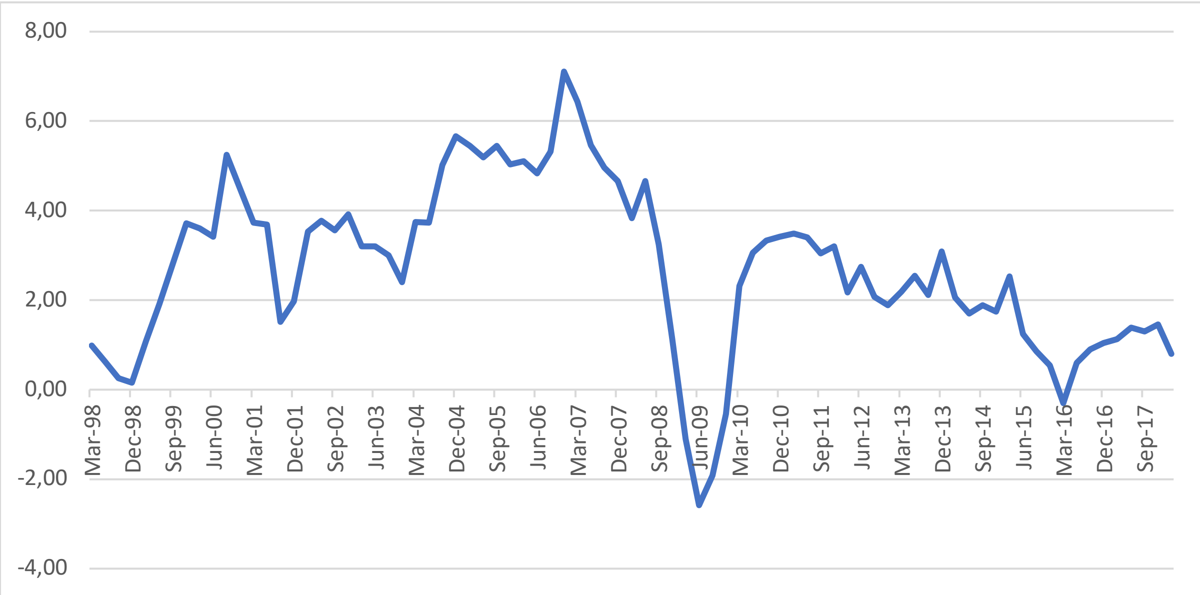
Indicator Watch for the South African Commercial Property Market Cycle
June 2018

Cycle Position

Gross Domestic Product (YoY)



The depiction of GDP above qualifies as the graph of the current quarter. Analysts were surprised by growth reducing to 0.8% up on the same quarter in 2017, as the graph shows. Although the most quoted figure is a decline of -2.2% in Q1, 2018 vs the preceding quarter. Sectors that contributed most to the result were Agriculture, Mining, Manufacturing and Construction. This sent most commentators reeling; seeing it as the end of 'Ramaphoria' and predicting a calamitous future.

All very dramatic, but there is another side to the coin. Although the economy faces many challenges, several economic series and indicators are looking up (see indicators below). Politically, notwithstanding populist electioneering, things arguably are improving, and this is a big driver of confidence. However, a weaker economy is dire for Real Estate (RE): developments dry up and supply slows with a lag, often creating excess – vacancies increase, and rents decline. Forecasts are certainly being trimmed, but few are expecting a recession. RE will likely continue to follow a flat and humdrum path in the near term.

Industry Quote

> *"A solid middle-class is vital for any country to sustain a healthy property market, and in South Africa, we have one of the fastest-growing middle-classes in the world. This is a huge asset when it comes to maintaining market activity, and certainly helps keep our market bullish despite the political and economic hiccups we have from time to time"*
>
> \- Tony Clarke, MD, Rawson Property Group

Sources

ABSA, FNB, C&CI, BER, MFA, MSCI/IPD, SAPOA, Stats SA, SARB, URERU,

** 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*

URBAN REAL ESTATE RESEARCH UNIT

Note 1: % Change is YTD unless indicated otherwise

INDICATORS	% CHANGE Note 1	MOVEMENT	IMPACT ON THE PROPERTY MARKET
GDP GROWTH	0.8 % Q1 2018 YOY ∆	↓	The YOY change is +0.8%, the economy and the real estate markets are slowing.
INTEREST RATE	10.0% Prime Rate March 2018	↔	Interest rates have remained low and fairly stable since the 50-basis point drop in July 2017.
INFLATION RATE (CPI)	4.4% April 2018 YOY ∆	↑	While CPI decreased by 0.1% in April, it increased YOY on the same period. This increase is said to be associated with the price rise of products like alcohol, fuel and sugary drinks. Costs in the RE sector are similarly rising.
RETAIL TRADE SALES – RETAIL SECTOR	2.5% QTR April 2018 YOY ∆	↓	YOY change has been decreasing while the quarterly change has been increasing. This reflects quickly in Shopping Centre trading.
HOUSE PRICES	4.6% May 2018 YOY (FNB)	↑	House price index has increased rapidly from 2.8% in February. However, general sentiment in the housing market is that the market is back to a recessionary environment with houses staying on the market longer than previously...
BUILDING PLANS PASSED (RESIDENTIAL) REAL TERMS	4.9% January - April 2018 YOY ∆	↑	Residential building plans saw an increase of 4.9% in real terms, which is very positive and may be an early reflection of policy changes in government.
BUILDING PLANS PASSED (NON-RESIDENTIAL) REAL TERMS	6.7% January - April 2018 YOY ∆	↑	Non-residential building showed a 6.7% increase in real terms indicating a healthy development pipeline.
MFA/BER BUILDING COST INDEX	7.5% Q1 2018 YOY ∆	↑	Higher building costs, despite increasing plans passed, indicates a structural weakness that puts pressure on builders. Coupled with flat economic conditions, building activity could feel the pinch in the medium-term…
OFFICE VACANCY RATES	11.5% Q1 2018 YOY ∆	↑	The overall Office vacancy rate has increased by 30-basis points. Asking rental growth, on the other hand, has been stronger at 3.1%. Q1, 2018 has seen a recovery in the B & C vacancy grade Office space while A grade is on the decline.
RETAIL VACANCY RATES	4.2% December 2017 YOY ∆	↔	Retail vacancies have remained constant in the quarter comparison. Super Regional vacancies are at more than triple the long- term average. On the other hand, vacancies have declined in small regional, community and neighborhood shopping centers.
INDUSTRIAL VACANCY RATE	3.3% December 2017 YOY ∆	↓	The industrial sector posted a 20-basis point decrease. All segments of the industrial sector, except for high tech industries, have improved. There are significant variances between industrial nodes in the country.
RETAIL TRADING DENSITY GROWTH	-2.3 % December 2017 YOY ∆	↓	This quarter again showed a decrease in retail trading density for the fourth consecutive quarter. Rising retail sales may impact this positively but changing shopping patterns are a drag on the densities.

Sources

ABSA, FNB, C&CI, BER, MFA, MSCI/IPD, SAPOA, Stats SA, SARB, URERU,

** 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*