

Indicator Watch for the South African Investment Real Estate Market

March 2020

Cycle Position

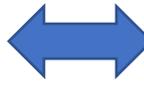
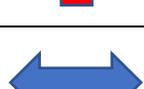
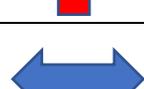


Conditions have not altered significantly and the South African property market is responding to a poorly performing macro-economy, as well as growing uncertainties which could weaken during the course of the year. The Corona virus has also introduced new economic and social risks to the market. For the industry, the focus at present is on maintaining tenants and controlling operating costs. High vacancy rates in the office sector are placing negative pressure on rental escalations. The industrial sector continues to perform well and should be further stimulated by the growing demand for e-retailing offerings. This is likely to be augmented by the increasing demand caused by the global pandemic. However, the retail sector will be facing the implications of the 21-day lock-down, although the impact will vary from sector to sector and type of retailing. The office sector could also see a change due to recent global events and we expect more demand for smaller office footprints as workers and employers further embrace working from home. On the plus side, this could usher in and establish emerging trends in the property industry, most notably around PropTech developments such as virtual reality and online brokering.

Industry Quote

“From office to retail to industrial, expect that the real estate industry could see major changes regardless of whether the coronavirus is short-lived or is here to stay”

– James Bond, Fennemore Craig

INDICATORS	% CHANGE YTD	MOVEMENT	IMPACT ON THE PROPERTY MARKET
GDP GROWTH	-1.40% Q4 2019 QOQΔ		The South African economy continued to slow in the final quarter of 2019. Forecasts for 2020 suggest that the economy will remain in a cyclical downturn for the year. This will provide little stimulus for the property sector in the short run.
INTEREST RATE	9.75% Prime Rate Mar 2020		Forecasts are suggesting that interest rates will continue to decline in 2020. This will partially be influenced by the need to stimulate the economy. Lower interest rates are expected to have a positive impact on the sector
INFLATION RATE (CPI)	4.60% Feb 2020 YOY Δ		The South African inflation rate has been moving upwards, largely driven by the rise in food prices. There is a tendency for rental escalations to move closer to the inflation rate.
RETAIL TRADE SALES – RETAIL SECTOR	1.20% Jan 2020 YOY Δ		The outlook looks poor for the retail sector and household income will not be improving in the medium term. It is still too early to tell the impact that the Coronavirus may have on this sector.
HOUSE PRICES	3.30% Feb 2020 (FNB) YOY Δ		Poor investor confidence has resulted in values rising at a slower rate than the inflation rate. The lower end of the market (R1 mil and below) is performing well with values rising between 10% to 15%.
BUILDING PLANS PASSED (RESIDENTIAL) REAL TERMS	-47.80% Jan - Jan '19/'20 YOY Δ		Building plans past have continued to decline since 2018 across the country. This also being the case at the lower end of the market which has a shortage of supply.
BUILDING PLANS PASSED (NON- RESIDENTIAL) REAL TERMS	-15.80% Jan - Jan '19/'20 YOY Δ		The oversupply in most sectors of the commercial property sector offers little scope to further increasing the supply of space. The possible exception being industrial and warehousing space.
MFA/BER BUILDING COST INDEX	7% Q4 2019 YOY Δ		The building cost index has been declining reflecting the cyclical downturn that started in December 2013. But it remains above the inflation rate. It is likely that the building cost index will weaken further as the economy slows into 2020.
OFFICE VACANCY RATES	11.0% Q4 2019		It is worth emphasizing that in nodes such as Sandton 'P' grade vacancies are 9% with 'A' grade vacancy being at 17.6%. Of concern are 'B' grade vacancy rates at 30%. Generally, conditions remain weak in this sector of the property sector
RETAIL VACANCY RATES	4.60% Q4 2019		The lowest vacancy rates are in regional shopping centres at 3.2%. The national increase was 20 BPS higher than previous quarter. This sector of the market could be particularly impacted by Coronavirus pandemic.
INDUSTRIAL VACANCY RATE	3.4% Q2 2019		This figure has remained unchanged compared to the previous six months. This sector is showing the greatest strength in the commercial property sector
RETAIL TRADING DENSITY GROWTH	6.10 % Q1 2020 YOY Δ		This was a function of 6.9% sales growth and 0.8% increase in the amount of reported trading density. Smaller retail formats seemed to be performing well reflecting the demand for convenience shopping.

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.*