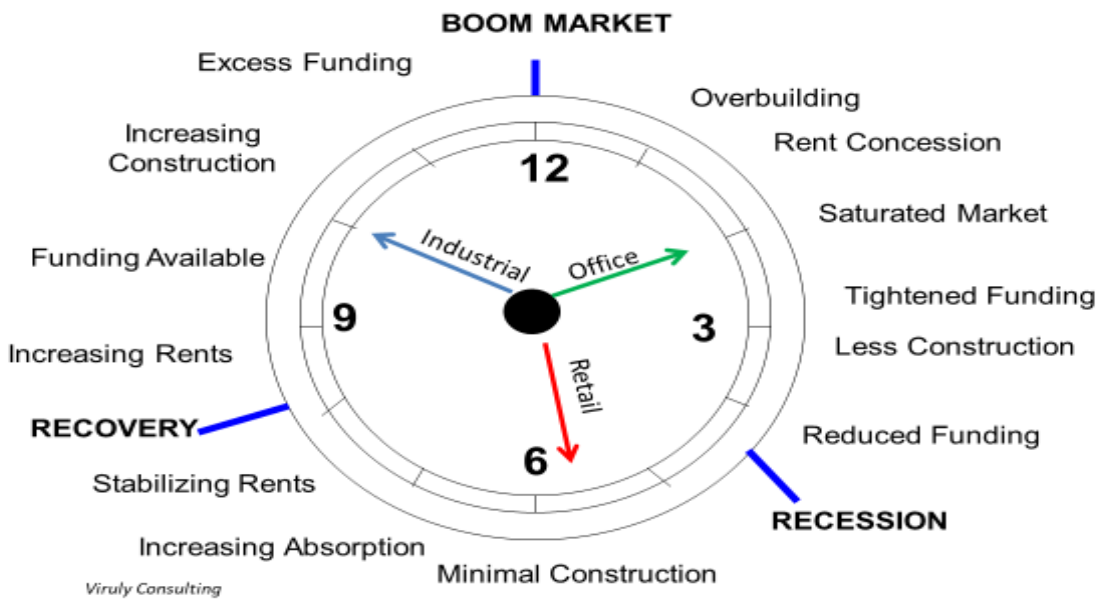
Indicator Watch for the South African Investment Real Estate Market

Q3: 2020

Cycle Position



Conditions reflected in the URERU property clock have deteriorated somewhat, with the retail sector gradually moving to minimal construction. The office market is saturated reflected by relatively high vacancy rates, and the industrial sector is still seeing development opportunities as uses seek modern logistics space

In 2020 the South African commercial property responded to an environment characterized by considerable investor uncertainty brought about by the COVID-19 pandemic. Added to this, the sector responded to a deteriorating national and global macro-economic environment. Further, the retail sector felt the implications of the national lockdown, although neighborhood shopping centres seemed to have performed relatively well. The logistics sector recorded considerable strength, driven by the growth of the e-retailing sector. The poor performance of the property sector has had critical implications for municipalities across South Africa. In certain cases, this has required emergency urban interventions to assist property owners and tenants.

Significant commentary exists on the possible impact that the COVID-19 pandemic could have for the property sector. This includes the application of new work practices, a stronger emphasis on e-retailing, the restructuring of leases and opportunities for the introduction of commercial developments in residential suburbs.

URBAN REAL ESTATE RESEARCH UNIT

INDICATORS	% CHANGE YTD	MOVEMENT	IMPACT ON THE PROPERTY MARKET
GDP GROWTH	-6% Q3 2020 Annual Contraction	↓	The Covid19 lockdown had a significant impact on the economy in 2020. The view is that the economy will contract by 7% in 2020. This scenario has invariably had a negative impact on take-up in the sector. Though, some sense of normality should be expected in the second quarter of 2021.
INTEREST RATE	7% Prime Rate Nov 2020	↓	In response to a slowing economy SARB gradually decreased interest rates in 2020 to 7%. This has played a role in underpinning both the commercial and residential property sectors and has played a particularly positive role in the residential sector.
INFLATION RATE (CPI)	3.2% Nov 2020 YOY ∆	↓	The inflation rate (CPI) softened during 2020 reflecting the poor performance of the real economy and weaker retail expenditure. The property sector– especially in the office sector– has found it difficult to maintain rental increases to compensate for the present inflation rate.
RETAIL TRADE SALES – RETAIL SECTOR	-1.8% QTR Oct 2020 YOY ∆	↓	While the slowdown in retail sales is a reflection of macro-economic conditions, there is at the same time evidence that retail sales are rebounding compared to the first half of the year. The retail sector has felt the impact of the retail ''Lockdown'' with certain sectors feeling it harder than others.
HOUSE PRICES	2% Aug 2020 YOY (FNB)	↑	While house prices came under pressure in the first half of the year there is evidence that the lowering on interest rates has assisted in maintaining momentum in the housing market. House price increases however remain below the inflation rate.
BUILDING PLANS Completed (RESIDENTIAL) REAL TERMS	-58.1% Jan'19-Oct'20 YOY ∆	↓	The value of building plans passed in the residential sector saw a considerable decline as 2020 progressed. This was largely influenced by the lockdown of the economy that brought construction activity to a halt. This reflects a general downward trend in the building activity across the economy.
BUILDING PLANS COMPLETED (NON-RESIDENTIAL) REAL TERMS	-42.5% Jan'18 -Jan '19 YOY ∆	↓	Building plans passed (non-residential) slowed reflecting conditions in both the economy and the commercial property sector. In the shopping space sector, the square meters of completed space declined by 55.6% (yoy) compared to 20% for the office sector.
MFA/BER BUILDING COST INDEX	10% Q2 2020 YOY ∆	↑	Building costs as measured by the BER has been edging upwards, this is surprising considering the weakening activity in the building sector. The lack of stock and availability of labour could play some role in explaining the situation. Future development activity could come under pressure if costs increase in excess of values in residential and commercial property markets.
OFFICE VACANCY RATES	12.7% Q3-2020	↑	SAPOA reports that in Q3 of 2020 vacancy rates are at a 16-year high with a view that it could rise to 15% The vacancy rate for prime offices is at an all-time high. There Is presently some 2.4 million square meters of vacant office space in the South African Office market.
RETAIL VACANCY RATES	6.9% Q3:2020	↑	SAPOA reports that he average vacancy rate of the more than 100 shopping centres forming part of the MSCI South African Trading density Index was recorded at 6.9% at September 2020, 200 bps up since February. This illustrates the impact of the shutdown, super-regional shopping centres saw their vacancy rate increase by 270 bps.
INDUSTRIAL VANCACY RATES	N/A	↑	SAPOA did not provide a vacancy rate indication for industrial property in 2020. Though the Rode Report suggests that vacancy rates are rising and touching the worst level since 2018. It also suggests that less than 5% of space is presently vacant. There is some indication that rentals escalations are under pressure.

Sources

ABSA, FNB, C&CI, BER, MFA, MSCI/IPD, SAPOA, Stats SA, SARB, URERU, Rode and Viruly Consulting.

** Note that some data where the movement is described as 'Lower' or 'Declining' could indicate an improvement in the situation (e.g. Interest rates, building costs, cap rates, vacancies) depending on the perspective i.e. if 'buyer' or 'seller' the converse also holds true. The colour of the arrow is critical in interpreting trends.*