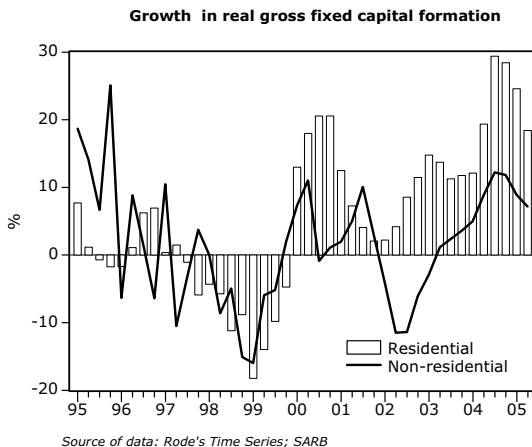
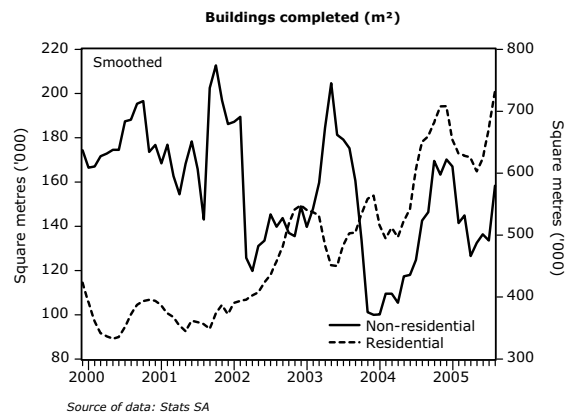
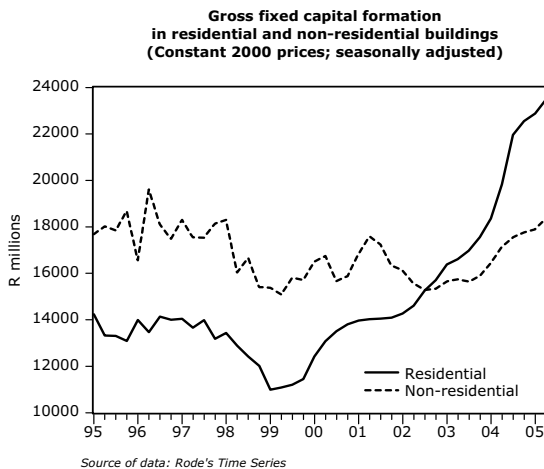
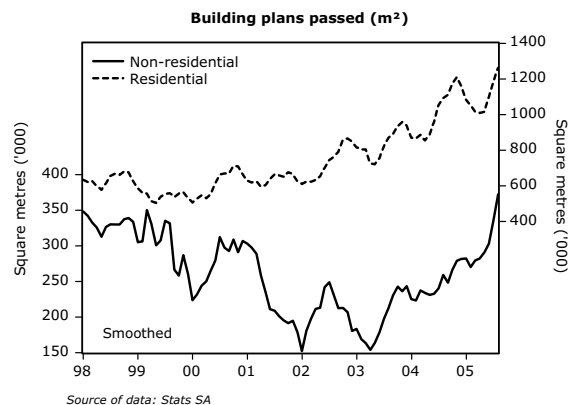


Chapter 16: Building activity and building costs

Optimism still high in building industry

Gross fixed capital formation in residential and non-residential buildings, although still growing at robust rates, continued to lose steam during the second quarter of the year. Nonetheless, optimism in the building industry — both residential and non-residential — remained elevated during the second and third quarters according to recent surveys. This is supported by solid growth in the number of buildings completed and plans passed during this period. The upshot was continued upward pressure on building costs.

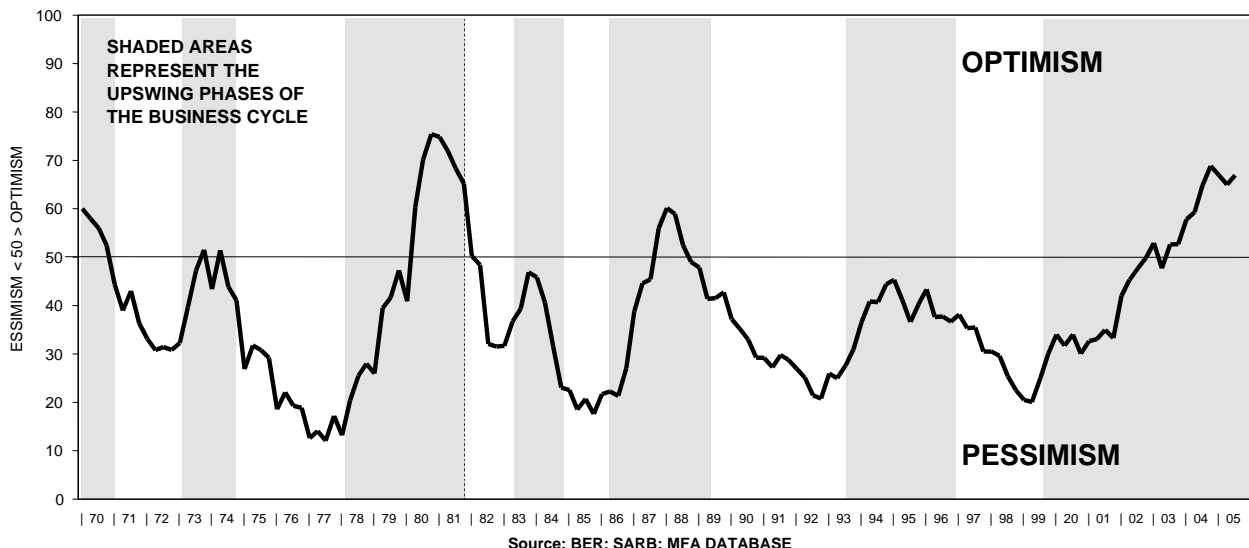


Prospects for continued robust building activity is found in Medium-Term Forecasting Associates' Qualitative Leading Indicator for the South African Building Industry, which is at high levels and which showed a marginal up-tick in September of this year.

Non-residential

Table 16.1 shows that for the six months ended August 2005, building plans *passed* for offices, shopping centres and for Indus-

**MFA QUALITATIVE LEADING INDICATOR
FOR THE SOUTH AFRICAN BUILDING INDUSTRY**



trial buildings were substantially up on the same period a year earlier. As far as completed buildings are concerned, we see that during the same period the number of office and industrial buildings completed was also substantially higher, while shopping-

centre completions were much lower than the same period a year earlier. This is, however, not surprising as shopping-centre developments led the current (or some would say, pending) non-residential boom.

The BER Building Cost Index (BCI) measures pre-contract non-residential prices and as such it includes the profit margin of contractors. This index is one of the best indicators of the health of the building industry. If it accelerates faster than input costs, then contractors are stretching their profit margins, and vice versa.

The Haylett index is a measure of all input costs in the building industry, especially material and labour costs.

**Table 16.1
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.

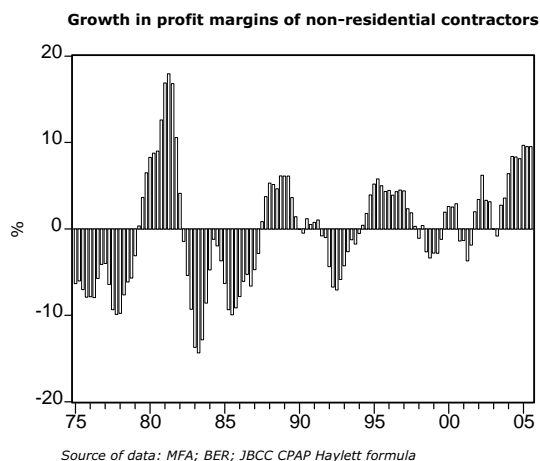
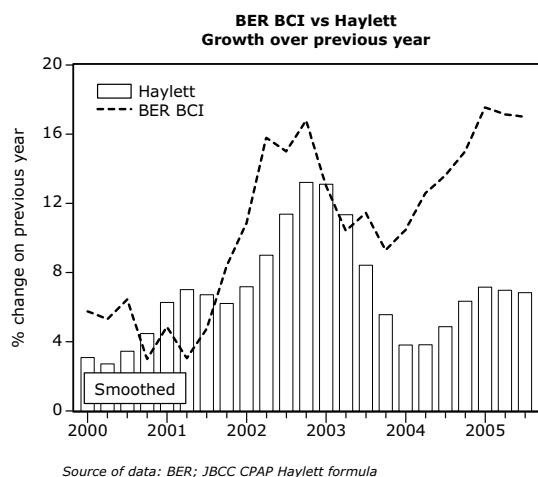
Source of data: Stats SA

Table 16.2
New residential buildings (private sector) (m²)
% change on a year earlier

	Houses		Flats & town-houses	Other*	Total
	Smaller than 80m ²	Larger than 80m ²			
12 months ended August 2005 (% change on a year earlier)					
Completed	-30,2%	30,1%	37,4%	172,9%	19,5%
Plans passed	2,0%	16,5%	31,1%	-0,1%	18,3%
6 months ended August 2005 (% change on a year earlier)					
Completed	-45,0%	28,5%	32,1	69,7%	12,5%
Plans passed	12,8%	9,0%	30,6%	46,6%	15,7%

* Other residential buildings include institutions for the disabled, boarding houses, old-age homes, hostels, hotels, guest-houses, casinos, entertainment centres, etc.
Source of data: Stats SA

Robust building activity continued to drive building-cost inflation during the third quarter. The BER BCI is expected to have grown by about 17%, whereas the Haylett index is likely to have recorded 7%. Interesting is the fact that the BER BCI seems to have lost some steam since the first quarter, which correlates nicely with the downtick in the MFA Qualitative Leading Indicator as well as the deceleration in gross domestic capital formation. Recent surveys by the BER suggest that contractors remained concerned about the potential constraint posed by the limited number of skilled artisans. The latter, coupled with our expectation of increased non-residential building activity in the coming months, is expected to continue to allow contractors to grow their profit margins.

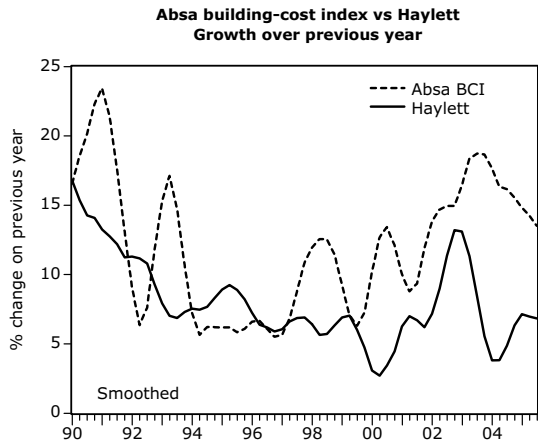


Residential

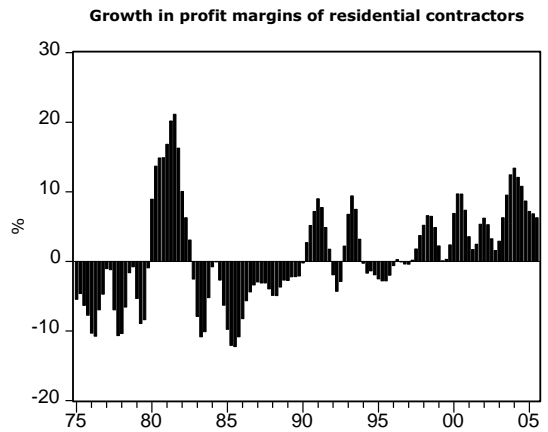
Table 16.2 shows that for the six months ended August 2005, 12,5% more square metres of residential space was constructed than the same period a year earlier. The bulk of this comprised houses, larger than 80m², flats and townhouses. Over the same period, the number of residential building plans passed was also higher by a pleasing 15,7%, which bodes well for future residential building activity.

As far as residential building-cost inflation goes, the accompanying graphs show that the easing in residential building activity has taken its toll on the ability of residen-

tial contractors to stretch their profit margins. Thus, we expect the gap between the Absa BCI and the Haylett index to continue narrowing in the coming year.



Source of data: BER; JBCC CPAP Haylett formula; Absa



Source of data: Absa BCI; JBCC CPAP Haylett formula

This concludes our section on building activity and building costs. ■