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Indicator Watch for the South African Commercial Property Market Cycle

August 2011

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INDICATOR	% CHANGE/ CURRENT	Movement	IMPACT ON THE PROPERTY MARKET
Cycle position Summary	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. We are looking for higher growth rates before being more upbeat about the start of the upward phase of the South African property cycle.		
GDP Growth	1.3 % Q2 2011 QOQ Δ (Unadjusted)	↓	Fears over a double-dip recession in America and Europe continue. The Eurozone's biggest economy, Germany, recorded 0.1% GDP growth in Q2 2011, America recorded 0.3% growth, while GDP growth among the world's most developed economies slowed to 0.2% for the same period. Certainly there is growing pessimism over the global economic recovery and this has triggered a very cautious approach to new investments and consumer spending. Manufacturing Production and Retail Trade Sales in South Africa will continue to come under pressure in the coming months.
Interest Rate	9% Prime Current	→	Interest Rates have remained the same this month. With recent growth concerns, there will almost certainly be no rates hike in the near future and many economists have shifted their forecasts of the start the rates hike cycle from late 2011 to mid-2012, and even possibly as late as 2013. The slow down in economic growth is increasing the possibility of a decline in interest rates.
Inflation Rate (CPI)	5.3% July 2011 Current	↑	CPI continued to climb, as was anticipated, to 5.3% in July from 5.0% in June. Seasonal increases in electricity, rates and taxes contributed heavily while wages also placed added pressure on the upward movement of inflation. This will be of concern to property owners as operating costs continue to dampen profits. CPI is expected to continue to rise this year.
Manufacturing Production	0.9% June 2011 YOY Δ	↑	Manufacturing Production has entered its 19th month of consecutive growth in June, albeit at a concerning rate. The motor vehicles, parts and accessories and other transport equipment division continued to make a large contribution to this figure, as it has in previous months, with a 15.8% year-on-year growth. Offsetting this was the contraction experienced by seven of the ten other manufacturing divisions. It is unlikely this sector will experience large growth in the near future, and consequently property owners will have to focus on retaining current tenants and market existing space.

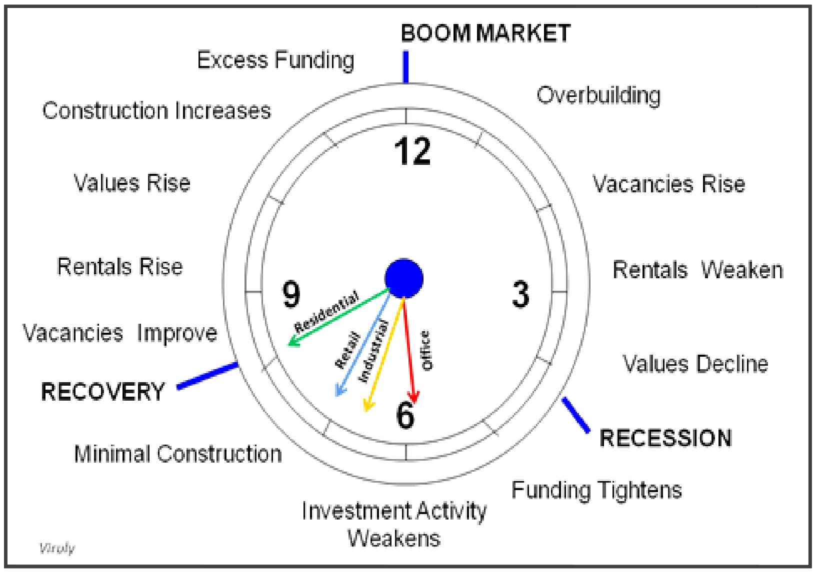
August 2011

Retail Trade Sales	2.2% June 2011 YOY Δ	↑	Year-on-year growth in Retail Trade Sales was 2.2%. This comes after a revised figure of 0.2% growth in May. Economists forecasted a 2.7% growth in June and the real figure of 2.2%, although slightly lower than forecasted, maintains some hope that consumer will continue to spend during tough economic conditions. Rising consumer inflation will continue to hamper household disposable income and Retail Trade Sales will most likely come under strain in the coming months.
ABSA House Price Index	-3.3% June 2011 YOY Δ	↑	House price growth according to ABSA for medium-sized houses remained negative in June, following a revised contraction of 4% in May. Various macro-economic factors continue to impede growth in the housing market; this situation is expected to continue into the beginning of 2012 as there is little chance of relief for would-be buyers in the short term.
Building Plans Passed (Residential) - Real Terms	18.32% June 2011 YOY Δ	↑	Building Plans Passed for residential property grew by 18.32% year-on-year. In the previous two months this figure has contracted and it is likely, considering the current economic outlook, that there will be little or no growth in Building Plans Passed in the coming months. Rising inflation will also continue to impact on households' disposable income and consequently the amount of first time buyers entering the market.
Building Plans Completed - Real Terms (Residential)	16.94% June 2011 YOY Δ	↑	The amount of Building Plans Completed for Residential property continues to be volatile. After a large contraction in May, Junes figure is the largest growth in this sector thus far in 2011. It should be expected that this figure will continue erratically until the end of 2011.
Building Plans Passed (Non-residential) Real Terms	-22.43% June 2011 YOY Δ	↓	Building Plans Passed for non-residential buildings contracted in June after growth of 27% in May. While there have been indications that development activity in the office sector has started to pick up, it is unlikely there will be a sizeable increase in this figure until vacancy rates fall significantly and future expectations of commercial property become more promising.
Building Plans Completed – Real Terms (Non-residential)	15.26% June 2011 YOY Δ	↑	Data for the amount of Building Plans Completed, measured in square metres, suggests the building cycle is not in as severe recession as it was for most of last year. The 15.26% growth in June is the largest so far in 2011 and most likely reflects completed stock which was initiated by optimists early in 2010.
BER Building Cost Index	-5.3% Q2 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%.
Cement Sales	0.2% July 2011 YOY Δ	↑	Year-on-year growth of cement sales just managed to stay positive in July, following strong growth in June. This suggests that June's growth was due to a few large orders as opposed to a recovery in demand, which is unlikely to improve with construction activity at its current level.

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. 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.
Graph of the Month (see below)	Growing uncertainty driven by the likelihood of a second recession is the main theme in most global economies at the moment, and the same is true at home as evident by falling business confidence. Anecdotal evidence suggests this trend is beginning to be felt in the commercial property market which lags the overall economy. The graph of the month indicates that office vacancy rates may have reached a possible turning point and are either stalling or increasing at a decreased rate, except in Durban where there has been some improvement recently. Overall, it is unlikely this will be the start of a significant downward cycle, and vacancies are likely to increase or, at best, stagnate.
Quote of the Month	"We're already installing water tanks, generators and building roads (in South Africa). In Africa we'll do the same-but for higher returns" Des de Beer CEO Resilient

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: ***Viruly***



Decentralised A and B Grade Office Vacancy Rates: ***SAPOA***