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# Indicator Watch for the South African Commercial Property Market Cycle

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**VIRULY CONSULTING COMPREHENSIVE QUARTERLY REPORT (March 2013) NOW AVAILABLE**

INDICATOR	% CHANGE/ CURRENT	Movement	IMPACT ON THE PROPERTY MARKET
<b>Cycle position Summary</b>	Although the South African commercial property market is showing some renewed strength poor macroeconomic indicators continue to present uncertainties in the market. The sector is experiencing a higher level of building activity, but the market remains vulnerable to the possibility if raising interest rates and a possible oversupply of the market.		
<b>GDP Growth</b>	2.1% Current	↓	The South African economy is showing mixed results primarily driven by unrest in the labour market and reluctance by investors to increase output capacity. In the months to come conditions in the mining sector will have a pronounced influence on the trajectory of the economy?
<b>Interest Rate</b>	8.5% Prime Current	→	The South African reserve bank has maintained interest rates at their present levels – namely 8.5%. This is largely being driven by expectations that the inflation rate that will decline as the year progresses. The also requires the stimulus of relatively low interest rates. Forecasts suggesting that interest will decline during the course of 2013 seem increasingly unlikely considering the weakening of the Rand.
<b>Inflation Rate (CPI)</b>	5.9% March 2013 Current	→	The South African inflation rate is close to to moving out of 3% -6% target range set by SARB . Forecasts suggest that the CPI will start to move downwards in the second half of the year reflecting lower demand in the economy . Yet the sector is still feeling the impact of administered prices ( such as electricity and rates and taxes ) which are increasing at an annual rate exceeding 8%.
<b>Manufacturing Production – Industrial Sector</b>	-2.2 % March 2013 YOY Δ	↓	Manufacturing output is showing mixed results, but the depreciation of the Rand should provide a catalyst to the sector as the year progresses. The warehousing sector continues to perform relatively well, with businesses seeking space from which efficiencies can be improved.
<b>Retail Trade Sales – Retail Sector</b>	2.8% March 2013 YOY Δ	↓	The retail sector played an important role in underpinning the economy in 2012, but seems to show a weaker performance in 2013. IPD figures suggest that the sector outperformed the industrial and office sectors in 2012 and the smaller shopping centres (selling durable goods) managed to show a strong performance.

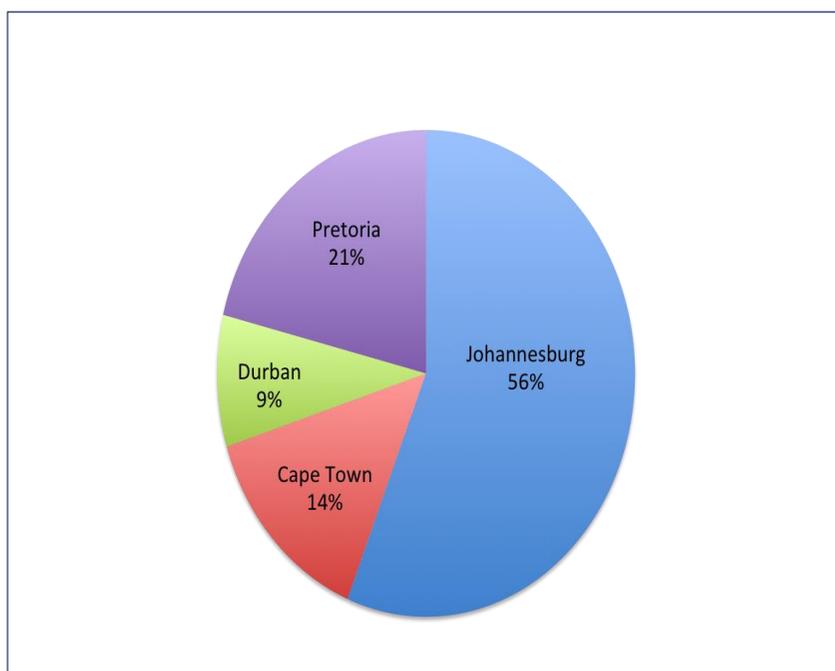
<b>ABSA House Price Index</b>	4.5 % February 2013 YOY Δ		The South African housing market seems to be stuck in a low growth scenario. In the past two years the sector saw some benefit from declining interest rates. At present the sector is feeling the impact of rising indebtedness by SA households and a cautionary view by the banking sector regarding this sector.
<b>Building Plans Passed – Real Terms ( Residential )</b>	15.6% Jan-March 2012/13 YOY Δ		The value of building plans passed is on the rise suggesting that developers are expecting a rebound of the sector. Much of the interest however remains in the lower sections of the market – namely in the R 300'000 – R 600'000 bracket.
<b>Building Plans Completed - Real Terms (Residential)</b>	6.6% Jan -March 2012/13 YOY Δ		The building plans completed (in real terms) shows little real increase and largely reflects the relatively poor level of building plans passed in recent months. We believe that the level of building plans completed will keep on rising as the year progresses reflecting rising demand in the affordable housing market.
<b>Building Plans Passed (Non-residential) Real Terms</b>	96.7% Jan-March 2012/13 YOY Δ		Building plans passed in the commercial property sector can be significantly influenced by the announcement of a single large development. There are however growing indications that developers are re- entering the market – especially in the retail and industrial sectors.
<b>Building Plans Completed – Real Terms (Non-residential)</b>	22.7% Jan-March 2012/13 YOY Δ		Although there is growing evidence that the SA commercial property market is slowly moving up the property cycle, there is some risk that a relatively strong rise in supply could result in an oversupply. This is particularly true in the office sector which still faces high level of vacancy rates.
<b>MFA/BER Building Cost Index</b>	10.80 % Q1 2013 YOY Δ		While from one month to the next building costs increases seem to shift from negative to positive territory, there is evidence that the rise in building activity is starting to place upward pressure on building costs. Developers are however reporting that overall development fundamentals (the difference between development costs and value) are improving.
<b>Movement of the Property Clock</b>	An analysis of market fundamentals suggest that conditions are improving in the South African commercial property market and we are therefore once gain moving the clock forward – moving past the recovery stage . The office sector however remains vulnerable to relatively high vacancy rates, and remains under significant pressure from rising operating costs.		
<b>Quote of the Month</b>	“ Our primary Strategy is really a serious focus on the underlying bricks and mortar” (Sam Leon, Investec Property Fund Ltd)		
<b>Graph/Table of the Month (see below)</b>	The attached pie chart illustrates the relative size of the Office stock in South Africa. It shows that the Johannesburg market is responsible for approximately 60% of the market, followed by Pretoria 21%, Cape Town 14%, with the Durban office market taking a 9% share of the market.		

**Sources**

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

(\*) Note: A green arrow can mean that the figure is negative, but is improving from a property fundamentals perspective. A higher inflation rate would have a negative impact on operating costs and hence would be shown red.

**The Relative Size (sqm) of the SA A & B Grade Property Market**



Stats SA

**Viruly Property Clock**

