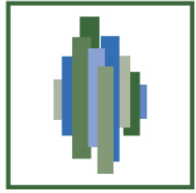# AN EMPIRICAL ASSESSMENT OF THE SOUTH AFRICAN AND UNITED KINGDOM PROPERTY MARKETS

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URBAN REAL ESTATE
RESEARCH UNIT

INTRODUCTION

- Over the last twenty years there has been increased focus on global property/real estate market performance

- SA & UK property/real estate markets have provided investors with above average returns in comparison to other asset classes over the medium to long term
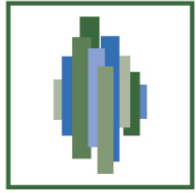
PURPOSE OF THE RESEARCH

- To compare the performance of SA and UK property/real estate markets

- The research examines:
  - Level of concentration and composition of the market share.
  - Key stakeholders that operate in the SA and UK property/real estate markets.
  - Sectorial and geographic spread.
  - Socio-economic factors that influence SA and UK and how this impacts the respective property/real estate markets.

- Hence: the research is conducted within the contextual framework of institutional economics.

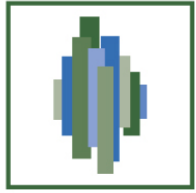*"how the property game is played"*
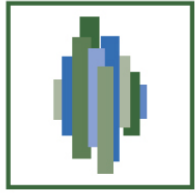
ECONOMIC INDICATORS

- Lorenz and Trück (2008) identified the following indicators in European markets:
  - GDP
  - Inflation rate
  - Population growth rate
  - Change in the unemployment rate

- The main difference between the SA and UK economies is the difference in political and socio-economic stability

- Maturity of the two markets is a key factor
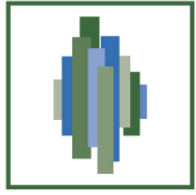
ECONOMIC INDICATORS (contd.)

| South Africa	United Kingdom
Mineral rich, with high unemployment (26%) and heavily skewed wealth distribution.	Low unemployment (6%), relatively equal wealth distribution.
Risk profile of an emerging country.	Mature and well developed economy.
Population faces challenges accessing finance to invest in property.	Difficult to enter the property market, especially in densely populated areas, e.g. London.
Rapidly growing middle class.	Large middle class.
Rapid urbanisation resulting in demand for property.	Densely populated cities resulting in continuous demand.
Initial yields are lower than interest rates.	Initial yields are greater than interest rates – positive leverage from year 1.

SA & UK PROPERTY MARKETS

- The Institutional Environment determines the rules for stakeholders in both the SA and UK property markets.

- Structure of the SA & UK property markets differ due to:
  - Urban density
  - Urbanisation rate (SA ⬆, UK ⬇)
  - Decentralisation from CBDs (SA ⬆, UK ⬇)
  - Owner composition – recent emergence of the listed sector in SA, however relatively unchanged in the UK.
  - Lease structures – SA short (3-5 yrs) with annual escalation, UK long (10-25 yrs) with rent reviews.
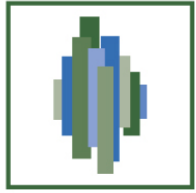
METHODOLOGY

- Research method – Secondary Data Analysis.

- Main data source was the IPD/MSCI real estate analytics portal.

- UK banking data was acquired from British Property Foundation and the Investment Property Forum.

- One of SA's largest retail banks provided commercial property mortgage data.

- Data included, commercial, retail and industrial (limited residential data).
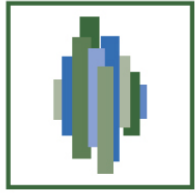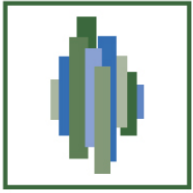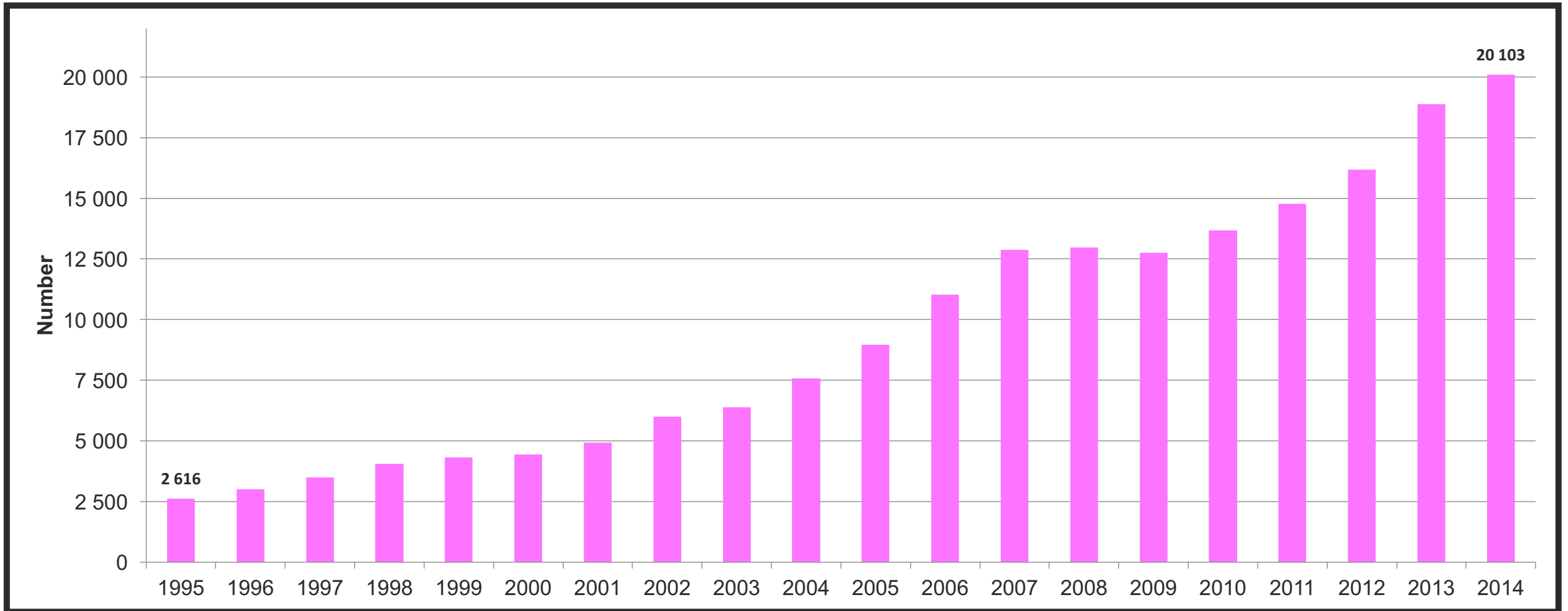
PROPERTY MARKET DATA

- There has been an increased foreign investment in SA since 1994.

- This has resulted in an increase in the demand for space from international firms in Johannesburg, Cape Town and Durban.

- There has been a significant increase in the number of retail properties in SA since 1994 to addressing a politically marginalised consumer base.
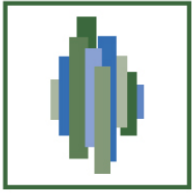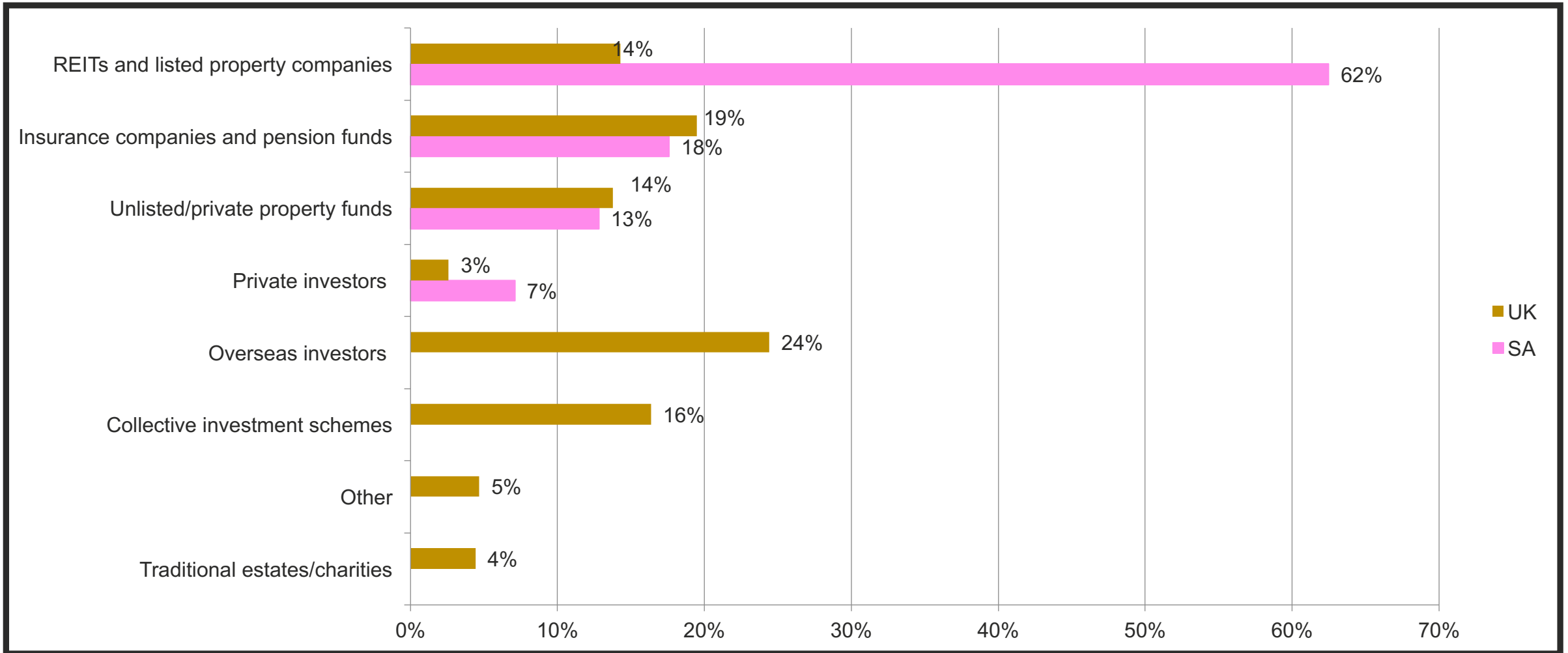
PROPERTY MARKET DATA

Number of Retail Buildings in South Africa
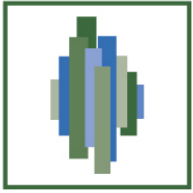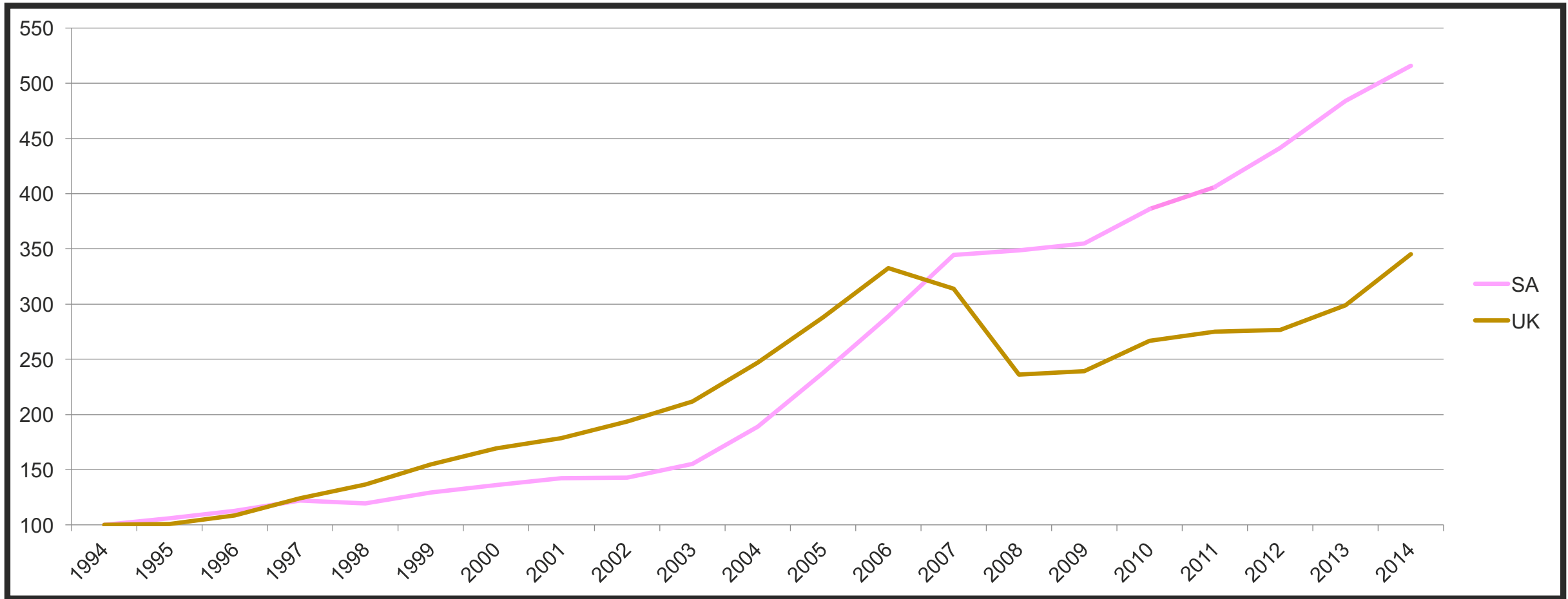Source: IPD/MSCI (2015)

PROPERTY MARKET DATA

Ownership Breakdown
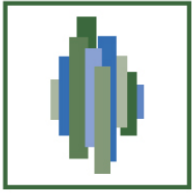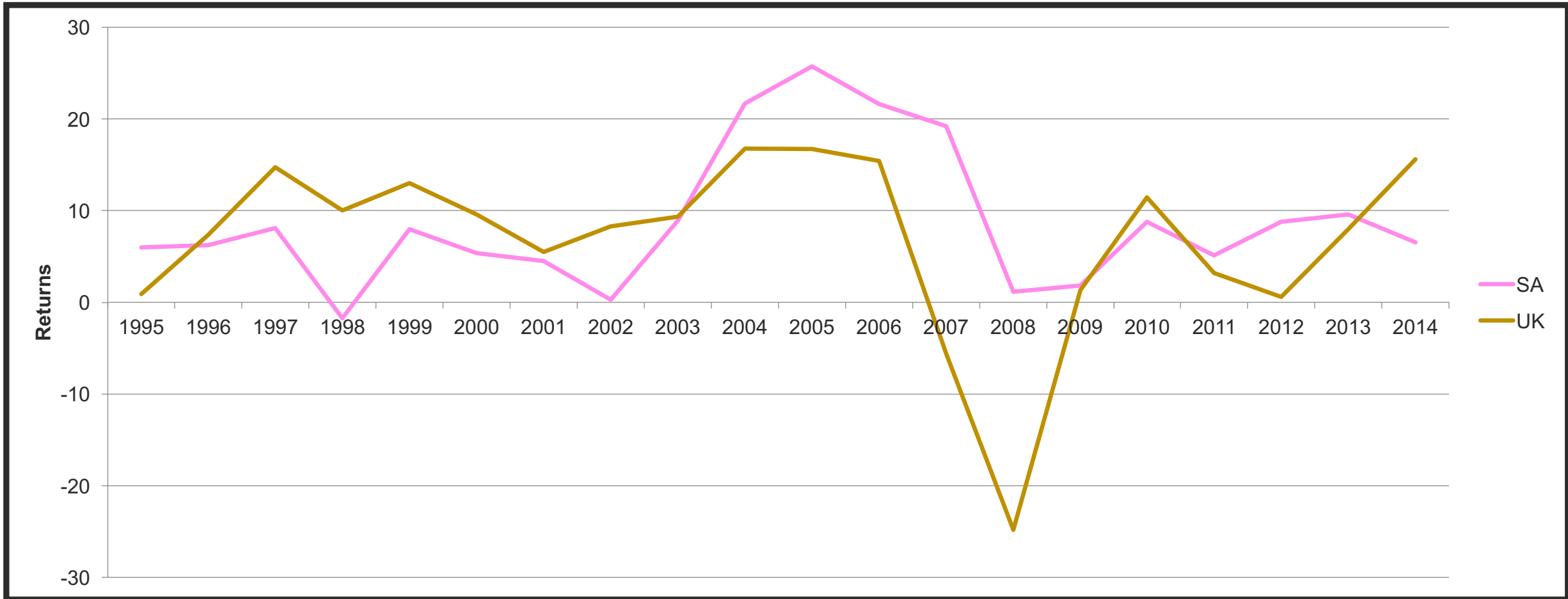Source: BPF (2014) and IPD/MSCI (2015)

PROPERTY MARKET DATA

Consolidated Real Index Returns
Source: IPD/MSCI (2015)

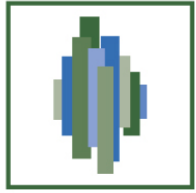# PROPERTY MARKET DATA

Comparison of SA and UK Consolidated Real Returns
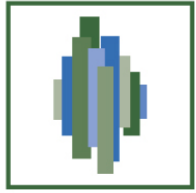Source: IPD/MSCI (2015)

PROPERTY MARKET DATA

Period	1995-2014			2012-2014		
Country/ Region	Average Return	Volatility (Std Dev)	Risk/ Return	Average Return	Volatility (Std Dev)	Risk/ Return
South Africa	15.5%	6.5%	0.42	14.6%	1.2%	0.08
UK	9.1%	9.3%	1.01	10.6%	5.9%	0.55
Germany	6.7%	1.7%	0.26	9.4%	2.1%	0.22
Global	10.2%	6.1%	0.60	10.1%	1.3%	0.13

Property Market Return Data
Source: IPD/MSCI (2015)

CONCLUSIONS

- Different levels of maturity and transparency in the SA and UK markets determine the institutional economic and transactional economic environments.

- It is important to recognise social, demographic, infrastructural and political parameters that affect property markets
  - Market density
  - Decentralisation
  - Performance
  - Owner composition
  - Banking sector (LTV, gearing, loan book value, local vs international banks)

- Different market structures of emerging and mature economies have vastly different implications on the corporate real estate market.

Thank you

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