



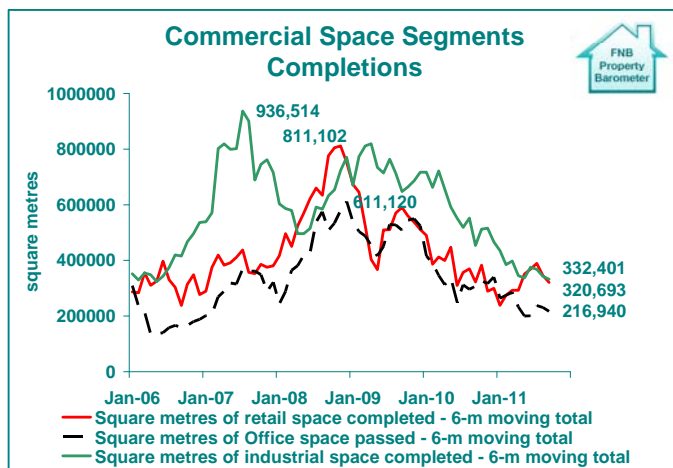
## 3<sup>rd</sup> QUARTER COMMERCIAL BUILDING ACTIVITY

Commercial building activity showed weakening in the 3<sup>rd</sup> quarter of 2011, which is perhaps not surprising, with returns under pressure once more in 2011 and certain oversupplies not yet eliminated

17 November 2011

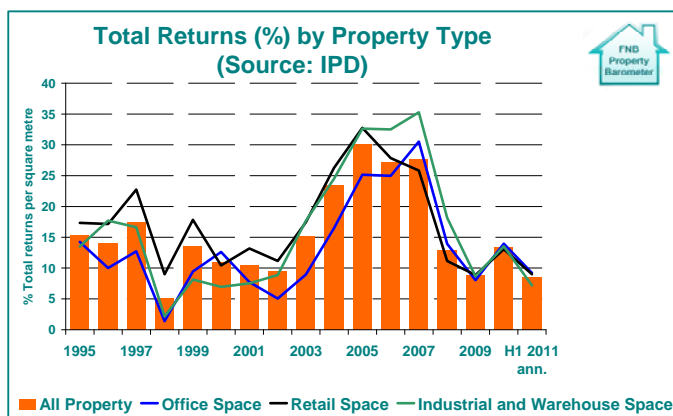
### COMMERCIAL BUILDING COMPLETIONS SHOW A GENERAL WEAKENING IN THE 3<sup>RD</sup> QUARTER OF 2011

Unlike the residential building sector, which experienced some improvement in the 3<sup>rd</sup> quarter, the commercial (or non-residential) building sector experienced further weakening according to StatsSA 3<sup>rd</sup> quarter building stats. All 3 major commercial building categories showed sharp declines in completions on a year-on-year basis. In terms of square metres completed, industrial space completed declined year-on-year by -42.5% year-on-year, retail space by a slightly lesser -42.2%, and office space by -26.1%.



This all means that the cumulative decline in completions in commercial building activity has been nothing short of spectacular, good news for a market needing to return to balance but bad news for the property development sector. From a mid-2007 peak level, industrial property building space completed was -181.7% lower for the 6 months to September 2011, retail space completed -152.9% down from its 2008 peak, and office space -181.7% down on its own 2008 peak.

However, examining building plans passed, there appear to be plans afoot to take building activity to a higher level in the near future. Square metreage of retail space planned rose year-on-year by +32.2% in the 3<sup>rd</sup> quarter, industrial and warehouse space by +22.3%, and office space planned by +15.8%.



Of course, it remains to be seen whether such heightened planning translates into actual increases in building activity in the near term. The increase in plans passed is the lagged impact of a mini-recovery in total property returns in 2010, following the economic recovery after the 2008/9 recession.

However, the IPD (Investment Property Databank) indicates that this mini-recovery was short-lived, with total returns in all 3 major commercial properties having receded again in the 1<sup>st</sup> half of 2011 on an annualized basis.

In addition, vacancy rates are still believed to be significant, especially in the area of office space, which the SAPOA Office Vacancy Survey for the 3<sup>rd</sup> quarter estimated to be in double-digits at 10.2% on a national average basis and still rising. In the area of industrial property, SAPOA's 1<sup>st</sup> half of 2011 survey showed a national average vacancy rate of 4.2% and on a declining trend.

***Therefore, we would suggest that if commercial building activity is to see something of an overall pick-up in completions in the coming quarters, it would probably be driven by industrial property development, and perhaps some retail building activity improvement on the back of recently strong retail sales. But office sector building activity is expected to remain the weak link on the back of high national vacancy rates.***

***However, we would not expect fireworks in any of these segments, given signs of looming near term economic growth pressure, as signaled by the Reserve Bank's Leading Indicator, and given the recent renewed slowing in total returns of all 3 commercial property categories as estimated by the IPD.***

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## Building Plans Passed

	2008	2009	2010	Q1-2011	Q2-2011	Q3-2011	Jul-11	Aug-11	Sep-11
<b>Non-Residential Buildings</b>									
Office space (m <sup>2</sup> )	1018 213	695 512	465 997	135 317	150 246	112 565	24 789	58 566	29 210
<i>Y/Y % change</i>	11.4	-31.7	-33.0	-9.4	18.9	15.8	-26.1	75.6	-3.7
Office space (R 000)	5010 385	3913 484	2846 490	920 625	1068 537	719 585	132 411	403 611	183 563
<i>Y/Y % change</i>	21.7	-21.9	-27.3	4.9	34.4	19.5	-35.0	99.0	-6.3
Shopping space (m <sup>2</sup> )	1571 383	1207 552	648 588	227 633	126 761	157 342	53 976	32 156	71 210
<i>Y/Y % change</i>	23.8	-23.2	-46.3	18.7	-21.1	32.2	53.7	16.2	26.7
Shopping space (R 000)	7788 989	6618 424	3457 797	1462 188	676 824	746 361	253 023	159 746	333 592
<i>Y/Y % change</i>	31.4	-15.0	-47.8	32.9	-17.0	20.5	2.3	31.1	33.3
Industrial and warehouse space (m <sup>2</sup> )	2227 132	1902 935	1338 913	240 986	373 944	436 878	144 057	89 157	203 664
<i>Y/Y % change</i>	-2.9	-14.6	-29.6	-13.1	-3.1	22.3	28.8	-32.5	79.9
Industrial and warehouse space (R 000)	6816 158	6523 252	5086 468	948 282	1420 376	1863 203	580 095	373 960	909 148
<i>Y/Y % change</i>	6.1	-4.3	-22.0	-9.5	3.2	28.2	36.9	-32.4	90.9
Other non-residential space (m <sup>2</sup> )	285 548	386 995	358 125	87 871	67 844	117 914	16 630	35 480	65 804
<i>Y/Y % change</i>	-20.9	35.5	-7.5	3.8	-32.6	43.6	-56.1	19.5	353.8
Other Non-Residential Space (R 000)	1100 060	1820 178	1505 946	433 022	335 195	501 795	66 838	205 608	229 349
<i>Y/Y % change</i>	-13.1	65.5	-17.3	35.9	-26.9	74.7	-48.1	122.7	246.6
Total Non-Residential Buildings (R 000)	20715 592	18875 338	12896 701	3764 117	3500 932	3830 944	1032 367	1142 925	1655 652
<i>Y/Y % change</i>	16.8	-8.9	-31.7	12.6	1.6	29.3	2.9	17.8	67.5
<b>Additions and Alterations</b>									
Other Buildings (m <sup>2</sup> )	1830 398	1672 600	1451 805	274 059	224 896	271 049	51 564	118 786	100 699
<i>Y/Y % change</i>	28.8	-8.6	-13.2	2.1	-17.9	-49.7	-60.3	26.6	-68.1
Other Buildings (R'000)	7709 367	7837 144	8065 368	1572 712	1160 226	1786 902	337 207	671 779	777 916
<i>Y/Y % change</i>	32.0	1.7	2.9	10.6	-14.0	-42.9	-54.9	35.6	-58.8
All Construction Types (R'000)	22591 146	21455 880	23457 500	5044 472	4863 125	5744 741	1724 471	1899 287	2120 983
<i>Y/Y % change</i>	-0.2	-5.0	9.3	1.4	-5.0	-21.8	-23.6	2.7	-34.5
<b>Total Building Plans Passed</b>									
All construction types (R 000)	81931 982	65790 649	63027 955	15284 716	15669 844	17564 080	5397 074	5826 495	6340 511
<i>Y/Y % change</i>	-5.3	-19.7	-4.2	9.3	0.7	-2.1	-5.8	9.0	-7.7

## Buildings Completed

	2008	2009	2010	Q1-2011	Q2-2011	Q3-2011	Jul-11	Aug-11	Sep-11
<b>Non-Residential Buildings</b>									
Office space (m <sup>2</sup> )	1037 818	974 151	588 992	92 702	108 125	108 815	50 192	29 880	28 743
Y/Y % change	63.0	-6.1	-39.5	3.3	-32.3	-26.1	-44.0	18.9	-11.4
Office space (R 000)	4825 251	4833 184	3623 034	501 479	672 257	716 936	323 143	211 750	182 043
Y/Y % change	85.7	0.2	-25.0	4.0	-27.8	-21.6	-47.9	79.9	2.9
Shopping space (m <sup>2</sup> )	1373 252	1020 487	609 570	122 274	245 803	74 890	26 155	12 146	36 589
Y/Y % change	73.5	-25.7	-40.3	4.3	27.5	-42.2	-60.3	-37.1	-17.7
Shopping space (R 000)	6336 335	5725 359	3342 314	633 112	1628 999	335 518	94 145	75 439	165 934
Y/Y % change	87.7	-9.6	-41.6	4.0	32.4	-47.4	-71.6	-44.7	-2.2
Industrial and warehouse space (m <sup>2</sup> )	1284 629	1431 083	1018 236	193 361	181 915	150 486	45 458	36 881	68 147
Y/Y % change	-15.3	11.4	-28.8	-46.3	-5.2	-42.5	-45.5	-67.1	3.3
Industrial and warehouse space (R 000)	3736 311	4637 675	3685 955	791 908	724 727	587 033	163 000	143 811	280 222
Y/Y % change	-11.4	24.1	-20.5	-37.8	8.7	-40.7	-45.2	-67.4	11.3
Other non-residential space (m <sup>2</sup> )	154 440	225 453	221 388	61 818	28 312	70 751	39 295	25 415	6 041
Y/Y % change	-8.7	46.0	-1.8	51.9	-56.3	-6.3	-38.7	433.8	-8.5
Other Non-Residential Space (R 000)	565 441	859 287	925 740	202 569	145 246	364 767	220 797	121 989	21 981
Y/Y % change	5.8	52.0	7.7	23.0	-44.9	20.4	-12.2	747.4	-40.5
Total Non-Residential Buildings (R 000)	15463 338	16055 505	11577 043	2129 068	3171 229	2004 254	801 085	552 989	650 180
Y/Y % change	44.2	3.8	-27.9	-15.8	2.6	-29.5	-46.6	-22.0	2.3
<b>Additions and Alterations</b>									
Other Buildings (m <sup>2</sup> )	910 010	998 238	772 247	187 605	178 223	152 797	46 694	50 491	55 612
Y/Y % change	44.0	9.7	-22.6	44.6	-0.4	-41.5	-63.0	-39.4	7.4
Other Buildings (R'000)	3507 095	4285 372	3865 821	948 240	862 875	834 941	247 857	262 905	324 179
Y/Y % change	53.6	22.2	-9.8	37.0	-1.2	-32.5	-52.2	-45.8	39.6
All Construction Types (R'000)	10761 825	12702 895	11257 792	3128 782	2675 636	2809 084	932 648	904 415	972 021
Y/Y % change	27.9	18.0	-11.4	32.8	-5.0	-17.2	-33.4	-24.1	21.4
<b>Total Buildings Completed</b>									
All construction types (R 000)	57456 125	55145 286	43843 868	9901 043	10990 245	10299 685	3487 505	3033 021	3779 159
Y/Y % change	15.4	-4.0	-20.5	7.1	-5.4	-10.0	-27.0	-18.1	27.5