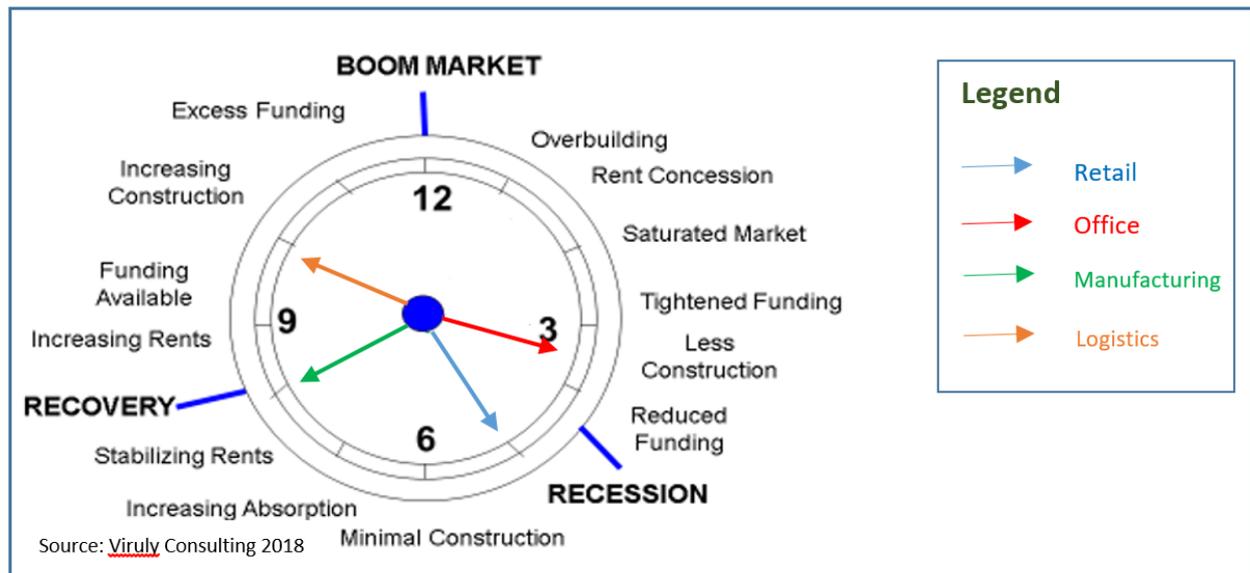


## Indicator Watch for the South African Investment Real Estate Market September 2018

### Cycle Position



The Office market is struggling through chronic oversupply which is slowing as demand and funding dry up.

Analyst Dion Chang says, *"It's a perfect storm brewing in the Retail sector."* While the country's sluggish economy is certainly a factor, there are other trends influencing the retail shake-up. Consumer attitudes are changing. They're tiring of brand homogeneity they're exposed to in shopping malls and warming up to the concept of transient ownership through the rise of the sharing economy.

Production is slowing, and firms are likely to maintain low inventories and backlogged stock in line with low demand. The result is less need for storage space, outlining a tough market in the Manufacturing sector. But Logistics is the darling of the Industrial sector delivering superior performance with companies developing specialized logistics as a decisive component of supply chain management.

### Industry Quote

*"Too many investors had painted the whole [listed property] sector with the same negative brush. It would be misleading for the media and market watchers just to focus on the fact that the asset class was the worst-performing asset class in 2018 without considering stocks separately. The SA economy has been struggling to grow for a few years and we are all feeling it as corporate landlords. But if you look stock by stock, you will see that Growthpoint and a number of other SA-focused groups are performing well within a tough environment. These are companies which draw the majority of their income from rentals, which is then paid out as regular dividends, in sync with forecasts"*

- Norbert Sasse, CEO, Growthpoint Properties Group

INDICATORS	% CHANGE YTD	MOVEMENT	IMPACT ON THE PROPERTY MARKET
<b>GDP GROWTH</b>	0.4 % Q2 2018 YOY Δ		The GDP figure for the (2nd quarter 2018 was -0,7% q/q and 0,4% y/y) which places SA in recession (two consecutive quarters of declining growth) and points to further slowdown in economic activity, which stunts job creation and dampens investment and real estate activity.
<b>INTEREST RATE</b>	10.0% Prime Rate Sep 2018		Interest rates have been stable over the quarter. Rising inflation could create some pressure on interest rates, but the South African Reserve Bank are intent on not raising rates in the short term.
<b>INFLATION RATE (CPI)</b>	5.1% July 2018 YOY Δ		Inflation increased 0.8% month on month in July. Rises in the cost of housing, utilities and transport were the main causes. The lower Rand has had an impact. Increasing inflation in the current market negatively impacts property in rising costs and lower affordability of tenant groups...
<b>RETAIL TRADE SALES – RETAIL SECTOR</b>	1.1% QTR June 2018 YOY Δ		Retail sales growth are well below the market expectations of 4.1%. Sales are slowing across a wide base and reflecting in shopping center turnovers. Trading density growth is negative.
<b>HOUSE PRICES</b>	-1% August 2018 YOY (FNB)		Real house prices declined by 1% for the year to August suggesting that 2018 will be the 3rd consecutive year of real house price decline. FNB believe economic growth of 3% is required to achieve positive house price growth in real terms.
<b>BUILDING PLANS PASSED (RESIDENTIAL) REAL TERMS</b>	4.7% January - June 2018 YOY Δ		Total Residential plans have held up well over the first 6 months, buoyed by good growth in Flats and Townhouses and the Western Cape outpacing other areas.
<b>BUILDING PLANS PASSED (NON-RESIDENTIAL) REAL TERMS</b>	1.1% January - June 2018 YOY Δ		Non-Residential plans passed lagged with an increase of only 1.1% vs the same 6 months last year. The month of June 2018 was sharply down, which may be a harbinger, given the poor economy and lower confidence levels.
<b>MFA/BER BUILDING COST INDEX</b>	9.7% Q2 2018 YOY Δ		At 9.7% building costs are rising much faster than inflation; which together with falling house prices and generally subdued commercial rentals, is squeezing contractor margins and landlord income levels simultaneously. KZN has the most expensive construction costs while the North West has the cheapest.
<b>OFFICE VACANCY RATES</b>	11.1% Q2 2018		The Office vacancy rate has dropped by 40bp compared to last quarter. Asking rental growth has been beating inflation with a rate of 6.3%. There is an increasing tendency for office vacancies to be taken up by larger single occupiers.
<b>RETAIL VACANCY RATES</b>	4.1% Q1 2018		Overall Retail vacancies have decreased slightly by 10 bp after a constant two quarters. The Super Regional vacancy rate has more than tripled since 2003, while vacancies in Community centers have improved from 8.8% in 2015 to 3.4% now. This is also the first quarter that the Super Regional vacancy has exceeded that of Neighborhood shopping centers.
<b>INDUSTRIAL VACANCY RATE</b>	3.3% Q4 2017		There has not been a credible update of vacancies in Industrial buildings since the end of 2017 which speaks to the current shortage of quality real estate data in SA. We look forward to the MSCl June 2018 index, Reportedly Industrials have been quite insular, and it is not expected that vacancies increased notably.
<b>RETAIL TRADING DENSITY GROWTH</b>	-0.2 % Q1 2018 YOY Δ		Retail trading density remains negative. In the underlying figures there was an increase of 0.8% on trading area and 0.6% in sales equating to the trading density growth. According to SAPOA the amount spent per shopper is growing at a rate above inflation, but foot count continues to decline at about the same rate.

### Sources

ABSA, FNB, C&CI, BER, MFA, MSCl/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