



# Indicator Watch for the South African Commercial Property Market Cycle

January 2012







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INDICATOR	% CHANGE/ CURRENT	Movement	IMPACT ON THE PROPERTY MARKET
<b>Cycle position Summary</b>	We are taking the view that the South African commercial property market will strengthen during the course of 2012. This will result from lower levels of building activity and a gradual mopping up of space. Yet we retain the view that the property cycle will only start to see a strong movement upwards in 2014/2015.		
<b>GDP Growth</b>	3.1% Q3 2011 QOQ Δ (Unadjusted)	↑	While unadjusted economic growth showed slight improvement in Q3 2011 compared to growth of 3% realised in Q2 2011, consumer spending and manufacturing have slowed in recent months. AT present a number of forecasts suggest that GDP growth will be below 3% in 2012.
<b>Interest Rate</b>	9% Prime Current	→	Although the reserve bank remains concerned about the upward trend in the inflation rate and downward revised GDP growth figures for 2012 – the South African reserve bank is keeping interest rates at their present level .
<b>Inflation Rate (CPI)</b>	6.1% December 2011 Current	→	Inflation was better than expected in December and remained unchanged from November ( 2011 ) , following on from 6% in October. Looking to the months ahead, the inflation is expected to continue rising, although the Reserve Bank forecasts a peak of 6.6% in Q2 2012.
<b>Manufacturing Production</b>	2.6% November 2011 YOY Δ	↑	While up marginally from October's growth of 1%, Manufacturing Production has slowed from robust growth in recent figures, with 7.7% achieved in September. A return to robust figures is uncertain for upcoming months, and the industrial property sector is therefore unlikely to experience any major improvements for the beginning of 2012.
<b>Retail Trade Sales</b>	6.8% November 2011 YOY Δ	↓	Growth of Retail Trade Sales was below forecasts of 7.5% this month, down from a revised 7.5% in October and a high of 8.3% in September. A good December for the shops is expected though, as consumer spending attracts ever more attention as a driving factor behind the economy. Retail property owners have had somewhat improved operating conditions recently, but the retail sector is not yet out of the woods.
<b>ABSA House Price Index</b>	-3.1% November 2011 YOY Δ	↓	Growth of real prices for medium-sized houses worsened for the third consecutive month in November, with a contraction of 2.4% in October. While overall prices have contracted for 2011 so far, contraction had been improving before this. This suggests that conditions in the residential market are not improving and will remain flat for at least the short-term.

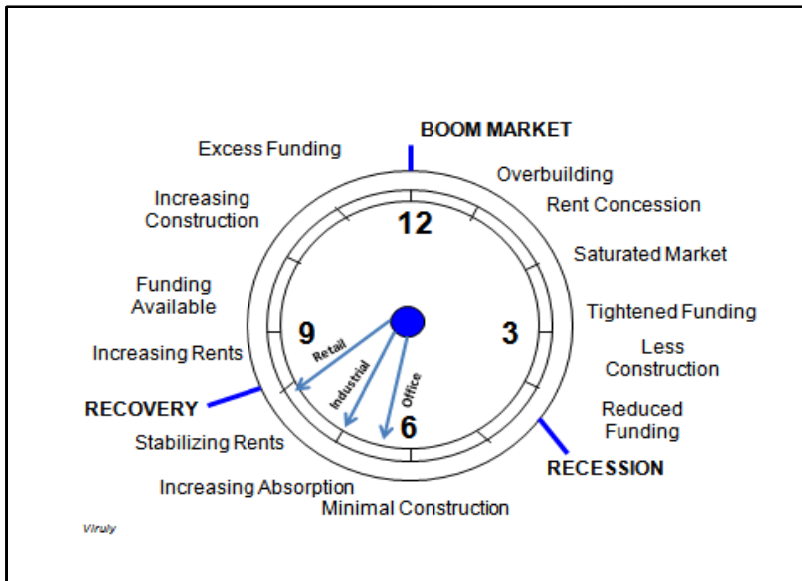
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<b>Building Plans Passed (Residential) - Real Terms</b>	17.35% November 2011 YOY Δ		Growth of residential Building Plans Passed in terms of square metres posted positive growth in November, following three months of contraction. The overall picture for 2011 so far is one of erratic and weak growth, which is likely to be the case as long as house prices continue to contract.
<b>Building Plans Completed - Real Terms (Residential)</b>	-7.8% November 2011 YOY Δ		Supply in terms of Building Plans Completed contracted in November following growth of 7.42% in October. While there has been some erratic growth in 2011 so far, overall supply is down. This is unlikely to improve until economic conditions start to turn in favour of would-be home owners.
<b>Building Plans Passed (Non-residential) Real Terms</b>	-18.38% November 2011 YOY Δ		Activity in the non-residential market in terms of Building Plans Passed contracted in November, down on strong growth of 90.35% in October and 72.63% in September. With this drop considered, the strong growth in the preceding two months is encouraging and we can see that some developers are beginning to plan for the eventual upswing in the cycle.
<b>Building Plans Completed – Real Terms (Non-residential)</b>	13.07% November 2011 YOY Δ		Building Plans Completed entered positive territory in November, up from contraction of 28.74% in October which was preceded by three months of further contraction. As overall market conditions remain subdued, and we are just beginning to see some improvement in Building Plans Passed, supply is unlikely to increase until vacancy rates begin to improve steadily.
<b>BER Building Cost Index</b>	5.6% Q3 2011 YOY Δ		The BER Building Cost Index in Q3 2011 has moved upwards to 5.60 % which is in line with the inflation rate, yet, contractors remain under pressure and margins are very tight. Escalation primarily reflects the rise in the cost of materials and labour. There are however indications that contractors are reducing margins and this seems to have improved the viability of certain projects.
<b>Cement Sales</b>	0.2% December 2011 YOY Δ		Growth in cement sales just managed to stay in positive territory for December, falling significantly from 9.1% in November. This is in line with the general slow-down in construction activity in December and a healthier result is expected for January. Overall sales for 2011 posted a 3.2% improvement on 2010.
<b>Movement of the Property Clock</b>	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 in the first half of 2012. There is still some oversupply in the office market that will need to be addressed before this scenario changes significantly.		
<b>Quote of the Month</b>	John Loos, Household Sector and Property Strategist at FNB, commenting on prospects for the commercial property market in 2012, "Indeed, SA Government long bond yields are currently off their lows of early-September, partly reflective of growing concerns regarding global economic prospects and the impact on the likes of SA. This, along with higher vacancies, leads us to anticipate an increase in capitalisation rates in 2012, which in turn could exert downward pressure on real commercial property values."		
<b>Graph of the Month (see below)</b>	The state of the global economy remains one of the greatest threats to growth prospects for the South African Economy, and therefore the recovery of the commercial property market. The graph-of-the-month highlights the worrying downward trend in the world's largest economies.		

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

IPD

Globe Economic Growth

