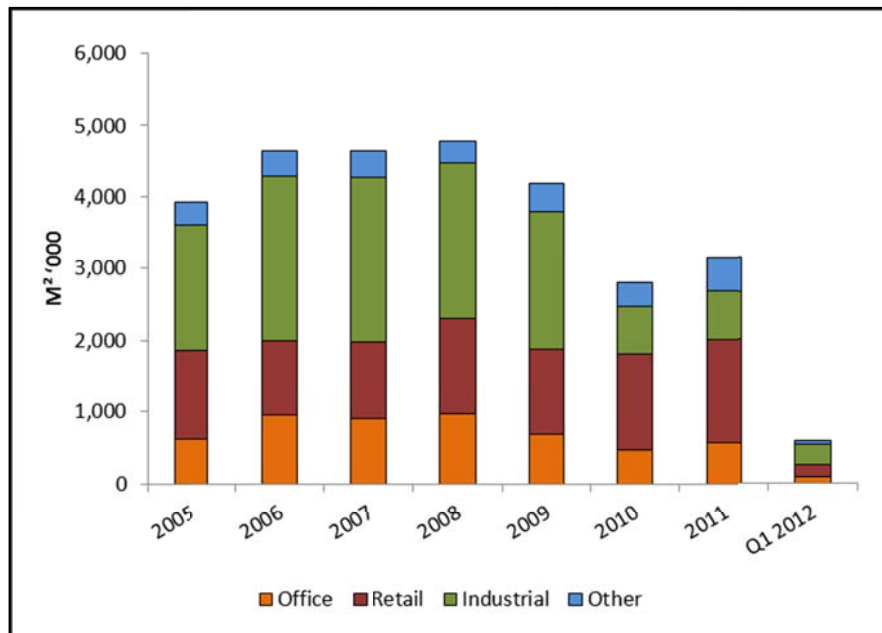
VIRULY CONSULTING PTY LTD
 Suite 38, Private Bag X 26
 Tel: +27 21 715 6350
 Tokai 7966 Cape Town
 E-mail: services@viruly.co.za
www.virulyconsulting.com

INDICATOR	% CHANGE/ CURRENT	Movement on Previous Month (*)	IMPACT ON THE PROPERTY MARKET
Cycle position Summary	There is still a strong indication that property investors are struggling to maintain tenants and keep vacancy rates at acceptable levels. This is occurring in an economic environment that seems to show little improvement. The retail sector has strengthened somewhat, but market commentators are suggesting that this could be short lived .		
GDP Growth	2.1% Q1 2012 QOQ Δ (Unadjusted)	↓	The slowing of GDP growth in the first quarter is a function of mounting uncertainty and most global markets cutting spending across the board, hurting our exports. With banks and countries facing continued credit rating cuts, any funding which may be needed to assist failing finances in both private and public entities is becoming increasingly scarce. Investec places the chances of a global recession at 40%.
Interest Rate	8.5% Prime Current	↓	The Decision by the SA Reserve Bank to decrease interest rates by 50 bp bodes well for the sector and should provide a stimulus to consumption expenditure. However, it may also suggest that the Reserve Bank saw the need to provide stimulus to an ailing economy.
Inflation Rate (CPI)	5.5% June 2012 Current	↓	Inflation continued to fall in June, this time by 20bp following a 40bp decrease to 5.7% in the previous month. Although the downward pressure in the inflation continues to surprise commentators, it is possibly a reflection of a slowing economy. For the sector, the potential continued rise in administered prices remains important.
Manufacturing Production	4.2% May 2012 YOY Δ	↑	Manufacturing Production improved this month, following a marginal improvement in the previous month and subdued activity since October 2011. The industrial sector continues to receive considerable development attention by the sector as retailers and industrialists seek more efficient locations and properties.
Retail Trade Sales	6.4% May 2012 YOY Δ	↑	Retails sales saw a turnaround in May, after growth fell significantly in the previous month. The FNB/BER Consumer Confidence index however entered negative territory (-3) in Q2 ; the lowest level since 2008 which has weakened prospects for the retail sector .

ABSA House Price Index	-4.3% May 2012 YOY Δ	↑	Contraction of house prices for medium-size houses according to ABSA has slowed marginally in May, following a revised contraction of -4.8% in the previous month. The bank expects house price growth to remain subdued over the short to medium term, due to the adverse effect of continued economic uncertainty on confidence levels, consumers' risk profiles and housing supply and demand.
JSE Listed Sector Index JSAPY	30.64% July 2012 YOY Δ	↑	The Listed property sector continues to show a strong performance with the index having increased 30.64 yoy. The index increased from 448.68 (1/7) to 489.35 (1/8). The recent reporting period saw most funds emphasizing the need to control operating costs and remaining focussed on the risk of rising vacancy rates.
Building Plans Passed (Residential) - Real Terms	7.48% May 2012 YOY Δ	↑	Building Plans Passed for residential buildings grew at a quicker pace than in April where 1.03% was registered. The dim outlook for house prices means that the overall residential market will likely only see activity in some high-end areas, with developers expected to hold back for the short to medium-term.
Building Plans Completed - Real Terms (Residential)	1.73% May 2012 YOY Δ	↑	In line with low market sentiment and weak house price performance, supply in term of Plans Completed remained weak this month, up marginally from 1.21% in April.
Building Plans Passed (Non-residential) Real Terms	2.52% May 2012 YOY Δ	↓	Following a large spike in April, growth of Plans Passed in the commercial sector returned to a level more in line with market conditions this month. While some developers will be braced for the recovery, having already identified opportunities, large scale economic uncertainty will be keeping them firmly in the starting blocks for the short to medium-term.
Building Plans Completed – Real Terms (Non-residential)	49.21% May 2012 YOY Δ	↓	Supply in terms of Plans Completed stayed strong this month, hovering around 50%. This is coming off of a low base though and strong growth in the supply of commercial property is unlikely until we start to witness some firm improvement in market fundamentals.
BER Building Cost Index	13.5% Q1 2012 YOY Δ	↑	The MFA/BER building cost index ticked upwards in Q1 2012 from a revised figure of 10.3% in at the end of 2011. This is somewhat surprising given the state of the construction industry but indicates that the slight improvements in construction activity in some nodes and infrastructure development had a positive impact for the beginning of 2012. The remainder of the year remains uncertain though.
Cement Sales	6.7% Q1 2012 YOY Δ	↓	The Cement and Concrete Institute has been allowed to publish statistics on cement sales again, but on a quarterly basis only. Sales are performing relatively well considering the state of the construction industry, although state infrastructure projects are likely to make up a large portion of business for cement producers. Q1 growth is only slightly down on growth of 7.1% in Q4 2011. Considering 2011 saw overall growth of only 3.3% compared to 2010, this performance is a good sign for the construction industry.

Movement of the Property Clock	We had little reason at this point to move the commercial property market from 6 o'clock and 9 o'clock range. The retail sector leads the way, followed by the industrial and office sectors.
Quote of the Month	PIC Chief Executive Elias Masilela " Given the size of the fund, we feel we are over-concentrated in South Africa "
Graph of the Month (see below)	The Graph of the Month shows non-residential plans passed over the past seven years and Q1 2012 according to Stats SA. Plans passed are a leading indicator for the commercial property sector. As illustrated in the graph industrial activity has slowed considerably – possibly suggesting that the sector will not face the level of oversupply for example being experienced in the office sector.
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

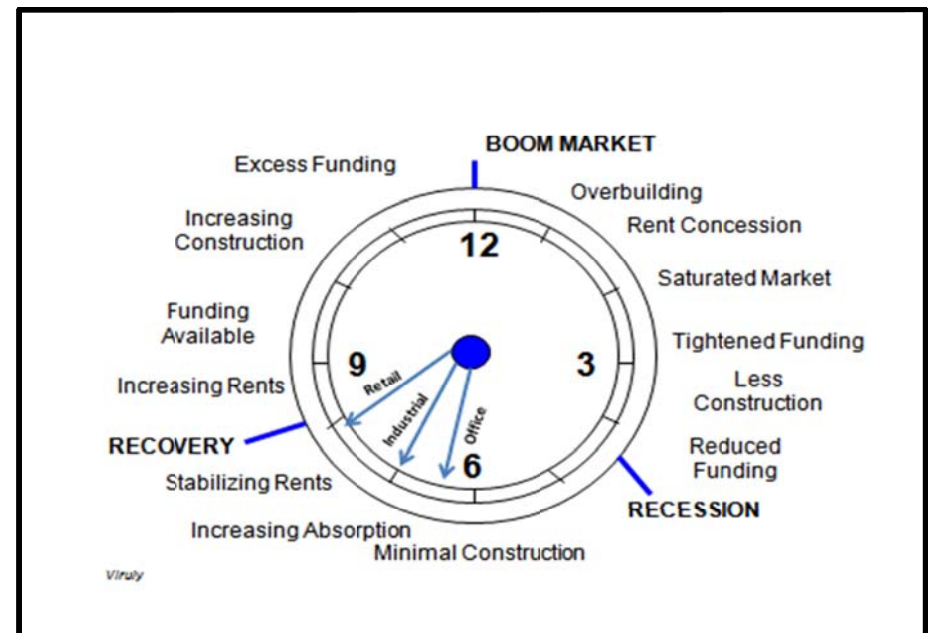
Non-Residential Plans Passed



Stats SA

VC

Viruly Property Clock



Viruly