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Indicator Watch for the S A Commercial Property Market

February 2013

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INDICATOR	% CHANGE/ CURRENT	Movement	IMPACT ON THE PROPERTY MARKET
Cycle position Summary	Although the South African property market is gradually moving up the property cycle, vacancy rates in the office sector remain of concern. The retail sector will need to adjust to a slow down in retail expenditure, but the warehousing sector continues to show a strong performance. There is an argument suggesting that going forward the logistics sector will see the benefits from e-retailing, possibly at the cost of traditional shopping centres.		
GDP Growth	2.5% Q4 2012 Vs. Q4 2011 (Unadjusted)	↑	The South African economy continues to show a relatively weak performance, with forecasts suggesting that GDP growth in 2013 will be about 2.7%. The mining sector continues to record a strong contraction which does not bode well for property markets in mining towns.
Interest Rate	8.5% Prime Current	→	In March the South African Reserve Bank maintained interest rates at their present level. Interest rates are expected to remain at present levels for most of 2013. This means that the property sector cannot count on a declining interest rate scenario in the medium term. This is of particular importance to the listed property sector which has historically had a strong negative correlation with interest rates.
Inflation Rate (CPI)	5.9% February 2013 Current	↓	The inflation rate scenario has worsened in 2013, and there is a growing risk that the CPI could surpass the 3% -6% range set by the South African Reserve Bank. The inflation for administered goods and services (e.g. electricity) increased to 8.9%. The control of operating cost increases will remain critical for the sector.
Manufacturing Production	3.9% January 2013 YOY Δ	↑	The 20% depreciation of the Rand in the past year continues to provide some stimulus for this sector. The decision by large industrial conglomerates to improve efficiencies bodes well for the warehouse development sector.
Retail Trade Sales	1.9% January 2013 YOY Δ	↓	The retail sector has come under greater downward pressure during the first two months of 2013. The indebtedness of South African households has played a role in reducing the performance of the sector. In the past three years retail expenditure was in particular stimulated by the durable sector which is sensitive to interest rates.
ABSA House Price Index	4.7 % January 2013 YOY Δ	↑	The latest ABSA house price index has strengthened with a YOY increase of 3.7% in December 2012. Yet the rise in the inflation rate to 5.9% means that the sector is showing no real growth. Added to this, it is unlikely that the sector will see the benefits of declining interest rates during 2013.

Building Plans Passed (Residential) - Real Terms	6.5% Jan-Dec 2012 YOY Δ	↑	Total building plans passed (real terms) showed a 6.5% increase in 2012, which an improvement over the 2.9 % registered in 2011. One can largely assume that the lowest point of the building cycle has been passed
Building Plans Completed - Real Terms (Residential)	2.3% Jan - Dec 2012 YOY Δ	↑	As in the case of building plans passed, building plans completed in the residential property sector has continued to improve. Yet the growth has been a mere 2.3%.
Building Plans Passed (Non-Residential) Real Terms	2.1% Jan -Dec 2012 YOY Δ	↑	Unlike the residential property sector, building activity in the non-residential property sector shows little signs of improvement. The 2.1% increase in building plans passed in 2012 should be compared against an increase of 14.2% in 2011. The decline in building activity nevertheless bodes well for vacancy rates and rentals going forward
Building Plans Completed- Real Terms (Non-Residential)	15.6% Jan- Dec 2012 YOY Δ	↓	While building plans completed remains relative strong at 15.6%, the strong discrepancy between plans passed and completed may suggest that the sector is taking a somewhat cautionary view going forward.
MFA/BER Building Cost Index	8.90 % Q4 2012 YOY Δ	↓	The MFA/BER building cost index seems to have stabilised between 8% and 9 %. This suggests that building cost increases are surpassing the inflation rate. These increases are also well above the rise in rentals and could have a negative impact on the viability of projects going forward.
Listed Property Index	YTD 4.61% 1 Year 25.24%	↑	The sector continued to show a strong performance, although the positive impact of declining interest rates is out of the system. Fundamentals and managing operating costs will increasingly become important in the sector.
Movement of the Property Clock	Considering the market fundamentals, we believe that demand and supply conditions are tightening in the non-residential property market and as a result we are moving all sectors upwards by approximately one hour on the Viruly clock. We are taking a somewhat more cautionary view regarding the retail sector and take the view that the warehousing sector shows the strongest fundamentals and may surpass the performance of the retail sector going forward in 2013. The office market potentially lags the market with relatively high vacancy rates remaining a problem.		
Quote of the Month	Discussing the office sector : “ Anything being built now is being built specifically for tenants” Marc Wainer - Redefine Properties CEO		
Graph/Table of the Month	Our table of the month looks at the percentage increase in the sqm of space completed in the different sectors of the non-residential property market in 2012. It suggests that the space completed in the industrial sector in 2012 increased by 42.0% YOY, followed the office sector at 21.1% and the retail sector by -14.4%.		
Sources	ABSAs, FNB, C&CI, BER, IPD, SAPOA, Stats SA, Kagiso /BER PMI (*) Note: A green arrow can signify that the figure is negative, but is improving from a property fundamentals’ perspective. A higher inflation rate would have a negative impact on operating costs and hence would be shown red.		

Building Plans Completed Non-Residential Sector

Building Plans Completed % Change Jan-Dec 2011 vs. Jan-Dec 2012	% Change sqm
Office and Banking Space	21.1%
Shopping Space	-14.4%
Industrial and Warehousing Space	42.0%
Other non- residential space	-18.7%

Stats SA

NOTE: Viruly Consulting Quarterly (Jan 2013) is now available. The 15 page report provides an in-depth overview of the SA Property Market.

Viruly Property Clock

