



Q1 2015: South Africa Commercial Property Monitor

Investment sentiment rises despite economic concerns

Key macroeconomic trends

The South African economy struggled in Q1 as continued power shortages plagued businesses and domestic demand remained subdued. Despite the fact that the sharp fall in oil prices has eased inflation to multi-year lows, it still stood at 3.9% in the year to February and is likely to edge much closer to the top of the central banks target range of 3-6% as the year progresses and base effects from the lower oil price no longer affect the inflation calculation. The weak domestic growth is reflected in the commercial rental markets where occupier sentiment remained in negative territory for the fourth consecutive quarter. The most recent PMI data does show some early signs that the economy may be finding a steadier ground with both the output and new orders balances rising. However, growth in the coming quarters is likely to remain relatively subdued, with respondents near term rent expectations reflective of the more muted outlook.

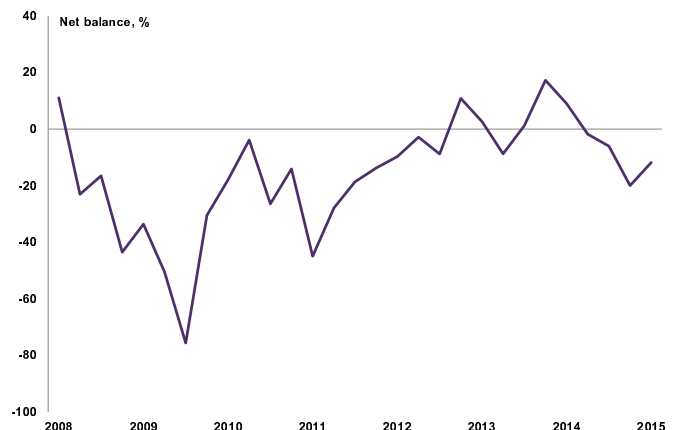
Occupier market

- The South African Occupier Sentiment Index recorded a value of -12 in Q1 from -20 previously.
- Demand grew very marginally at the headline level with a net balance of 5% of surveyors seeing an increase.
- Meanwhile, the supply of leasable space increased markedly in all segments of the market.
- Near term rent expectations stayed slightly negative at the headline level, with a value of -2.
- Meanwhile, at the twelve month time horizon, rental values are forecast to rise across all property types with the prime segments seeing particularly strong growth.

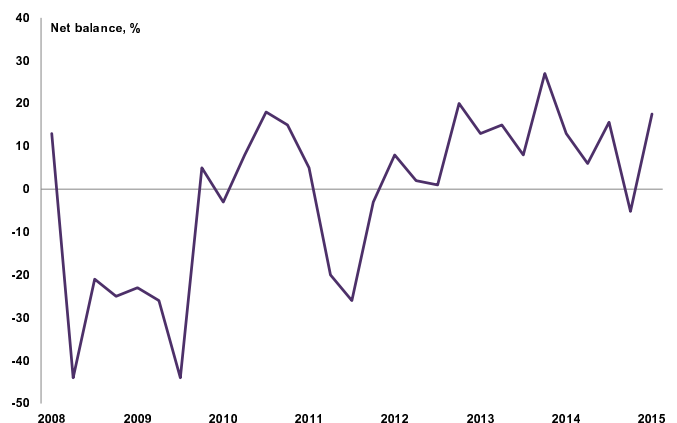
Investment market

- The Investment Sentiment Index returned to positive territory in Q1 with a value of 18.
- Investor demand grew across all sectors despite a decrease in interest from foreign purchasers.
- Supply conditions tightened overall despite an increase in the supply of office premises.
- Credit conditions were reported to have improved slightly as the sharp fall in inflation since November significantly reduced the likelihood of an interest rate rise in the near term.
- Close to half of respondents now view the market as being dear with non suggesting it to be cheap.
- Despite this, capital values are expected to rise at both the three and twelve month horizon with growth of 4.2% expected over the coming year.

Occupier Sentiment Index

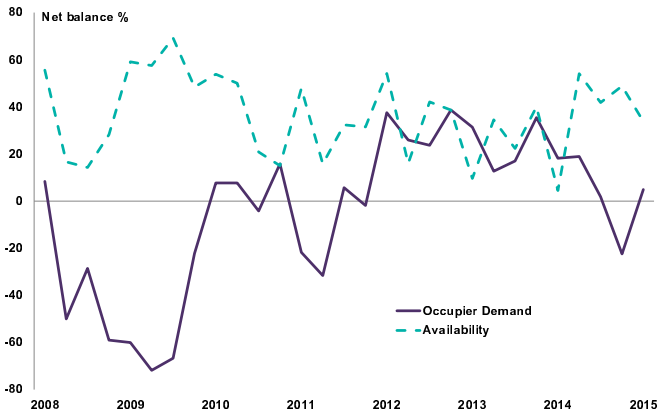


Investment Sentiment Index

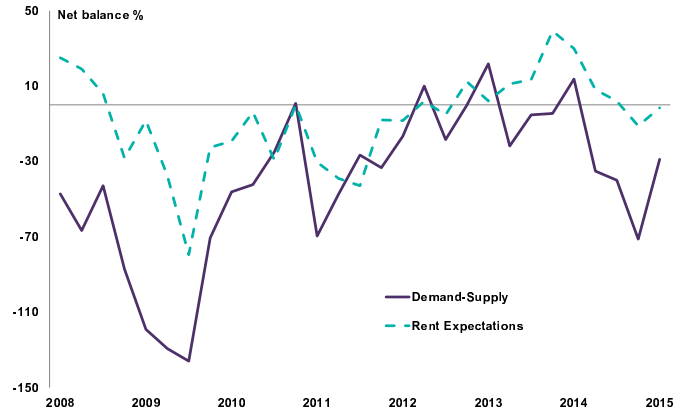


Commercial Property Market

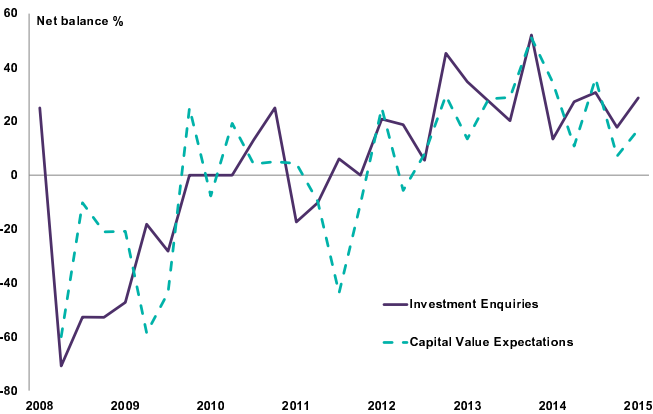
Occupier Demand and Available Space - Occupier demand grew very marginally while supply of leasable space continued to rise more rapidly.



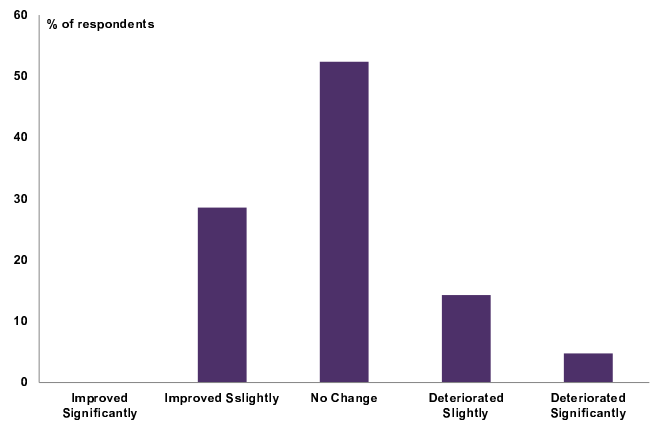
3 Month Rental Expectations - Subdued demand has kept the outlook for rental values broadly flat in the near term.



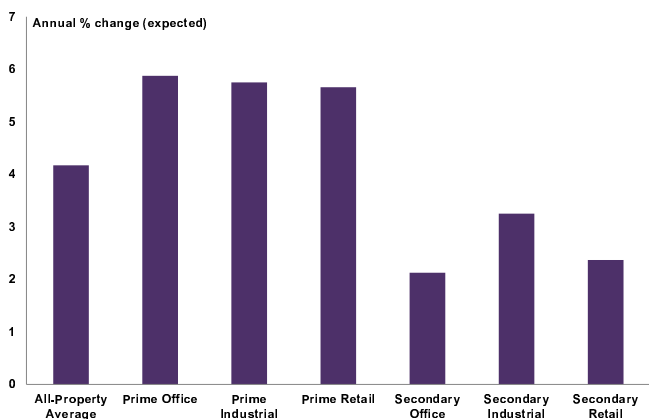
3 Month Capital Value Expectations - Investor demand remains on the increase with capital value expectations rising across all sectors.



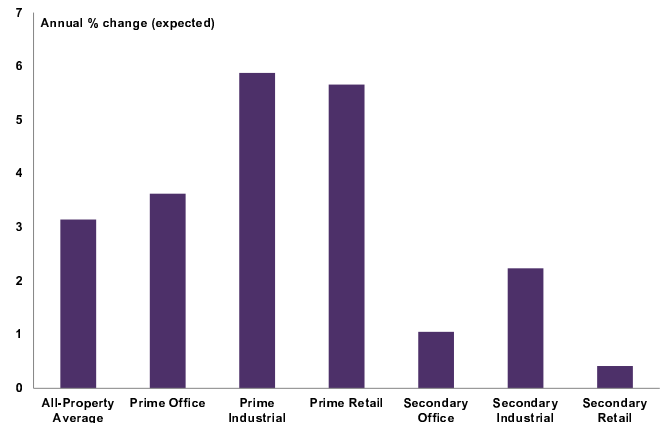
Credit Conditions - A net balance of 10% of respondents noticed some improvement in credit conditions over the course of Q1.



12 Month Capital Value Expectations - Capital values are forecast to rise in all segments of the market with prime space outperforming.



12 Month Rent Expectations - Rental values are forecast to rise by 3.1% over the course of the next twelve months.



Information

Global Commercial Property Monitor

RICS' Global Commercial Property Monitor is a quarterly guide to the trends in the commercial property investment and occupier markets.

The Global Commercial Property Monitor is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity, the farmland market and arts and antiques.

Methodology

Survey questionnaires were sent out on 9th March 2015 with responses received until 2nd April 2015. Respondents were asked to compare conditions over the latest three months with the previous three months. A total of 1240 company responses were received, with 253 from the UK. Responses for Ireland were collated in conjunction with Society of Chartered Surveyors Ireland.

Responses have been amalgamated across the three real estate sub-sectors (offices, retail and industrial) at a country level, to form a net balance reading for the market as a whole.

A positive net balance reading indicates an overall increase, a negative reading indicates an overall decline.

The RICS Occupier Sentiment Index (OSI) is constructed by taking an unweighted average of readings for three series relating to the occupier market measured on a net balance basis; occupier demand, the level of inducements and rent expectations. The RICS Investment Sentiment Index (ISI) is constructed by taking an unweighted average of readings for three series relating to the investment market measured on a net balance basis; investment enquiries, capital value expectations and the supply of distressed properties.

Contact details

This publication has been produced by RICS. For all economic enquiries, including participation in the monitor please contact: economics@rics.org

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We accredit 118,000 professionals and any individual or firm registered with RICS is subject to our quality assurance. Their expertise covers property, asset valuation and real estate management; the costing and leadership of construction projects; the development of infrastructure; and the management of natural resources, such as mining, farms and woodland. From environmental assessments and building controls to negotiating land rights in an emerging economy; if our members are involved the same professional standards and ethics apply.

We believe that standards underpin effective markets. With up to seventy per cent of the world's wealth bound up in land and real estate, our sector is vital to economic development, helping to support stable, sustainable investment and growth around the globe.

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