Q3 2015: South Africa Commercial Property Monitor

Fall in occupier sentiment reflects weak business confidence and deterioration in growth outlook

Key macroeconomic trends

The South African economy experienced a surpise contraction in Q2 with output falling by 1.3% on an annualised basis. This weakness was quite widespread across most sectors of the economy and leading indicators suggest that growth will be sluggish for the rest of the year. Business confidence remains low with the continuing threat of industrial action, which has plagued several sectors in recent years, and the lingering problems with electricity supply pose enduring risks to the growth outlook. Indeed the Reserve Bank of South Africa has lowered its outlook for growth for the coming several years. The fall in global commodity prices and weakness in some of the country's main trading partners are weighing on the economy and the Rand has been quite volatile recently as market participants views on the timing of the first Fed rate hike have shifted. Uncertainty surrounding the business environment and growth outlook are evident in the RICS Occupier Sentiment Index which deteriorated further in Q3 as demand fell across all sectors.

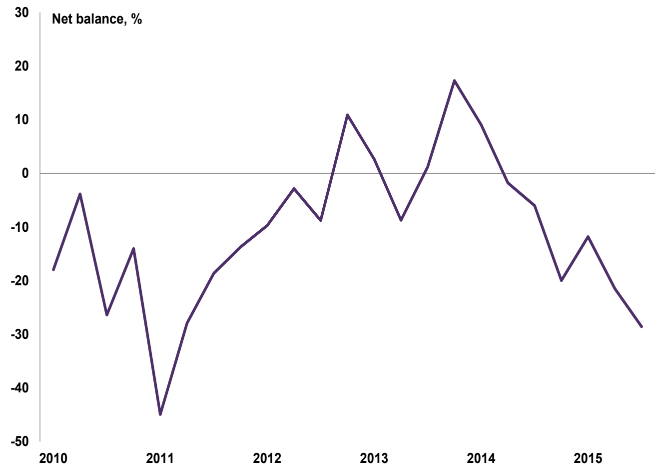
Occupier Market

- The South African Occupier Sentiment Index fell to -29 in Q3 as broad-based weakness across the economy weighs on all segments of the market.
- Demand fell across all sectors for the second consecutive quarter and the supply of leasable space continued to rise.
- Landlords continue to increase the incentive packages on offfer to tenants and respondents reported no change in the number of new development starts following the fall in Q2.
- Near term rent expectations remain in negative territory for the fourth consecutive quarter and the deteriorating growth outlook has also led to a negative outlook for rents at the 12 month horizon.

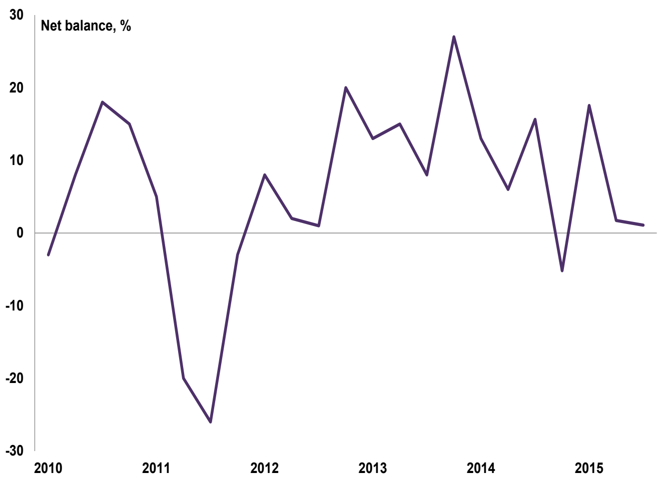
Investment Market

- The South Africa Investment Sentiment Index recorded a value of 1 in Q2, showing a broadly stable picture relative to the previous quarter.
- Investor demand grew very modestly in each sector with a net balance of 5% of respondents seeing a rise at the headline all-property level.
- Supply increased across all sectors for the second consecutive quarter but capital value expectations remain firm with a net balance of 20% expecting to see values rise over the coming quarter.
- At the 12 month horizon respondents foresee capital values rising across all sectors with the prime office and industrial sectors expected to see the strongest growth.

Occupier Sentiment Index

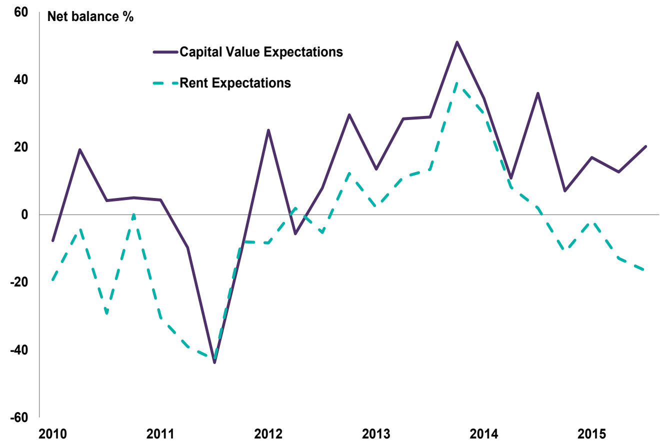


Investment Sentiment Index

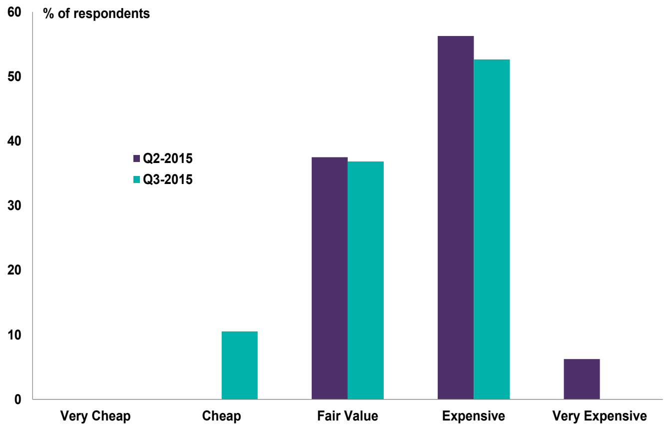


Commercial Property Market

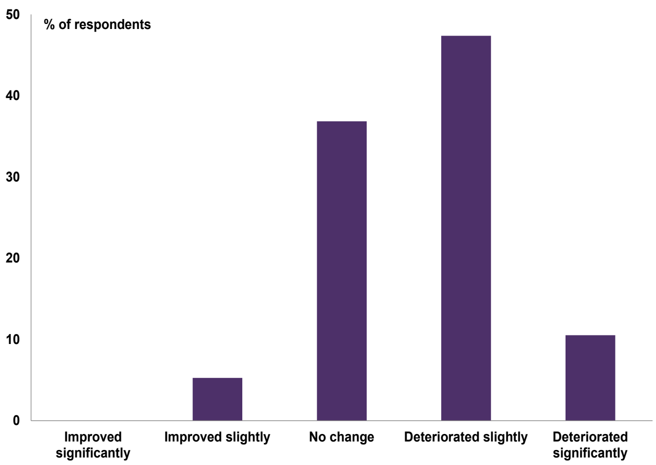
3 Month Rental and Capital Value Expectations - Near term rent expectations remain negative, reflecting the broadly weak SA economy, while capital values are forecast to rise in the coming quarter



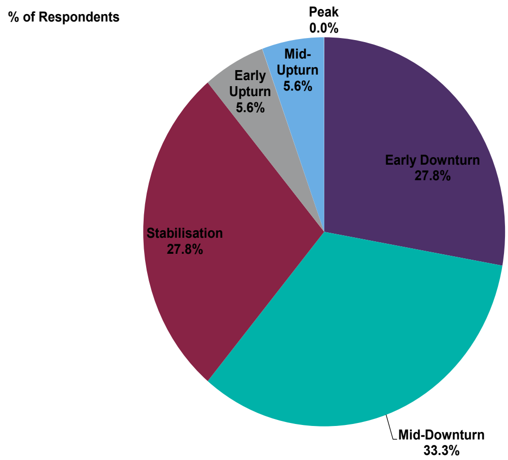
Market Valuations - A small majority of respondents think that values in their markets are best described as expensive.



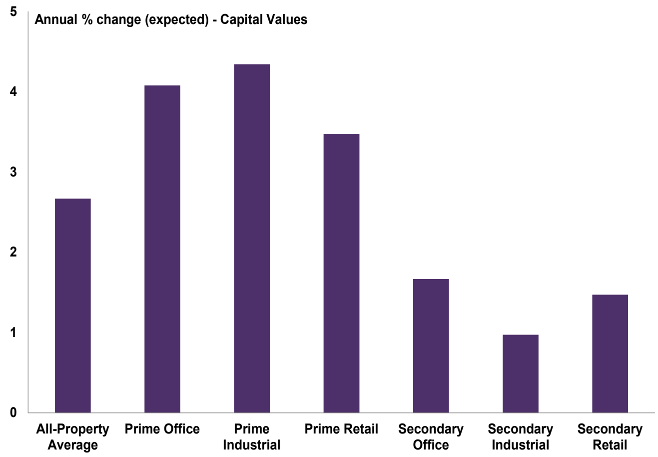
Credit Conditions - Most respondents reported credit conditions to the sector to have been broadly stable or to have deteriorated slightly over the quarter.



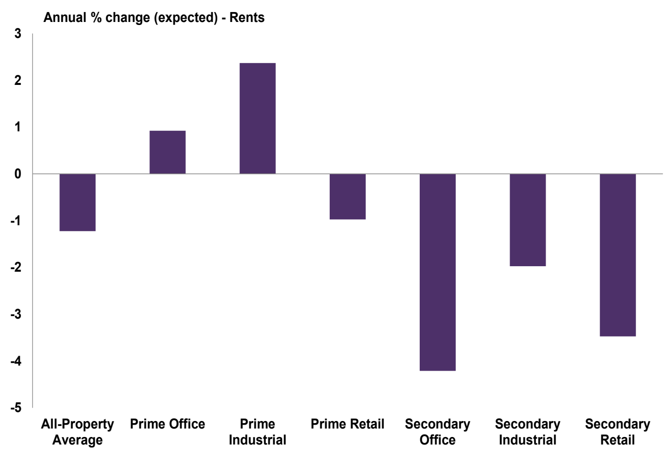
Property Cycle - The majority of respondents view the market to be in the early to mid-downturn phase of the current cycle.



12 Month Capital Value Expectations - Respondents envisage average commercial property prices rising by around 2.7% over the coming year.



12 Month Rent Expectations - Given the ongoing and broad-based weakness in the South African economy, respondents foresee rental values falling by 1.2% over the year to come.



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 Cities 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 and the rural land market.

Methodology

Survey questionnaires were sent out on 16 September 2015 with responses received until 2 October 2015. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 1308 company responses were received, with 312 from the UK. Responses for Ireland were collated in conjunction with the 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.

Net balance = Proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100.

A positive net balance reading indicates an overall increase while 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 properties for sale.

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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