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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
Cycle position Summary	We are taking the view that conditions in the SA commercial property sector have weakened during the course of 2014. The main risk is in the office sector which is experiencing relatively high vacancy rates. Moreover, the macroeconomic and interest rate environment do not bode well for the sector at present.		
GDP Growth	0.6% Q2 2014 Q/Q	Strengthening	The macro economy continues to show a relatively poor performance driven by the poor performance manufacturing sector, a slowdown in motor vehicle production and a decrease in mining output. Q1 GDP growth was 1.6% (annual). Short term forecasts for the economy will continue to dampen the take-up of commercial space leaving little space for capital growth.
Interest Rate	9.25% Current	Rising	The interest rate increased in July 2014 by 0.25% compared to the 0.5% increase in January. The prime interest is presently 9.25%. The interest rate environment is being driven by a weakening Rand and a rising inflationary environment. The medium term interest rate environment has the potential to slow the residential sector and increase commercial yields.
Inflation Rate (CPI)	6.3% July 2014 Current	Declining	The Inflation rate has surpassed the 3-6% SARB target. The commercial property market continues to experience rising operating costs driven by a rise in municipal and electricity costs. The two making up close to 50% of office operating costs. This will place pressure to push for higher operating efficiencies in the sector.
Manufacturing Production – Industrial Sector	-3.7 % May 2014 YOY Δ	Weakening	The manufacturing sector is being affected by the poor performance of the automotive and mining sectors. Although the industrial sector of the SA property market has continued to show robust growth, a prolonged slow down in the manufacturing sector is expected to result on a slowdown in the demand for space in the sector.
Retail Trade Sales – Retail Sector	0.0% June 2014 YOY Δ	Weakening	Although lower than in May 2013, retail growth seems to show continued strength. While the retail sector is expected to experience long term structural change, in the medium term significant opportunities continue to exist in the sector.

ABSA House Price Index	1.4 % June 2014 YOY Δ	Strengthening	The residential sector is showing mixed results and the sector continues to be sensitive to interest rate movements. Reflecting international trends, there are growing indications that the sector is showing renewed strength. Yields seem to remain attractive in the affordable housing market.
Building Plans Passed – Real Terms (Residential)	8.2% Jan-Jun 2013/14 YOY Δ	Same	The value of building plans passed continues to decrease but at a slower rate than earlier in the year. There is an increase in building plan passed for smaller dwellings.
Building Plans Completed - Real Terms (Residential)	-5.70% Jan-Jun 2013/14 YOY Δ	Weakening	There has been a decrease overall in building plans completed with the higher percentage for smaller dwellings and other residential buildings. This also suggests that , especially in the affordable housing market there is a growing mismatch between supply and demand
Building Plans Passed (Non-residential) Real Terms	-2.10% Jan-Jun 2013/14 YOY Δ	Strengthening	Although statistics indicate a rise of building plan passed for offices and banking space, the plans passed in the retail and industrial sectors seem to be weakening. To some degree this is surprising considering the relatively high vacancy rates in the sector.
Building Plans Completed – Real Terms (Non-residential)	-15.9% Jan-Jun 2013/14 YOY Δ	Weakening	While the Industrial sector is showing continued strength offices and shopping centres are showing a slowdown in building activity. To some degree this reflects the weaker vacancy rate environment in the office and retail sectors.
MFA/BER Building Cost Index	7.5% Q2 2014 YOY Δ	Weakening	The rise in building costs is presently marginally above the inflation rate. This is also reflective of the relatively poor performance of building activity. There however seems to be some degree of variation between sectors – see quote below.
Movement of the Property Clock	The office sector remains vulnerable reflecting a relatively high vacancy rates, the industrial could come under pressure from a poorly performing economy and manufacturing sector. The retail sector is also showing an average performance with real retail sales expected to remain close to the 2% level. Our clock shows the office sector lagging the retail and industrial sectors.		
Quote of the Month	The average building cost of new housing constructed averaged R5,638 per square metre in the first five months of 2014, which came to an increase of 14.9% y/y from R4 909 per square metre in the corresponding period last year. Building costs are affected by factors such as building material costs, labour costs, transport costs, equipment costs, land values, rezoning costs, and developer and contractor holding costs and profit margins. (ABSA Property Research)		
Graph/Table of the Month (see below)	The graph of the month shows vacancy rates for A & B Grade offices in different South African CBDs and decentralised cities. Vacancy rates in the Cape Town CBD have weakened.		

Sources	ABSA, FNB, C&CI, BER, IPD, SAPOA, Stats SA, Kagiso /BER PMI, SARB
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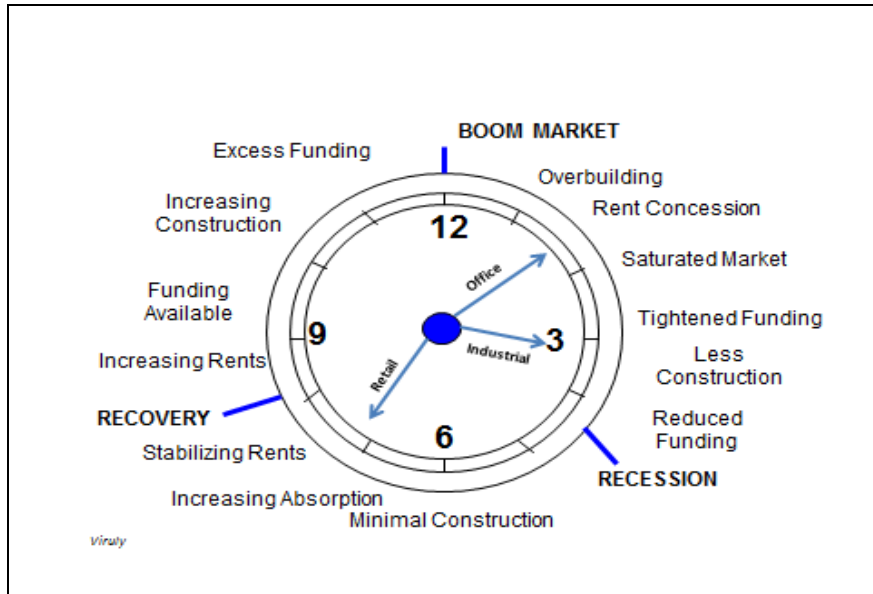


Fig 1: Viruly Property Clock

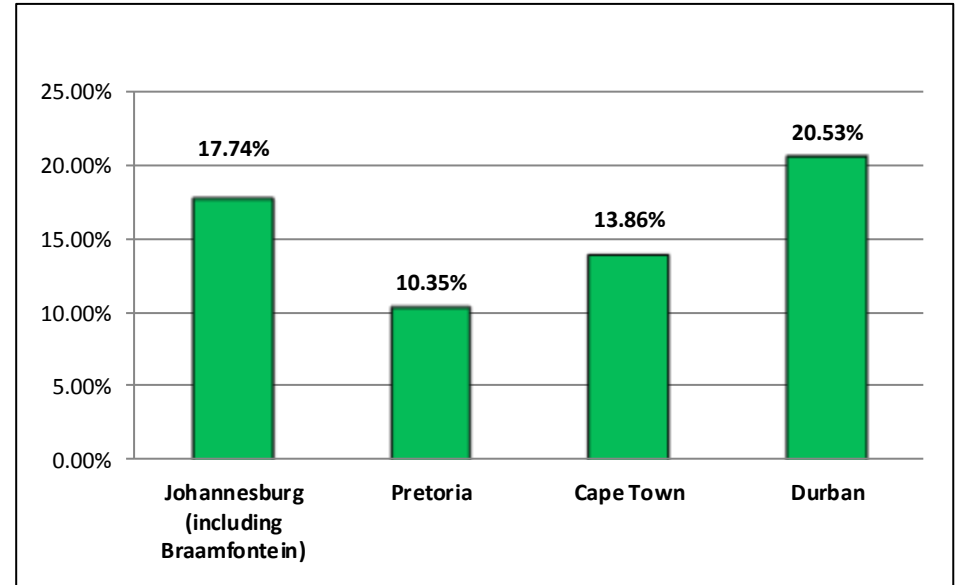


Fig 2: Office Vacancy Rate Q2 2014 in South Africa's four main CBDs (SAPOA)

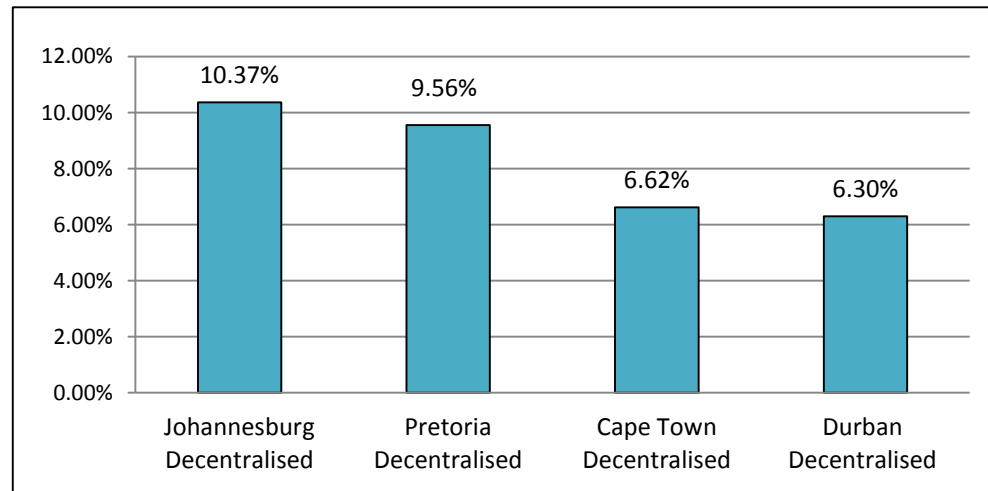


Fig 3: Office Vacancy Rate Q2 2014 in South Africa's decentralised cities (SAPOA)