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Indicator Watch for the South African Commercial Property Market Cycle

March 2012

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INDICATOR	% CHANGE/ CURRENT	Movement	IMPACT ON THE PROPERTY MARKET
Cycle position Summary	The South African Commercial property market is slowly moving out of a recessionary environment. The retail sector is showing some strength, while the office sector continues to record relatively high vacancy rates.		
GDP Growth	2.9% Q4 2011 QOQ Δ (Unadjusted)	↓	Unadjusted GDP growth slowed marginally in Q4 2011 as the underlying weakness in the economy becomes evident. Low-growth prospects for SA in 2012 are driven by weak global economic growth as well as increased strain on consumers and subdued conditions in the manufacturing sector at home. As the overall commercial property market is largely driven by the economy, there is unlikely to be any significant improvement in the year ahead.
Interest Rate	9% Prime Current	→	In line with general predictions the repo rate was left unchanged for the 17^{th} month in a row at the recent MPC meeting. The next movement in interest rates is most likely to an increase towards the end of 2012, at the earliest, the pressure for a rise in interest rates is mounting.
Inflation Rate (CPI)	6.1% February 2012 Current	↓	Inflation fell unexpectedly in February, down on 6.3% in the previous month. The outlook for inflation has improved although oil prices and administered costs pose a significant risk and rising administered prices remains of concern to the sector , with IPD figures suggesting that operating costs increased by some 17% in 2011.
Manufacturing Production	2.4% January 2012 YOY Δ	→	Growth of Manufacturing Production remains unchanged from January as conditions in the sector remain subdued. This is likely to remain the case in the year ahead on the back of low domestic growth and decreased exports due to weakening demand in Europe and China. The strength of the Rand is also of concern for manufacturers. While industrial property has outperformed other sectors recently, rentals and demand for space are likely to remain subdued in line with conditions in the manufacturing sector.
Retail Trade Sales	3.9% January 2012 YOY Δ	↓	Lower-than-expected Retail Trade Sales growth in January comes off the back of robust growth in December and is in line with weakening conditions in the retail sector. Consumers are coming under increasing pressure from rising costs, while the overall economic environment is having a negative impact on confidence. As a result retailers and shopping centre owners alike should expect tougher trading conditions going forward.
ABSA House Price Index	-4.4% January 2012 YOY Δ	↓	Contraction of real prices of medium-sized houses continued to worsen in January, following a revised figure of -3.9% in December. This represents the fifth consecutive month of contraction, as the household finances of would-be home buyers face continued strain and access to finance remains restricted.

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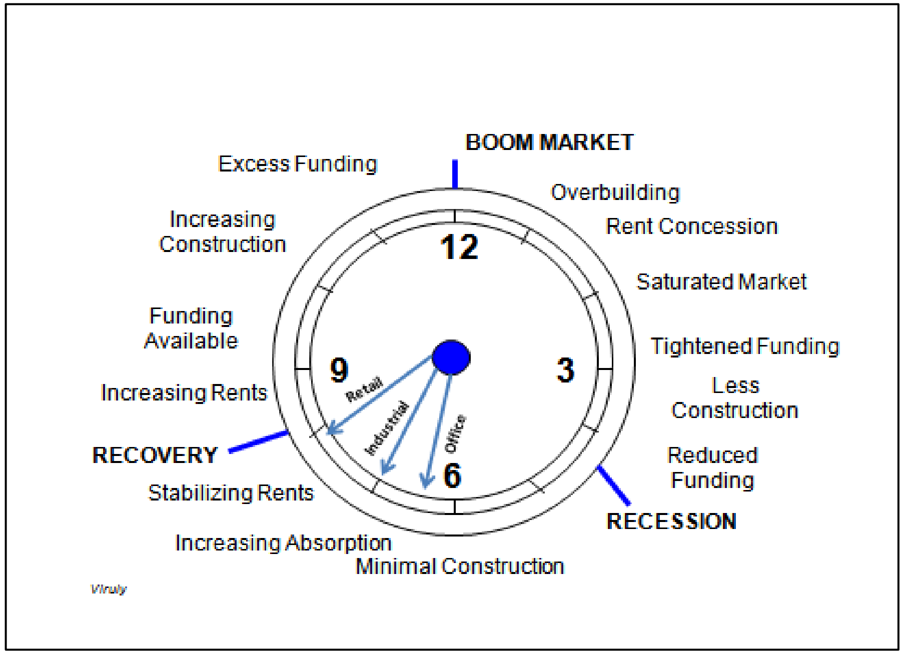
Building Plans Passed (Residential) - Real Terms	22.66% January 2012 YOY Δ	↑	January marks the third month of improvement in growth of Building Plans Passed in the residential sector, up from 18.95% recorded in December. It should be noted that this growth, while positive, comes off of a low base though. That said it seems some developers are starting to see opportunity going forward, particularly in the upper end of the sector.
Building Plans Completed - Real Terms (Residential)	21.86% January 2012 YOY Δ	↑	Growth of Building Plans Completed in January posted a significant turnaround compared to contraction of 5.59% in December. This can in part be explained by the general slowdown of construction in December and looking forward, supply is unlikely to increase notably in the 9 months ahead.
Building Plans Passed (Non-residential) Real Terms	-45.41% January 2012 YOY Δ	↓	Off the back of growth of just over 10% in 2011, Building Plans Passed contracted severely in January. However, vacancies are beginning to level out somewhat and even improve in some nodes, and 2012 is expected to experience a marginal increase in activity as some developers begin to return to the market.
Building Plans Completed – Real Terms (Non-residential)	42.53% January 2012 YOY Δ	↑	Building Plans Passed surprised to the upside in January, following growth of 8.71% in December. However, this comes off a low base and supply is unlikely to realise any significant improvements this year. Just over 160k sqm of new space was added to the market January, compared to just over 170k and 190k for the same month in 2010 and 2009 respectively.
BER Building Cost Index	14.1% Q4 2012 YOY Δ	↑	The BER Building Cost Index surged to 14.1% in the latest results, up from a revised 6.4% in Q3 2011. While this will in part be due to rising costs, a slight revival of construction demand is also playing a part in line with an increase in building plans passed at the end of 2011.
Cement Sales	7.4% February 2012 YOY Δ	↓	Cement Sales growth slowed in February but still remains positive, following growth of 22% achieved in January. Looking back, sales in 2012 so far are above both 2011 and 2010 levels which bodes well for the construction industry as a whole.
Movement of the Property Clock	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.		
Quote of the Month	Stan Garrun, MD of IPD SA, commenting on the latest SAPOA/IPD Property Index and the drop in returns; 'While these figures do not necessarily point to further recessionary conditions, they do indicate that it is a long haul back to pre 2008 levels. The good news is that prime assets are performing well in all sectors. Any economic uplift should quickly release major new income growth for both tenants and landlords, as well as a pent up property development pipeline.'		
Graph of the Month (see below)	The graph of the month depicts the SAPOA/IPD Property Index over the past 10 years. The index reflects returns of direct, standing property investments. According to the latest index property achieved a total return of 10.4% in 2011, consisting of 8.9% income growth and 1.4% capital appreciation. This is down on a total return of 13.4% in 2010, where income growth remained unchanged but capital growth was higher at 4.1%.		

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



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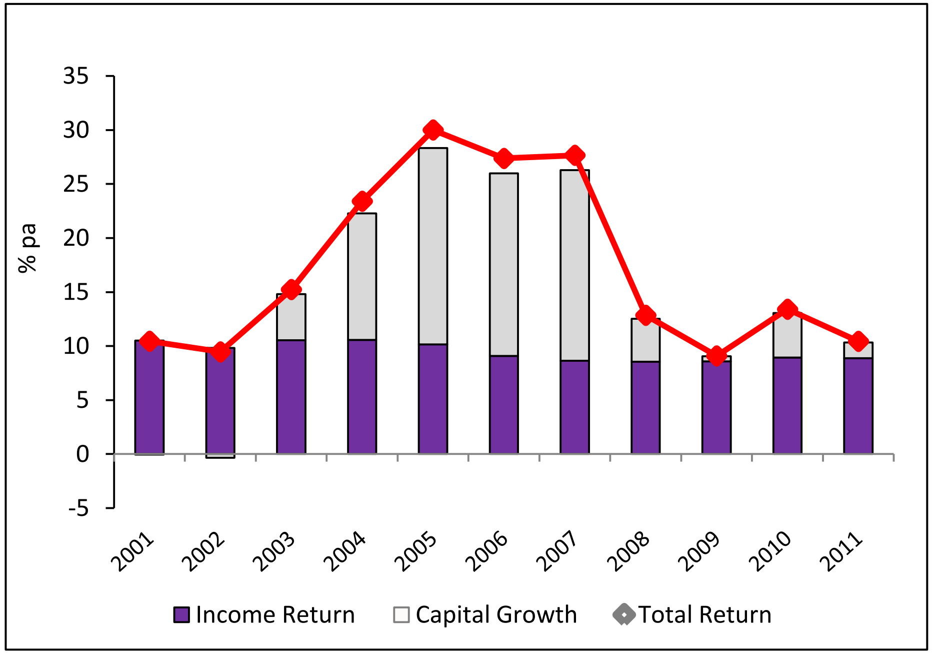
SAPOA/IPD Property Index – Total Returns



SAPOA/IPD