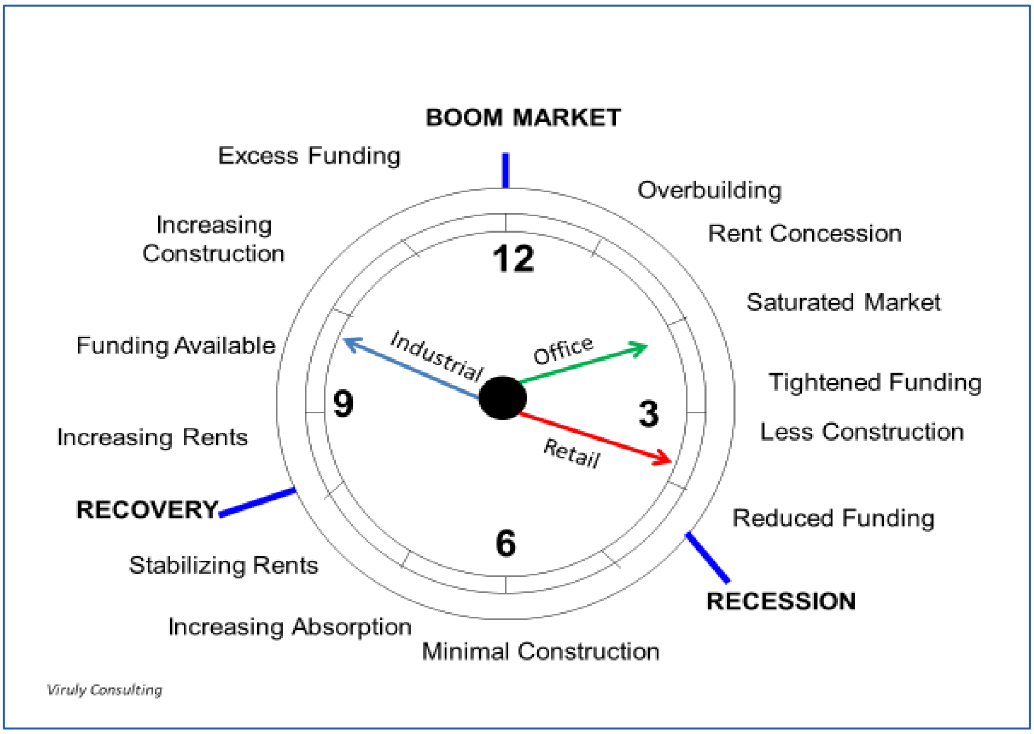
Indicator Watch for the South African Investment Real Estate Market
December 2019

Cycle Position



The South African commercial property market continues to trade in a weak and uncertain macro-economic environment. This scenario is not expected to improve significantly in the medium term. Investor confidence remains low and investors as well as developers are waiting for new policy directions. In 2019 rentals came under pressure in most sectors of the commercial property market with escalations reflecting the inflation rate.

The office market, in particular, has had to deal with rising vacancy rates and stagnant rentals. Vacancy rates in the industrial sector are presently close to the long-term average. The Retail sector is similarly being affected by weak consumer spending and the growth in e-retailing.

Industry Quote

> *I don't expect a significant rebound in 2020 as property fundamentals remain under pressure and the balance of power has most certainly shifted in favour of occupiers and is likely to continue as such into 2020.*

– **Craig Smith, Anchor Stockbrokers**

URBAN REAL ESTATE RESEARCH UNIT

INDICATORS	% CHANGE YTD	MOVEMENT	IMPACT ON THE PROPERTY MARKET
GDP GROWTH	-0.6 % Q3 2019 QOQ∆		The South African economy continues to show a poor performance. Economic growth for 2019 is also not expected to exceed 0.5%. Unfortunately, prospects for 2020 show little prospects for improvement. This scenario will continue to place downward pressure on the demand for space and investor confidence in the medium term.
INTEREST RATE	10.00% Prime Rate Dec 2019		South African interest rates have remained stable in 2019. With the repo rate presently at 6% and the prime rate at 10%. Poor Economic growth is placing pressure on monetary authorities to reduce rates in 2020. However, it is unlikely that a decline in interest rates would have a considerable impact on the Commercial and Residential property sectors.
INFLATION RATE (CPI)	3.6 % Nov 2019 YOY ∆		The inflation rate continues to decline, driven largely by lower demand for goods and services. It is unlikely that the inflation rate will rise significantly in 2020 – at present the target SARB inflation rate in 4.5%. Nonetheless, the property market is experiencing an increase in operating costs well above inflation rate. This is driven by escalations in electricity costs and municipal related costs.
RETAIL TRADE SALES – RETAIL SECTOR	0.3 % Oct 2019 YOY ∆		Retail sales fell by a seasonally adjusted 0.2% Month-on-Month (m-o-m) in October and an increase of a mere 0.3% y-o-y. While community shopping centres are performing well, there is increasing pressure on trading densities in regional shopping centres.
HOUSE PRICES	3.8% Oct 2019 (FNB) YOY ∆		The residential property market is recording subdued performance and values are failing to increase in line with the inflation rate (in real terms). The performance, however, seems to vary by the value band in the sector – for instance properties below R1 million are showing a strong performance with values increasing above the inflation rate.
BUILDING PLANS PASSED (RESIDENTIAL) REAL TERMS	-12.4 % Jan – Sept '18/'19 YOY ∆		Building plans passed in the residential sector entered negative territory in December 2018 and has been on the decline since. This reflects a general downward trend in the building activity across the economy.
BUILDING PLANS PASSED (NON-RESIDENTIAL) REAL TERMS	-17.6 % Jan - Sept ' '18/'19 YOY ∆		Development activity in the commercial property sector has slowed considerably reflecting higher vacancies. This being particularly true in the office sector. In the period Jan 2018 – Sept 2019 building plans passed (sqm) decreased by some 12.1%.
MFA/BER BUILDING COST INDEX	6.58% Q3 2019 YOY ∆		Building cost increases have continued to move sideways but well above the inflation rate. Building costs are also increasing at a faster rate than rentals at present. The slowdown in building activity may well see these escalations decline into 2020.
OFFICE VACANCY RATES	11.0% Q3 2019		Vacancy rates in the office sector remain high, with certain nodes such as Sandton recording vacancy rates of 19% for A grade space and up to 30% for B grade space. Vacancy rates are being driven by subdued demand but also new space entering the market. Office development is largely focused around the Sandton, Rosebank and Waterfall nodes in Gauteng.
RETAIL VACANCY RATES	4.4% Q3 2019		Vacancy rates in the Retail environment are presently higher than the long-term average of 2.9%. Neighbourhood shopping centres are presently experiencing a vacancy rate of 5.5%, compared with Super Regional shopping centres at 4.7% and regional shopping centres at 3.2%.
INDUSTRIAL VACANCY RATE	3.4% Q2 2019		Industrial vacancy rates have largely remained stable since December 2018. In many respects market fundamentals seem to be balanced in the sector of the market. The Industrial sector is showing considerable strength compared to the Office and Retail sectors. It has also benefited from a high demand for modern logistics space. Rentals are also increasing in real terms.
RETAIL TRADING DENSITY GROWTH	4.3 % Q3 2019 YOY ∆		Trading density growth (Sept 2018 – Sept 2019) was 4.3 %. In the case of regional shopping centres; the figure is lower at 2%. During this period, foot count in general increased by 2.5%, although spending was more subdued with an increase of a mere 1.7%.

Sources

ABSA, FNB, C&CI, BER, MFA, MSCI/IPD, SAPOA, Stats SA, SARB, URERU 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, inflation rate) depending on the perspective i.e. if 'buyer' or 'seller' the converse also holds true*