

Property Economics Services

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

Indicator Watch for the South African Commercial Property Market Cycle

July 2011

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

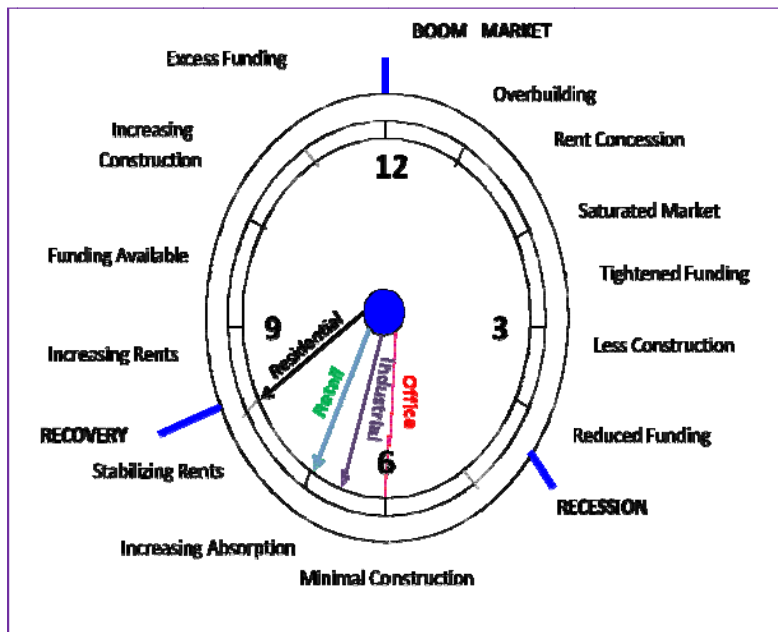
INDICATOR	% CHANGE/ CURRENT	Movement	IMPACT ON THE PROPERTY MARKET
Cycle position Summary	The leading indicator for the SA economy weakened in the past month. Added to this, prospects for the global economy have recently deteriorated and the issue for central banks is to maintain liquidity in financial markets. This will continue to create uncertainties in financial markets and will continue to create uncertainties in financial and property markets. This could slow the recovery of local property markets.		
GDP Growth	3.6% Q1 2011 QOQ Δ (Unadjusted)	↑	Continued sovereign debt concerns in Europe and the US underline major concerns in the global economic recovery; various approaches to these issues have been taken by the affected governments and it remains to see which, if any, shall be successful. The impact can be seen at home as Manufacturing Production as well as Retail Trade Sales figures disappointed to the downside this month fuelling concerns that the growth in the South African economy is losing momentum. This uncertainty is largely being reflected in the commercial and residential markets with investors facing uncertainty regarding the directions of markets
Interest Rate	9% Prime Current	→	The Reserve Bank has left the repo rate unchanged for the eighth consecutive month. The growing concerns of a double-dip in the local economy mean that the South African reserve bank will be reluctant to increase interest rates during the course of the year.
Inflation Rate (CPI)	5.0% June 2010 Current	↑	Consumer Inflation rose to a fifteen month high in June, up from 4.6% in May. Rising food and fuel prices continue to push inflation upwards. Current wage negotiations brought on by widespread strikes are also expected to have an effect on inflation as business is expected to pass on rising labour costs to consumers. For the property market a higher inflation rate could ultimately influence the SARB to increase interest rates.
Manufacturing Production	0.6% May 2010 YOY Δ	↑	Manufacturing Production rose slightly by 0.6% for May compared to the same month last year. Moderate growth in February and March seems to have been short-lived as this month's figure, as well as the revised 0.2% figure for last month, indicates a weak recovery of an important powerhouse of the SA economy. Consequently, the demand for industrial space is likely to remain subdued for the remainder of 2011 and part of 2012.

Retail Trade Sales	0.0% May 2010 YOY Δ	↓	The May retail sales were disappointing. The annual increase of 0.0% reflects cautious spending by South African consumers and the fact that the rising inflation rate is eroding consumer expenditure.
ABSA House Price Index	-4.7% May 2011 YOY Δ	↑	While the residential sector saw strength 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 price growth in the residential sector. Prices for medium-sized houses fell by just under 5% in May, equal to the revised April decline. During the recent boom, buy to let properties made up over 20% of sales – this has reduced to some 8% of total residential sales.
Building Plans Passed (Residential) - Real Terms	-13.44% May 2010 YOY Δ	↓	After strong growth of 30.27% in March 2011, growth in plans passed for both April (-8.19) and May (-13%) have been negative. This figure may show that there is not yet sufficient demand for new residential space and that excess stock from the previous cycle is yet to be taken up. There is however an indication that development activity in the office sector is improving compared to the other sectors.
Building Plans Completed - Real Terms (Residential)	-29.33% May 2010 YOY Δ	↓	The amount of building plans completed for residential property, measured in metres squared, contracted by 29% in May this year. This is the largest contraction in the last 6 months, which again suggests that excess stock still remains in the market and that developers are reluctant to increase stock.
Building Plans Passed (Non-residential) Real Terms	27.43% May 2010 YOY Δ	↑	In January of this year the monthly year-on-year increase in plans passed for non-residential buildings grew 207.3%, followed by three months of negative figures. However, May figures show healthy growth of nearly 30%. This inconsistency indicates a market which remains in a state of uncertainty, with some big projects sporadically pushing overall growth into positive territory.
Building Plans Completed – Real Terms (Non-residential)	-29.21% May 2010 YOY Δ	↓	Last month the figure for plans completed showed positive growth for the first time in six months, albeit a slight increase of just over 4%. The latest data from May has shown a return to negative growth with the volatility of the previous six months suggesting that market fundamentals remain under pressure in the commercial sector.
BER Building Cost Index	(-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%. This is largely being driven by public sector /public corporation development activity
Cement Sales	10.2% June 2010 YOY Δ	↑	Cement Sales surprised showing renewed strength in June. This is the largest monthly year-on-year in the past nine months. It seems likely that this number will decrease again reflecting lower development activity.
Movement of the Property Clock (below)	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. Although we believe that the market position of the property market is improving, the residential sector is in a double dip environment and there is a possibility that the commercial property sector could find itself in a similar position by year end.		

Graph of the Month (see below) The graph of the month emphasises that returns from property (highlighted by the IPD/SAPOA Index, PUTs and PLSs) surpassed those achieved by other asset classes over a number of periods. Given the severity of the economic crash, this bolsters the view that property is a secure investment offering competitive returns.

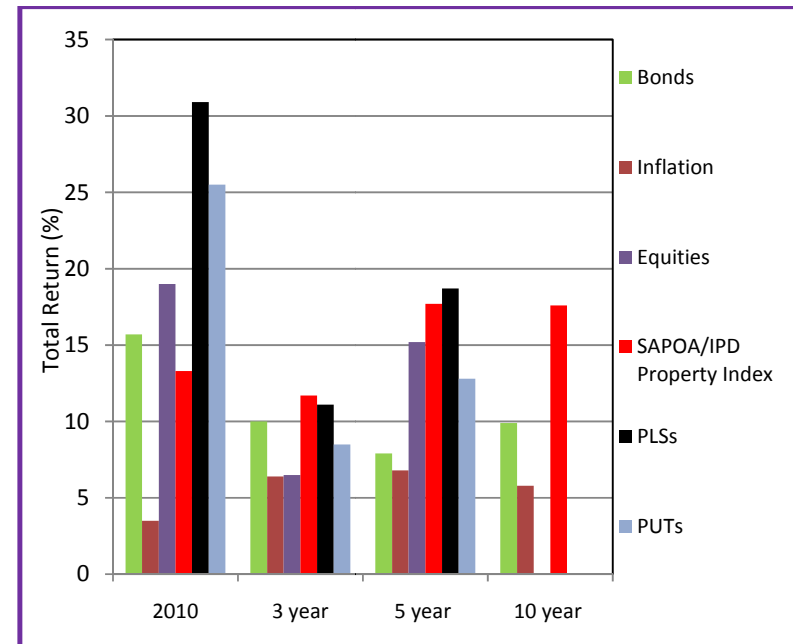
Sources ABSA, FNB, C&CI, BER, IPD, SAPOA, Stats SA, Kagiso /BER PMI
 (*) Note: A green arrow can mean that the figure is still negative, but is improving.

Viruly Property Clock



VC

Property versus Bonds and Equities



IPD, JSE All Share, JSE PUT, JSE PLS, JPM 7-10yr, Stats SA