

State of the retail property market

In a nutshell:

- Economy still set to continue booming
- Inflation still very much under control
- Consumers optimistic
- New developments abound
- Shopping centre cap rates take a breather

Prognosis for the economy

The prognosis for the macro economy is still looking up according to Rode's latest

survey of top economists.

The survey shows that economic growth is expected to come in at around 4,1% in 2006. Growth will be driven by strong consumer expenditure, which will continue to thrive amidst low and stable interest rates and inflation.

The risks to these forecasts, specifically inflation, are the oil price and food prices.

A summary of this survey is contained in **Table 1**.

Table 1		
Rode survey of macro-economic forecasts		
Forecast date: December 2005 (n = 11)		
	Means	
	2005	2006
Real GDP (% change)	4,4	4,1
CPI (average) (% change)	3,7	5,1
Real GDE (% change)	4,7	4,8
Real PCE (% change)	5,5	4,4
10-year bonds (average) (%)	8,1	8,7
Nominal prime overdraft rate (average) (%)	10,6	11,1
Real retail sales: durable goods (% change)	4,3	3,7
Real retail sales: non-durable goods (% change)	12,2	6,1
Real retail sales: semi-durable goods (% change)	3,7	5,1

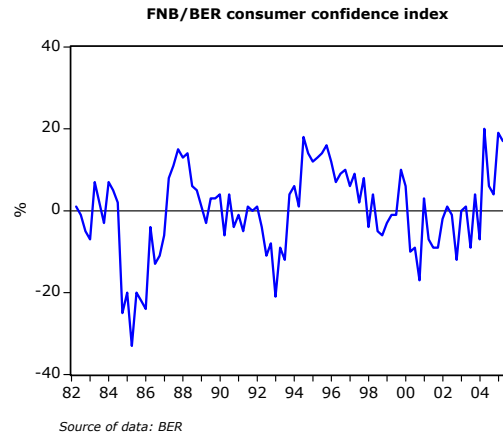
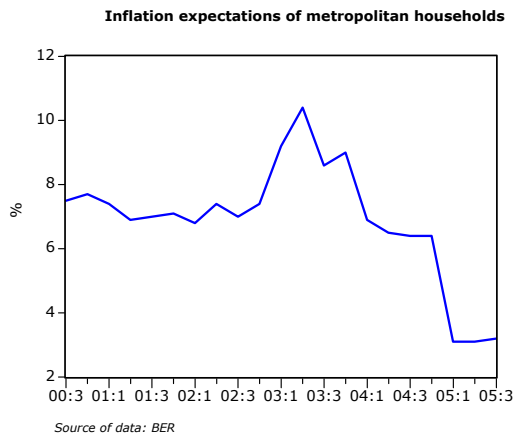
Table 2		
Consumer price indices		
Category	% change quarter 2005:3 on a year earlier	% change in 2004 on a year earlier
Food	2,8%	2,0%
Meat	4,5%	3,1%
Alcoholic beverages	5,8%	10,7%
Clothing & footwear	-3,2%	-3,8%
Furniture & equipment	-0,9%	0,5%
All items	3,8%	1,6%

Source: Stats SA

Inflation (ex Stats SA)

Table 2 summarises price inflation for key non-durable and semi-durable consumer items during the third quarter of 2005. The reader will note that meat inflation was relatively high at 4,5%, whereas clothing & footwear deflation continues unabated.

Encouraging is the fact that consumer confidence was still very strong during the reporting quarter. Given this euphoria, it is then also not surprising that inflation expectations amongst households were a subdued 3,2% during the third quarter.



New shopping centres (ex Rode)

Table 3 shows a breakdown by geographic area of new shopping centres larger than 5.000m² that are either completed or under construction. It also includes major extensions (5.000m² or greater) to existing shopping centres. The data suggests that shopping centre development is expected to remain strong during 2006. Moreover, the number of buildings plans passed during the last 6 months (refer **Table 4**) suggests that 2007 is also likely to be a bumper year for shopping centre construction.

Table 3				
New shopping-centre completions (m²)				
Excluding refurbishments and minor extensions				
or centres smaller than 5.000m²				
	Provisional			
	2003	2004	2005	2006
Cape Peninsula	36.500	54.365	186.000	19.562
Durban	8.000	10.600	27.000	30.000
Port Elizabeth	0	30.500	15.000	0
Pretoria	32.000	28.000	24.850	22.000
Pietermaritzburg	39.000	0	0	0
Reef	59.800	130.000	92.115	79.500
Other	15.000	12.370	94.723	108.000
Total	190.300	265.835	439.688	259.062

Source: Rode's Retail Report

Table 4
New non-residential buildings (private sector) (m²)

	Offices	Shopping space	Industrial buildings	Other*	Total
12 months ended Aug 2005 (% change on a year earlier)					
Completed	36,5%	-21,9%	42,4%	6,0%	19,0%
Plans passed	49,7%	47,7%	26,0%	3,4%	33,2%
6 months ended Aug 2005 (% change on a year earlier)					
Completed	113,6%	-45,2%	40,4%	-56,0%	10,5%
Plans passed	36,6%	70,9%	50,6%	-17,7%	43,7%

* Other non-residential space includes churches, sports and recreation clubs, schools, crèches, hospitals and all other non-residential space.
Source of data: Stats SA

Market rentals of street-front shops and shopping centres (ex Rode)

Table 5 and Table 6 suggest that there has hardly been any shopping centre or street-front-shop rental growth during reporting quarter. In the case of shopping

centres, this is no-doubt related to the boom in new developments over the last few years.

Note that when comparing indices, one is looking at the levels relative to the base date (which has been set at 100) and not at the actual levels recorded.

Table 5
Rode's street-front shop rental indices

	Growth in quarter 2005:3 on a		Growth 2004 on 2003
	quarter earlier	year earlier	
Johannesburg			
CBD	0,0%	-0,0%	0,1%
Decentralised	0,0%	-0,0%	0,0%
Pretoria			
CBD	0,0%	-0,0%	10,3%
Decentralised	0,0%	-4,5%	9,1%
Durban			
CBD	0,0%	-0,0%	0,2%
Decentralised	0,0%	0,0%	2,0%
Cape Town			
CBD	0,0%	1,2%	7,5%
Decentralised	0,1%	0,3%	8,9%
Port Elizabeth			
CBD	0,0%	9,4%	1,7%
Bloemfontein			
CBD	4,6%	9,0%	-0,1%
East London			
CBD	0,0%	0,0%	2,9%
National			
CBD	0,0%	2,2%	4,4%
Decentralised	0,0%	-0,9%	4,7%

Source: Rode's Retail Report

Table 6			
Rode's shopping-centre rental indices			
	Growth in quarter 2005:3 on a		Growth 2004 on 2003
	quarter earlier	year earlier	
Regional			
Reef	0,0%	-0,0%	0,0%
Pretoria	0,0%	0,0%	0,0%
Durban	0,0%	0,0%	0,0%
Cape Peninsula	0,0%	1,8%	3,9%
Port Elizabeth	0,0%	1,1%	4,0%
Community			
Reef	0,0%	0,0%	0,0%
Pretoria	0,0%	0,5%	0,0%
Durban/ Pietermaritzburg	0,0%	-1,3%	3,4%
Cape Peninsula	0,0%	0,0%	3,3%
Port Elizabeth	0,0%	6,1%	1,8%
Neighbourhood			
Reef	0,0%	-0,0%	7,7%
Pretoria	0,0%	-0,0%	2,8%
Durban/ Pietermaritzburg	1,8%	1,8%	0,0%
Cape Peninsula	0,0%	0,0%	0,0%
Port Elizabeth	0,0%	3,6%	-1,5%

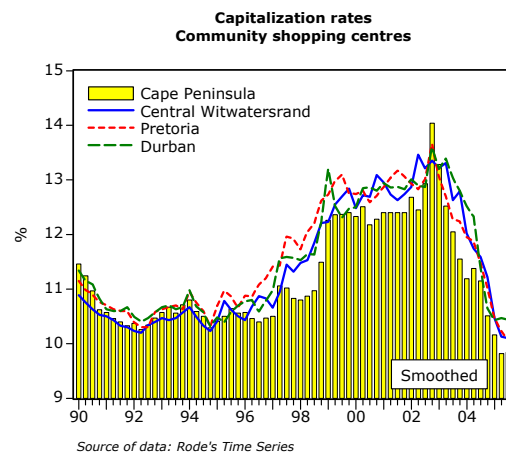
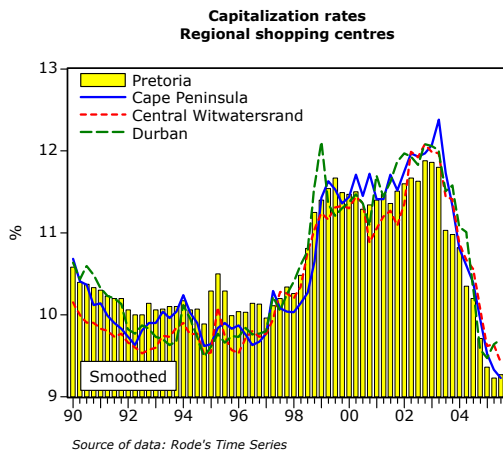
Source: Rode's Retail Report

Capitalization rates (ex Rode)

In the following tables we report on cap rates for various types of shopping centres. In practise, because of the lag effect, we advise valuers to deduct 1-1½ percentage points from these rates.

Witwatersrand declined marginally during the reporting quarter, while those of Pretoria and Durban increased a tad. In short, there was not much change in regional shopping centre capitalization rates, which were still in the 9-9,5% range during the reporting quarter.

Capitalization rates of community shopping centres also moved sideways during the third quarter. Community shopping centres currently trade at between 10 and 10,5%.



Regional shopping centre capitalization rates in the Cape Peninsula and Central

Source of data: Rode's Time Series

Table 7
Survey of capitalization rates (%): shopping centres
 Means for quarter 2005:3

Best location	Super regional			Regional			Community		
	Mean	SD	n	Mean	SD	n	Mean	SD	n
Witwatersrand	8,4	0,5	5	9,3	0,5	5	10,1	0,4	5
Pretoria	8,6	0,5	6	9,3	0,6	7	10,0	0,4	7
Vaal Triangle	—	—	—	10,1	1,1	4	10,9	0,8	4
Nelspruit	—	—	—	10,4	1,0	5	11,0	0,6	7
Polokwane	—	—	—	10,4	1,0	4	11,1	0,6	4
Durban	8,9	0,5	6	9,7	0,8	8	10,4	0,7	9
Pietermaritzburg	—	—	—	10,2	0,8	6	11,0	0,5	6
Cape Town	8,6	0,8	9	9,2	0,8	10	9,9	0,6	10
Port Elizabeth	9,6	0,5	3	10,1	0,7	5	10,8	0,6	5
East London	—	—	—	N/A	N/A	0	11,1	0,2	10
Bloemfontein	—	—	—	N/A	N/A	0	11,6	0,5	5
Platteland	—	—	—	11,5	N/A	1	12,0	0,0	3
Townships	—	—	—	10,5	N/A	1	11,6	0,5	2
Windhoek	—	—	—	N/A	N/A	0	12,0	N/A	1

n = Number of respondents
 N/A = Not available - fewer than two respondents

Table 7 (continued)
Survey of capitalization rates (%): shopping centres
 Means for quarter 2005:3

Best location	Neighbourhood			Local convenience			Retail warehouse		
	Mean	SD	n	Mean	SD	n	Mean	SD	n
Witwatersrand	11,1	1,0	5	12,0	1,5	5	11,1	1,0	4
Pretoria	10,7	1,1	7	11,2	1,0	6	11,0	0,5	6
Vaal Triangle	11,6	0,9	4	12,2	0,8	4	11,8	0,9	4
Nelspruit	11,8	1,0	7	12,5	0,9	7	11,8	0,7	6
Polokwane	11,9	0,7	4	12,5	0,7	4	12,4	0,8	4
Durban	11,2	1,0	9	11,6	1,0	8	11,4	0,7	8
Pietermaritzburg	11,8	0,6	6	12,2	0,7	6	12,3	0,8	5
Cape Town	10,5	1,0	10	10,8	0,9	9	10,6	0,9	10
Port Elizabeth	11,5	0,6	5	12,0	0,7	5	11,8	0,9	5
East London	11,3	0,5	10	12,2	0,3	10	12,2	0,4	10
Bloemfontein	12,2	0,5	5	12,6	0,4	5	12,6	1,0	5
Platteland	12,6	0,4	3	13,1	0,1	3	13,2	0,3	3
Townships	12,3	0,4	2	12,8	0,4	2	13,3	0,4	2
Windhoek	12,5	N/A	1	12,5	N/A	1	12,5	N/A	1

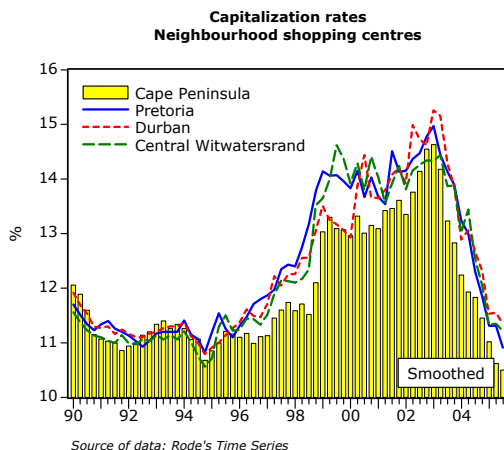
n = Number of respondents
 N/A = Not available - fewer than two respondents

Table 8
Survey of capitalization rates (%): street-front shops
 Means for quarter 2005:3

Best location	Metro CBD			Decentralised		
	Mean	SD	n	Mean	SD	n
Witwatersrand	13,9	0,5	4	12,8	1,3	3
Pretoria	13,4	0,8	4	12,3	1,1	4
Vaal Triangle	14,1	0,5	3	13,4	0,5	3
Nelspruit	13,3	1,1	6	13,4	0,9	3
Polokwane	14,4	0,4	3	13,6	0,8	3
Durban	12,5	1,7	7	12,0	1,6	7
Pietermaritzburg	13,9	0,6	4	13,1	1,0	4
Cape Town	11,3	1,2	10	11,4	1,2	8
Port Elizabeth	14,0	0,7	4	12,4	1,3	4
East London	10,8	1,6	9	12,3	0,7	9
Bloemfontein	13,7	0,6	4	12,8	0,6	4
Windhoek	11,5	N/A	1	12,5	N/A	1

n = Number of respondents
 N/A = Not available – fewer than two respondents

Neighbourhood shopping centres' capitalization rates continued to decline during the reporting quarter. The average neighbourhood shopping centre capitalization rate ranged from a low of 10,5% in the Cape Peninsula to a high of 11,4% in Durban.



The reader will note that in the case of neighbourhood shopping centres, the opinions of our respondents varied more than in the case of the larger shopping centres. We suspect that this is because of greater presence of syndicators and private investors in this market.

In sum

The economic outlook for 2006 looks good, especially for consumer expenditure. This is encouraging in the light of the plethora of new shopping centre developments coming on stream in 2005 and 2006.

Fortunately for landlords, capitalization rates are expected to continue their decent during the next few years. ■