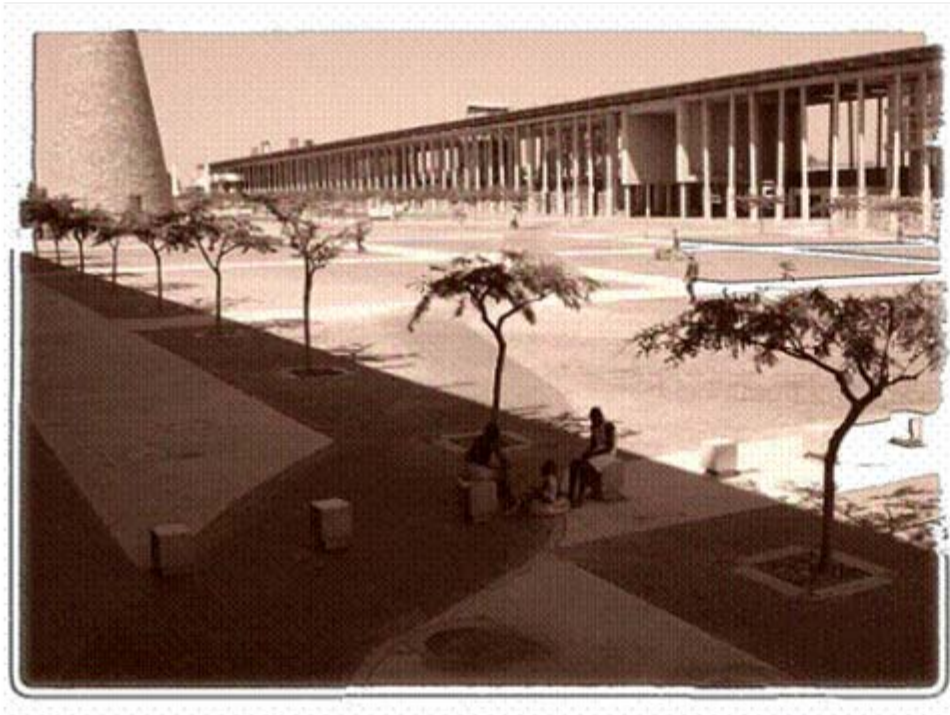


TTRI

Training for Township Renewal Initiative



Day 3: Retail & Service Market Trends

Francois Viruly





Retail and Service Sector Markets

2007



Prof Francois Viruly
University of the Witwatersrand
School of Construction
Economics and Management

INTER LINKING THE SECTORS

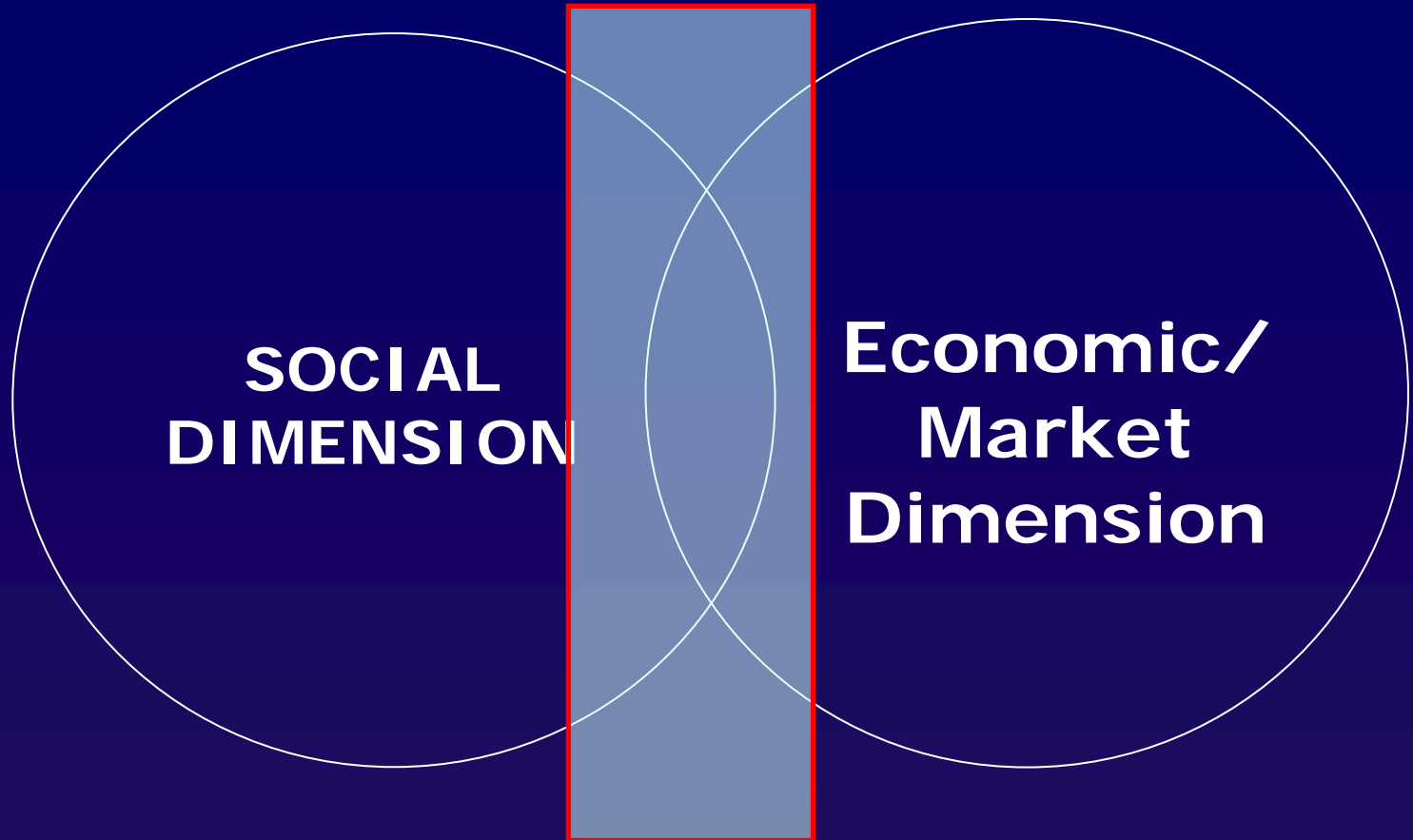
**Capital
Markets**

**The
User**

**Development
Market**

**Land
Market**

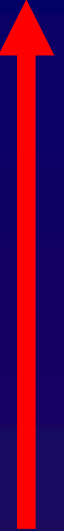
DIMENSIONS OF LAND USE



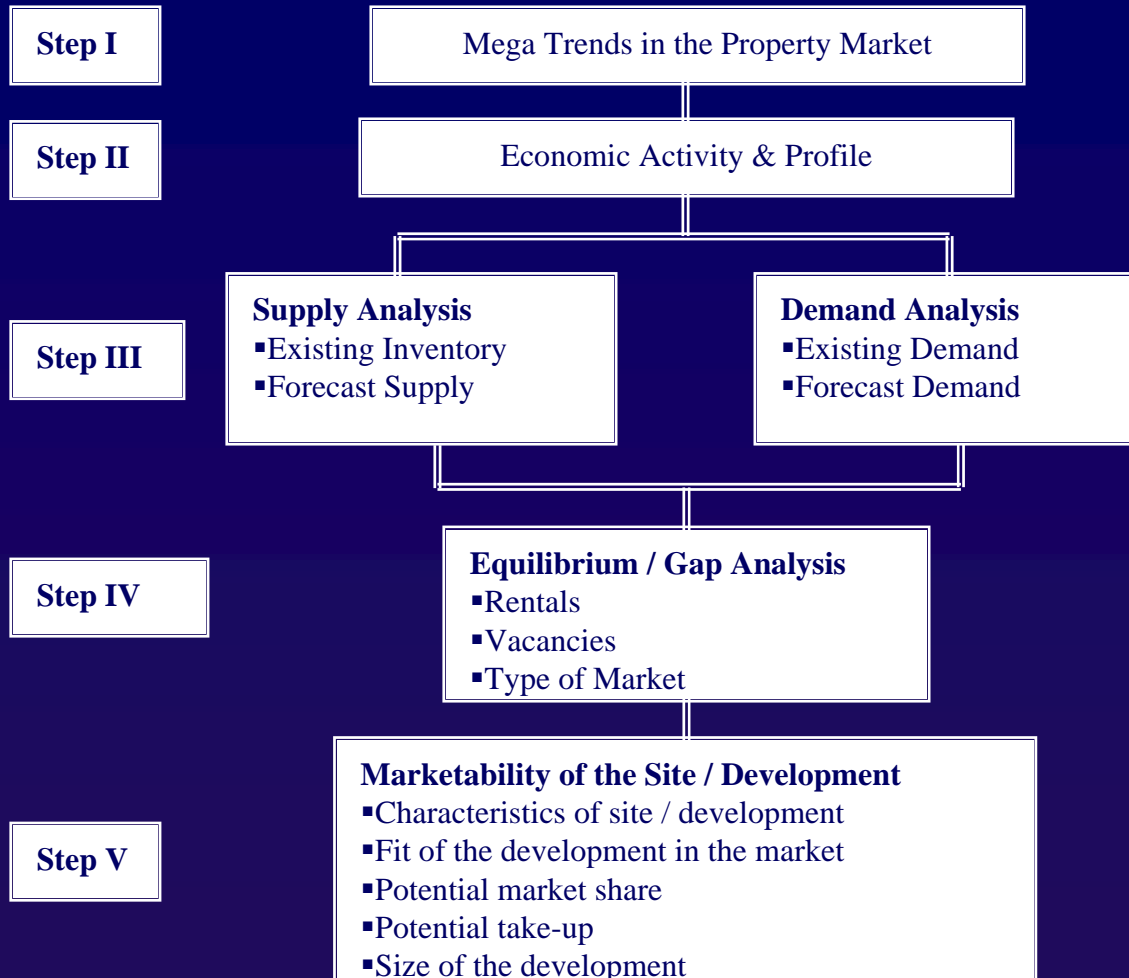
Maybe We Need To Start Thinking Differently



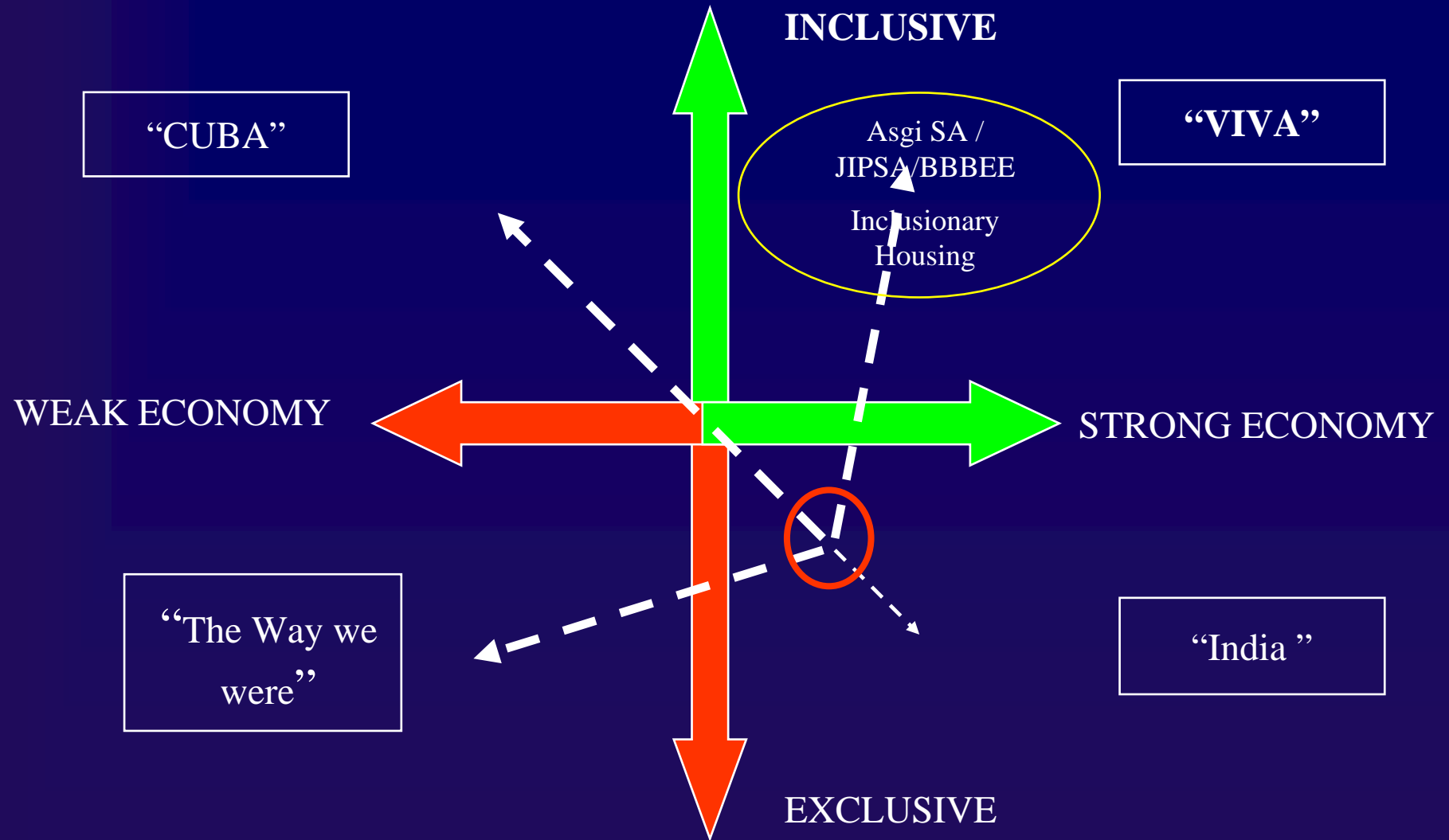
- ◆ Town Planning
- ◆ Servicing
- ◆ Building
- ◆ Occupation



The Research Methodology

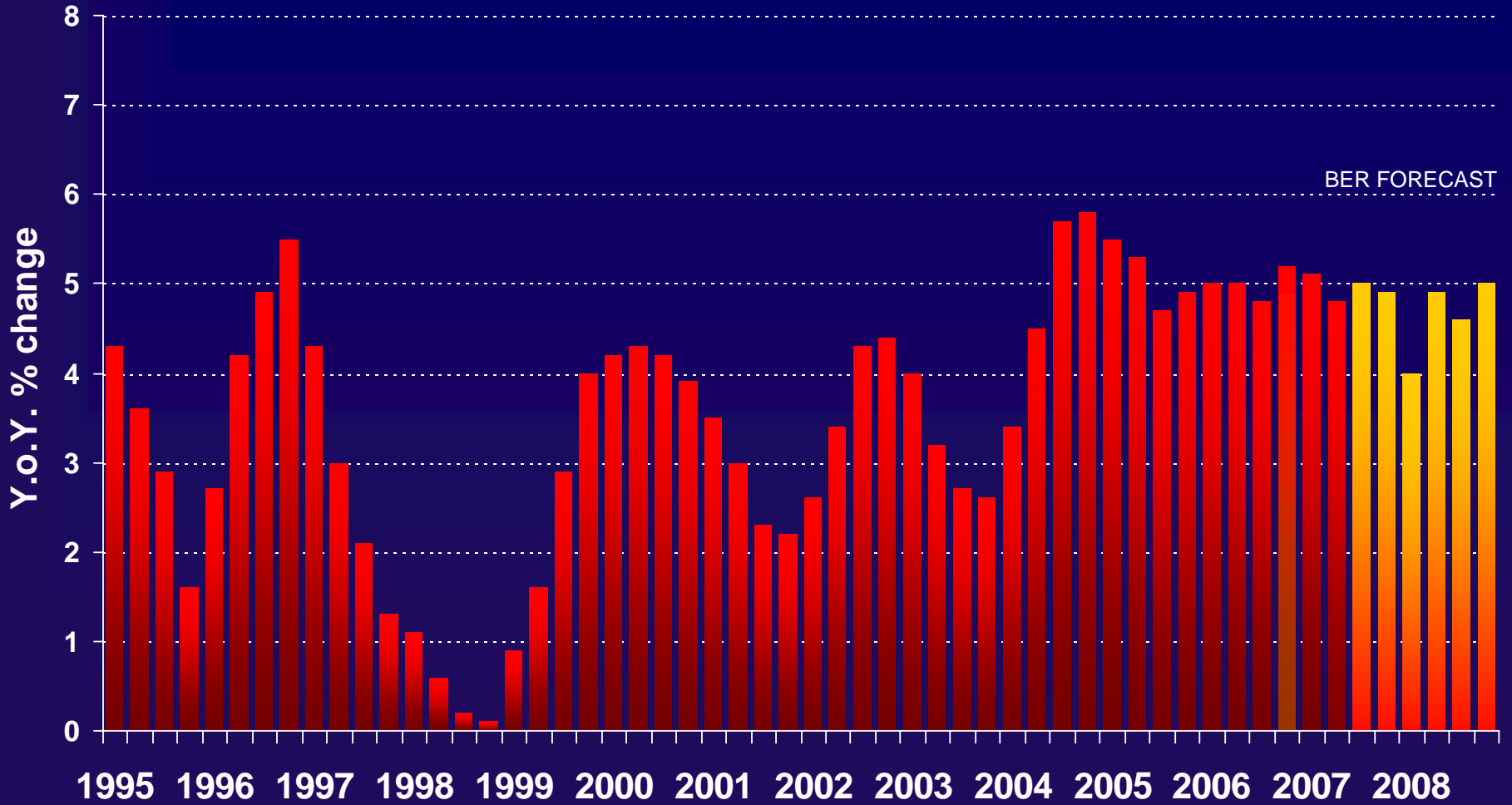


SA Scenarios



Economic growth

Gross Domestic Product (GDP)

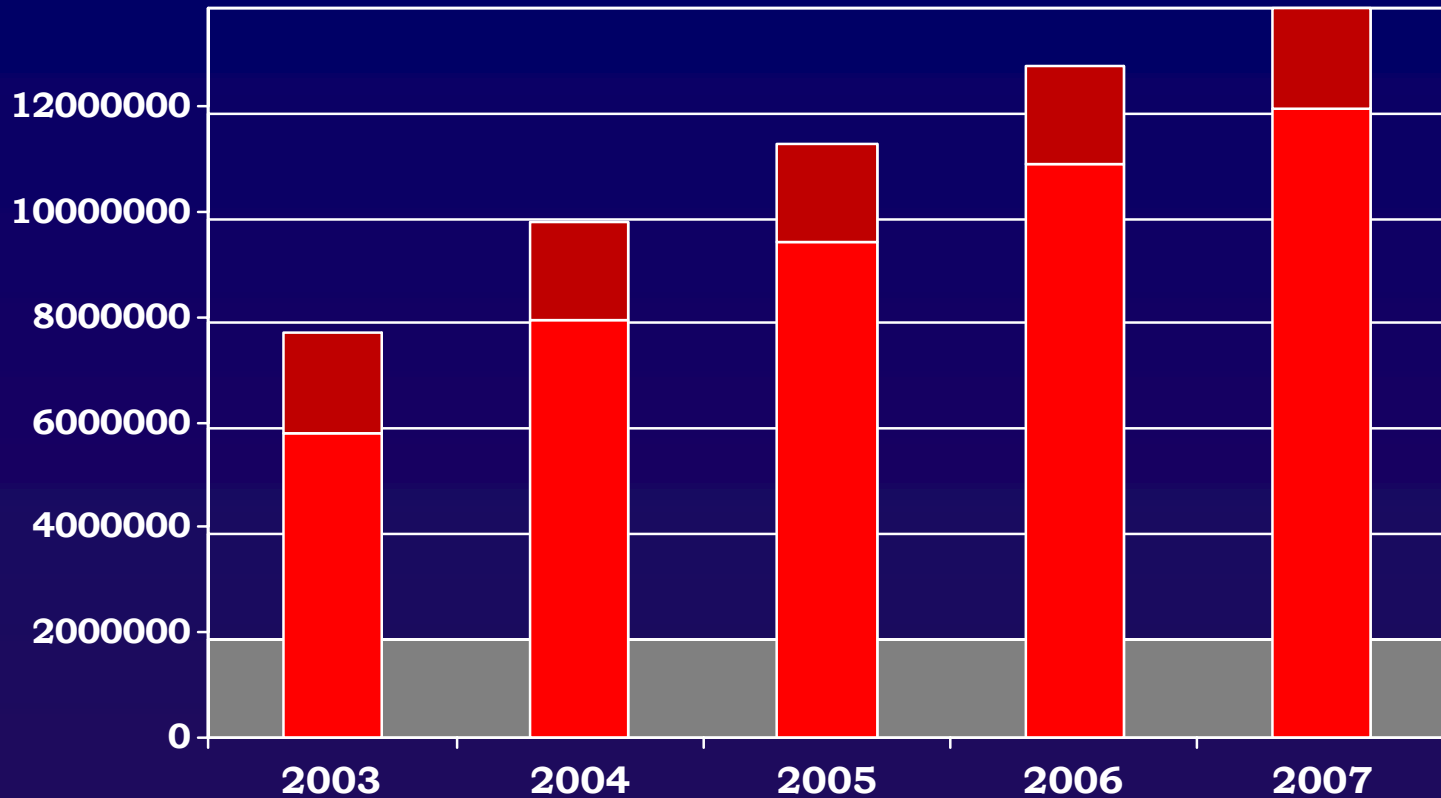


NEW CITIES OF GOLD



**Small towns
becoming bustling
hubs ▶ 8**

Number of people on social grants “That’s Worth R62,2 Billion”

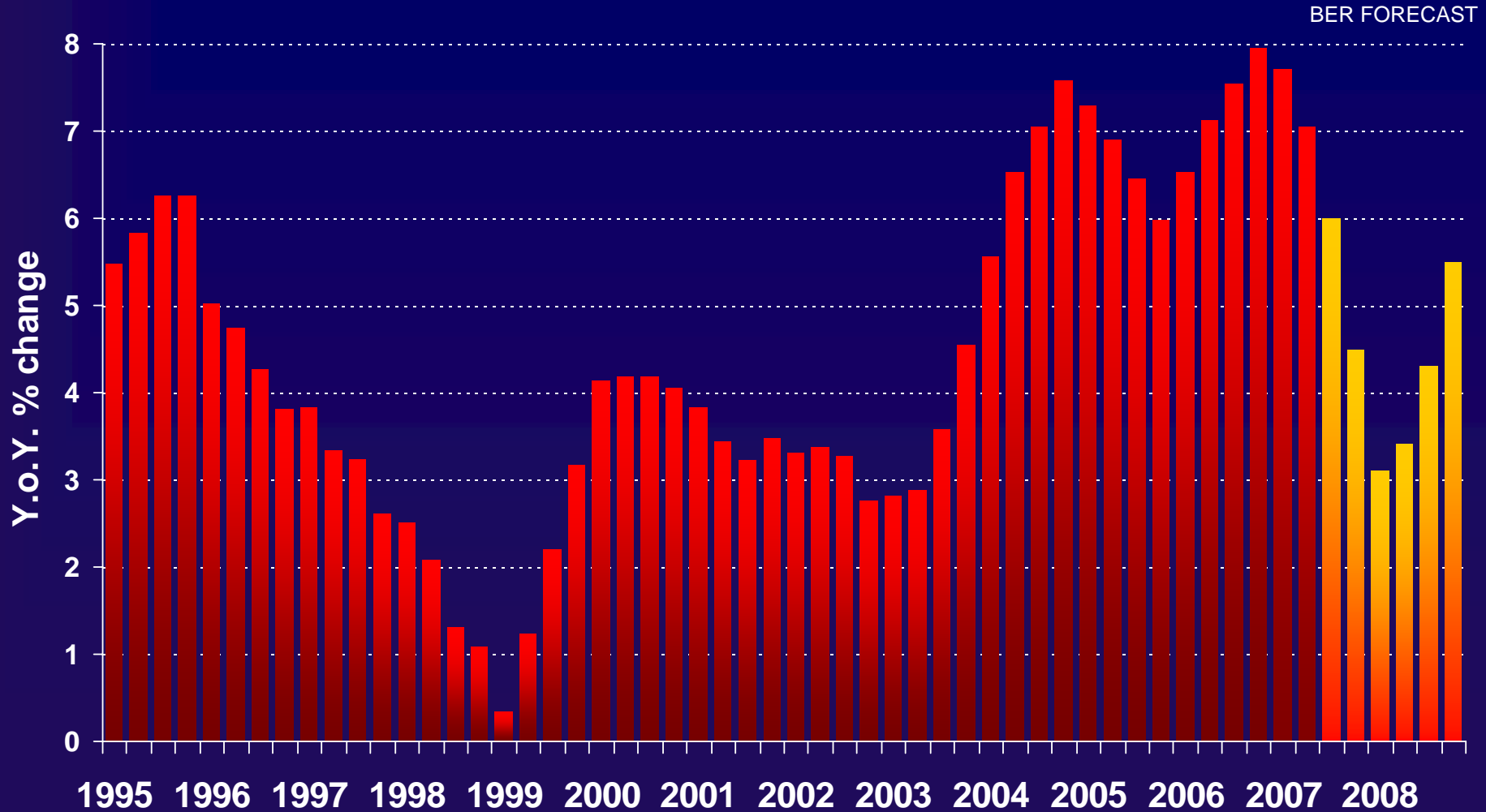


The Commercial Ladder



Consumption growth

Household Consumption Expenditure (HCE)



“12 000 families/month moving out of the Townships”

Mr Price aims to double sales by 2012

RONNIE MORRIS

Cape Town – Mr Price Group was well positioned to take advantage of the global swing to value retailing and the growing local consumer market over the next five years, joint chairmen Stewart Cohen and Laurie Chiappini said in its latest annual report.

The group, which sells clothing and home products, forecast that by 2012, sales would reach R15 billion at an operating margin of 12 percent, more than double the turnover of R6.2 billion for the year to March.

Mr Price, a predominantly cash retailer, was resilient



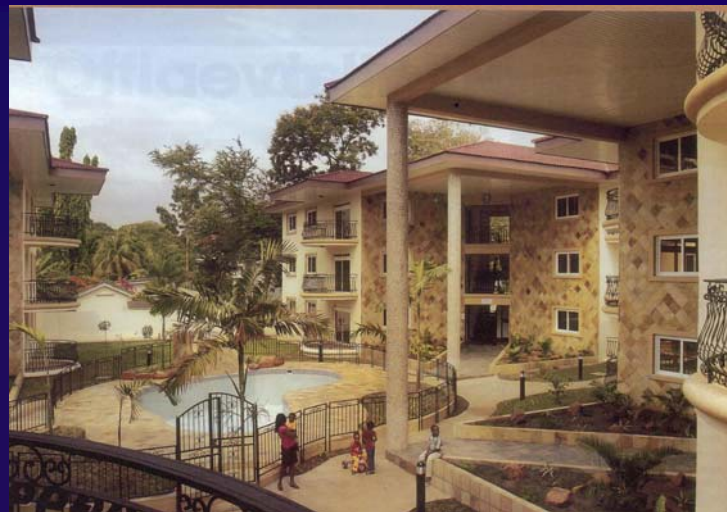
POISED FOR GROWTH Mr Price is confident that it can handle higher interest rates
PHOTO: BONILE BAM

- ◆ Black middle class approximately 2.6m, increased by 30% in past two years. Earning more than R 4'000 per month
- ◆ Black middle class living in suburbs increased from 23% in 2005, to 47% in 2007.
- ◆ % living in Townships decreased from 77% to 53%. Or 12'000 families a month moving out.
- ◆ Black middle class responsible for 30% of consumption expenditure.
- ◆ Between 2004 -2006 there was a 91% increase (84'000 new entrants), in the number of black adults with personal incomes of R12 000 or more a month.
- ◆ The buying power in the townships dropped by 15% in the past two years (UCT/Unilever)

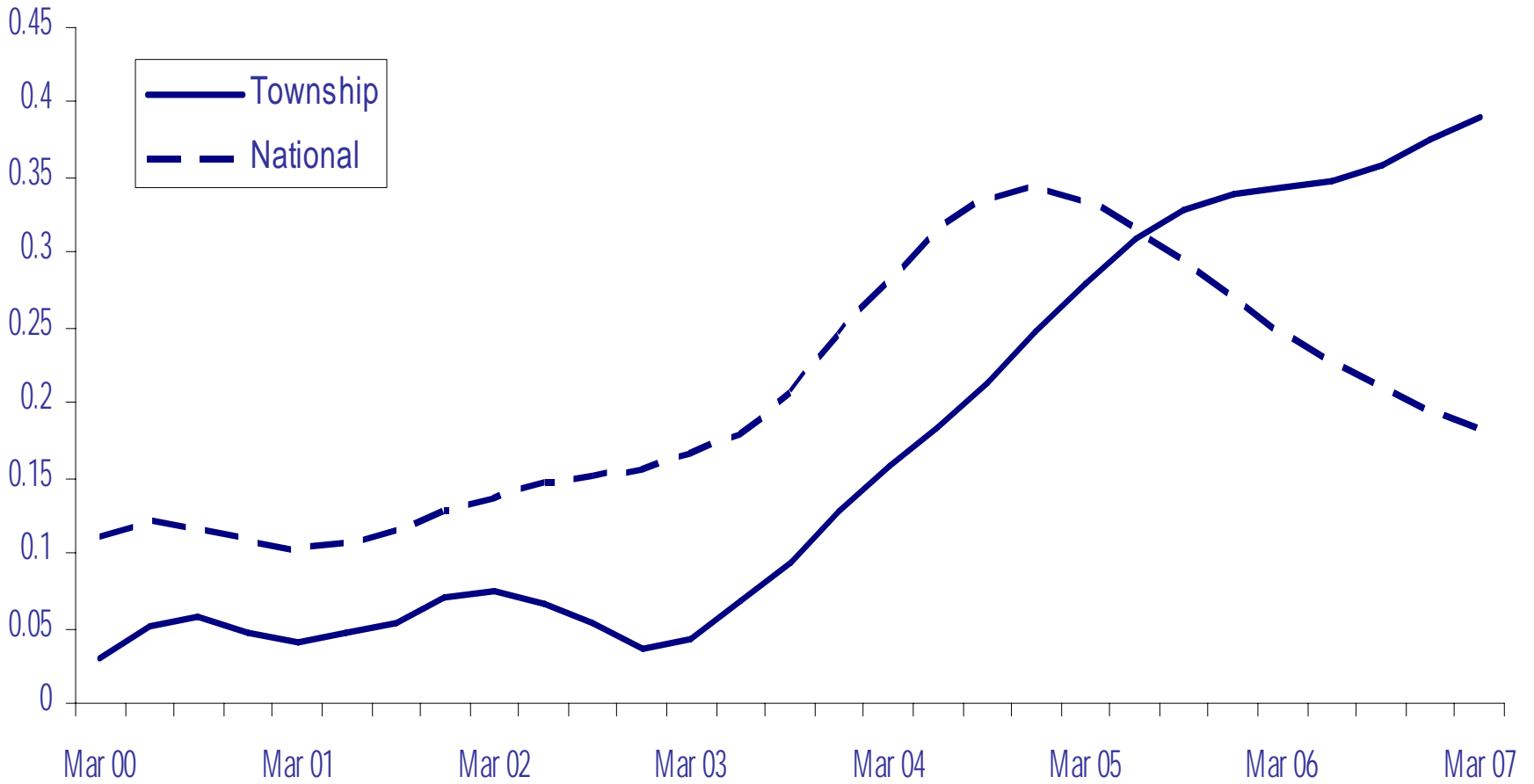
Starting up the Property Market – The Secondary market is Critical



The Changing Township Built Environment

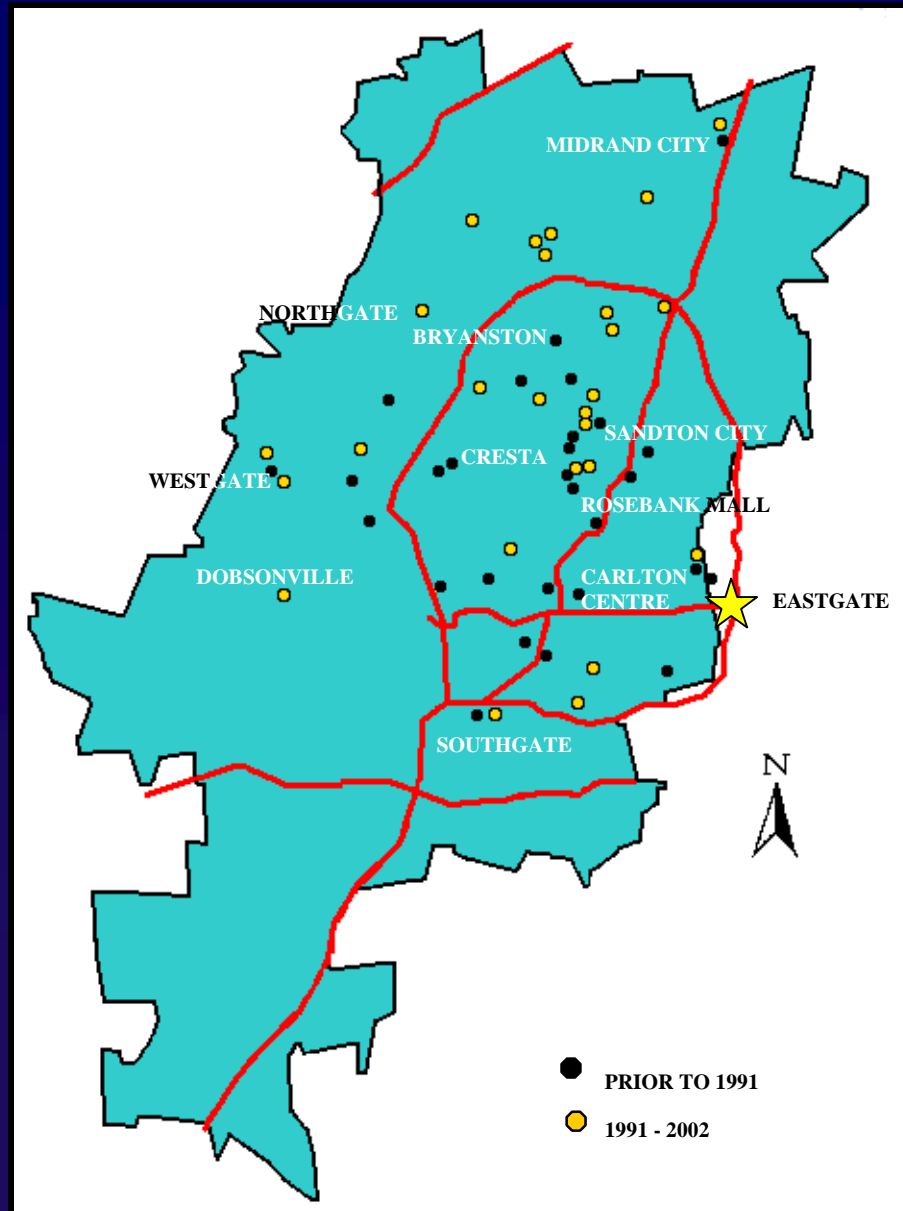


Township Annual Inflation



Source: Lighthouse

The Distribution of Shopping Malls (10,000m² +)



Township Shopping Centre Developments

Centre	Node	Size (sqm)
Altridgeville Mall	Altridgeville	20,000
Pan Africa	Alexandra	12,000
Jabulani Mall	Soweto	43,000
Maponya Mall	Soweto	58,500
Orlando Power Station	Soweto	24, 000
Diepkloof Plaza	Soweto	15,000
Sontonga Mall	Katlehong	16,000
Tembisa Village	Tembisa	12,000
Philani Valley Shopping Centre	Umlazi	10,900
Umlazi Mega Mall	Umlazi	28,000
Mdantsane Mall	Mdantsane	35,000
Tsakane Mall	Tsakane	32,000

The Changing face of Townships

Orlando eKhaya:



Thousands of Soweto residents commute on a daily basis to workplaces elsewhere in the Joburg Metro area. Orlando eKhaya is a major precinct development that aims to keep and attract shoppers and people to Soweto. By *Engela Meyer*.



Middle-class house boom transforms ramshackle Soweto

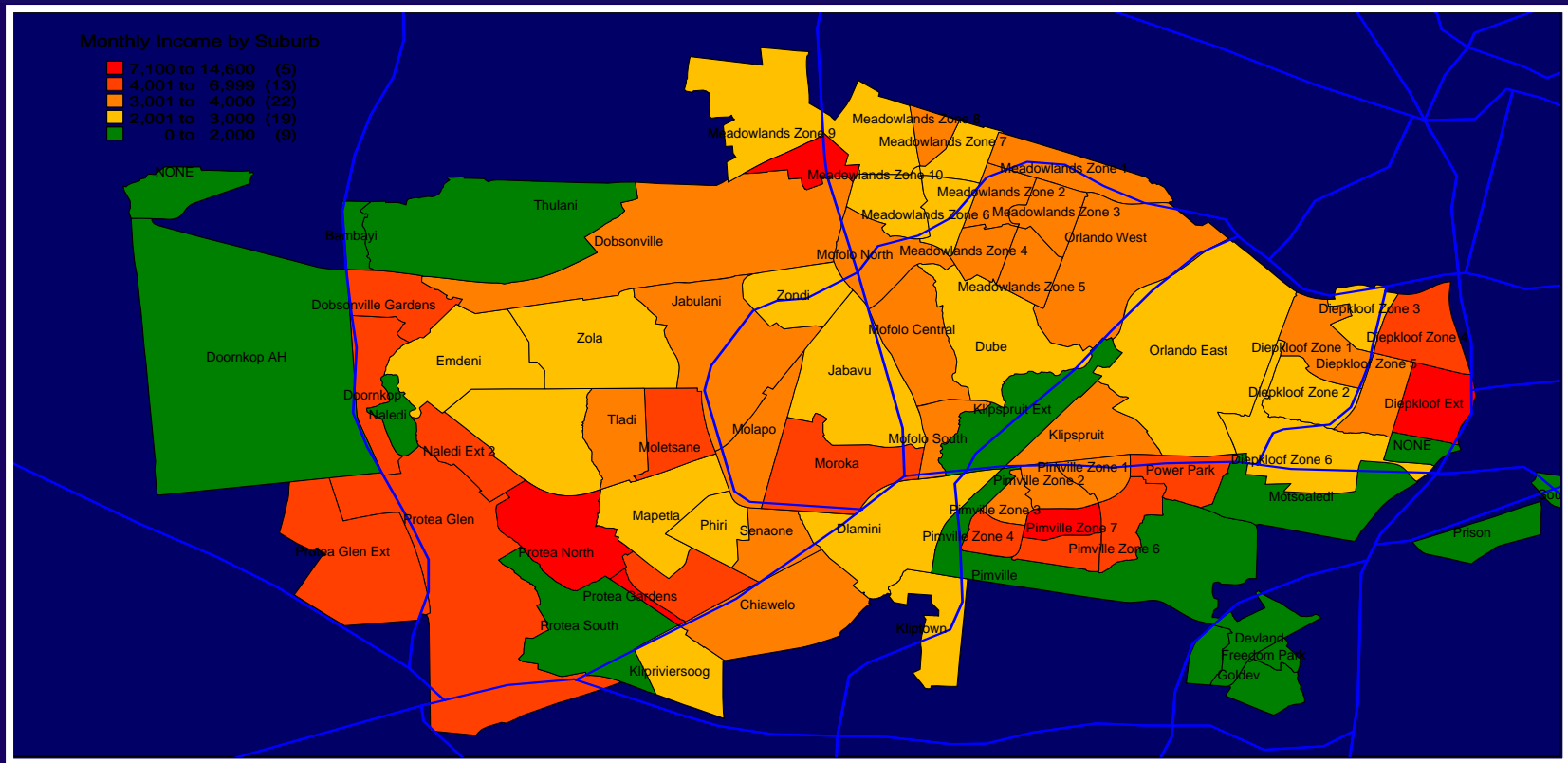
A neighbourhood associated with burning tyres and protests has become Johannesburg's hottest property market, writes John Reed



It was once a place of burning tyres and protests, but now it is the hottest property market in Johannesburg. The transformation of Soweto, a township once known for its ramshackle shacks, is being driven by a boom in middle-class housing. The area is now filled with modern, single-story houses, many of which are being built by private developers. This new wave of housing is attracting middle-class families and professionals, transforming the area's reputation. The boom is also driven by the area's proximity to the city center and its improved infrastructure. The new houses are being built on land that was once used for informal settlements. The transformation is a testament to the power of private investment and the potential for urban renewal in South Africa.

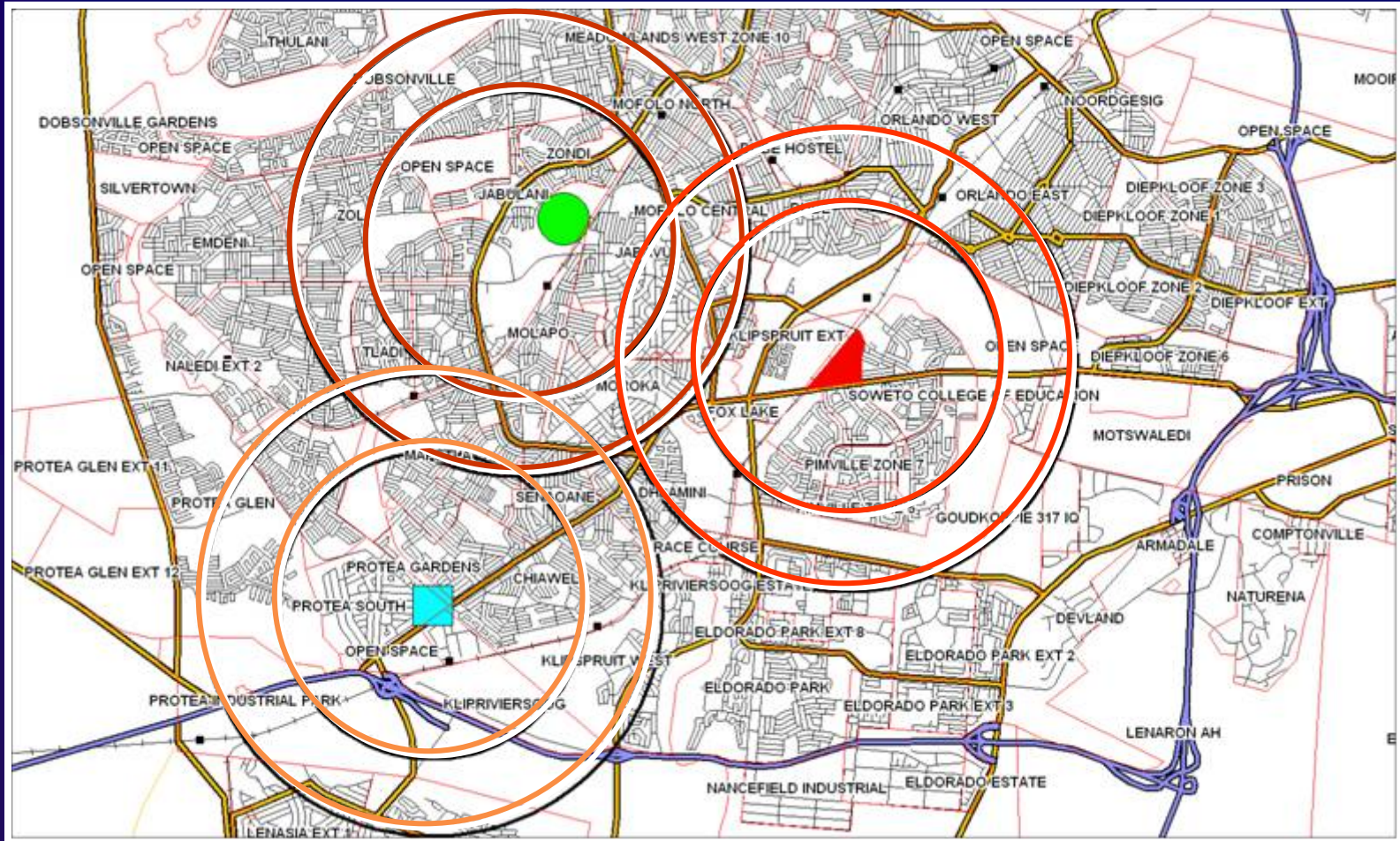


Some successful developers have moved into Johannesburg, while others have stayed. The area is now a mix of modern and ramshackle housing. The boom in middle-class housing is transforming the area's reputation. The new houses are being built on land that was once used for informal settlements. The transformation is a testament to the power of private investment and the potential for urban renewal in South Africa.



- ◆ Soweto is not homogeneous
- ◆ 15% in LSM 8/9
- ◆ Precarious relationship between new entrants, older residents and those that moved out to previously forbidden suburbs
- ◆ 1.5 Million People
- ◆ 4.3 Bn Rand of annual retailing potential – 25% in Soweto
- ◆ Social Grants

New Centres



Houses cost more as prices outpace growth in income

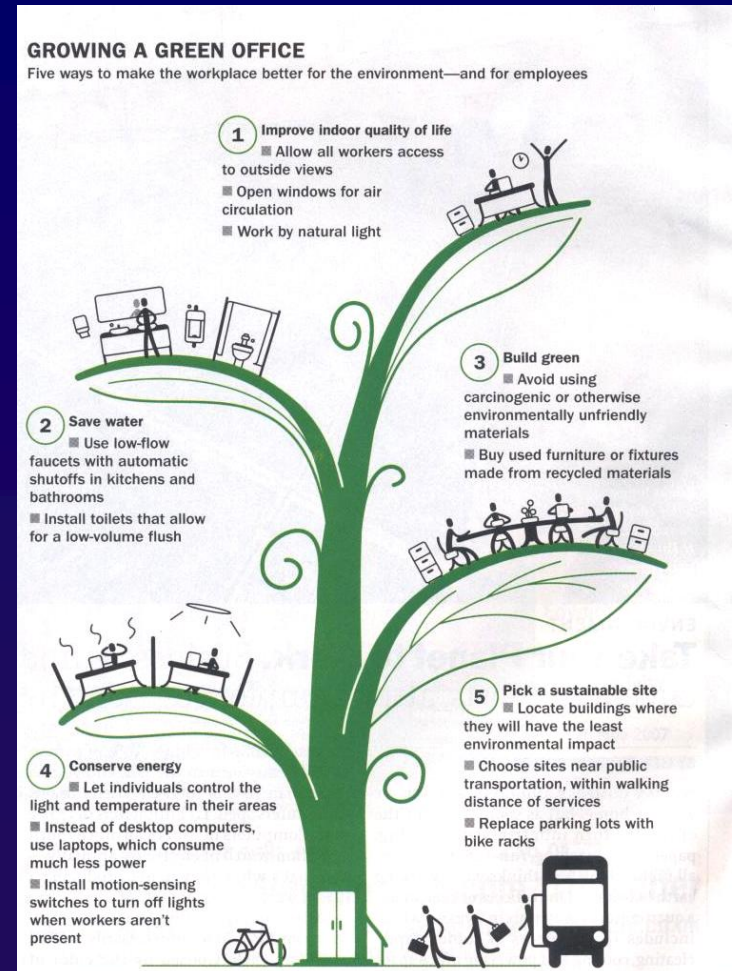
- There is a move towards trading down of properties
- CBD Properties grow in importance, but at the lower end of the market
- Trading off transport costs, commuting time and Property Values
- The Rental Market becomes more important in all sectors

Poorer provinces have it hardest
Houses become less affordable as incomes drop



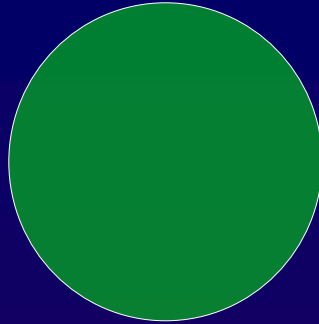
“ Cities support 50% of the population ,
but they consume in excess of 75% of
Energy”

- ◆ Improve indoor quality of life:
- ◆ Save water:
- ◆ Conserve Energy
 - ◆ Control of light
 - ◆ Motion sensing
- ◆ Build Green
- ◆ Pick a sustainable site “ **Brownfields** receive greater attention”

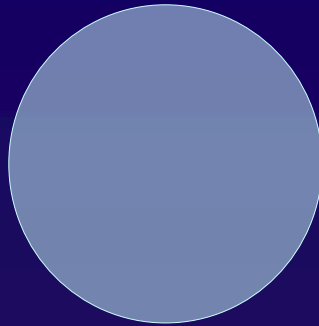
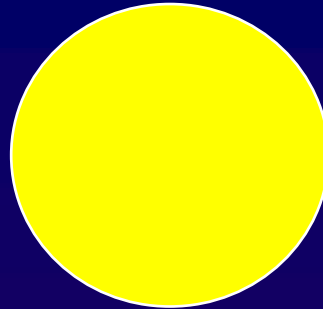


The Social Drivers

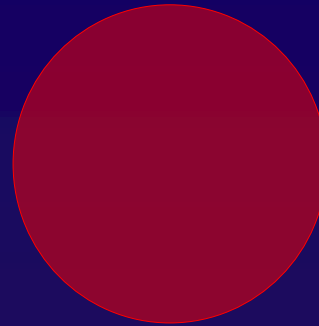
HOME



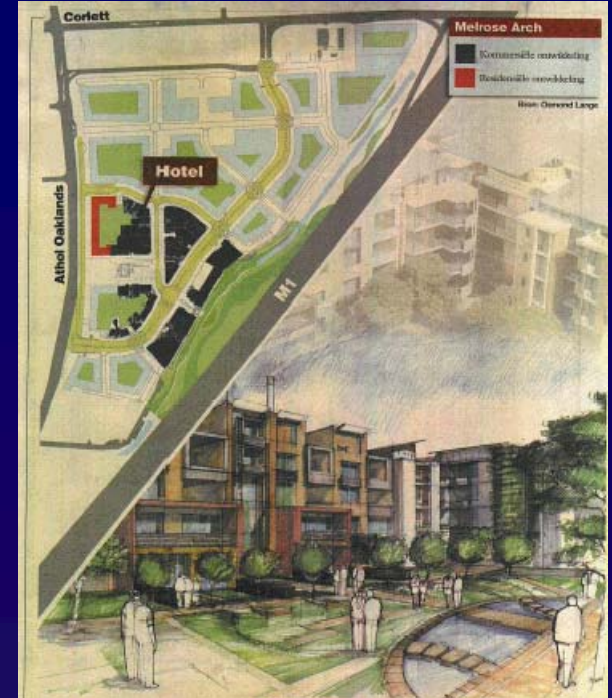
EDUCATION



WORK




PLAY




Looking Ahead

- ◆ The **state** plays a more important role, through non core businesses.
- ◆ **Mixed use** developments grow in importance
- ◆ The **listed sector** consolidates.
- ◆ Funds start looking **offshore**
- ◆ A listed **residential fund**.
- ◆ Funds start increasing **exposure to property** market – say to 10% (PIC R70 Bn)



PUBLIC INVESTMENT CORPORATION
Public Investment Corporation
(Incorporated in the Republic of South Africa)
(Registration number 2005/009094/06)



CBS PROPERTY GROUP
CBS Property Portfolio Limited
(Incorporated in the Republic of South Africa)
(Registration number: 2003/009523/06)
Share code: CBS ISIN: 000073995
("CBS")

Fulfilment of all the conditions precedent in respect of the offer by the Government Employees Pension Fund, as duly represented by the Public Investment Corporation (the "PIC") to acquire all the CBS linked units in issue ("the Offer")

I. Fulfilment of all the conditions precedent
Further to the announcement dated 25 May 2007, the Offer was conditional upon the fulfilment of the following suspensive conditions:

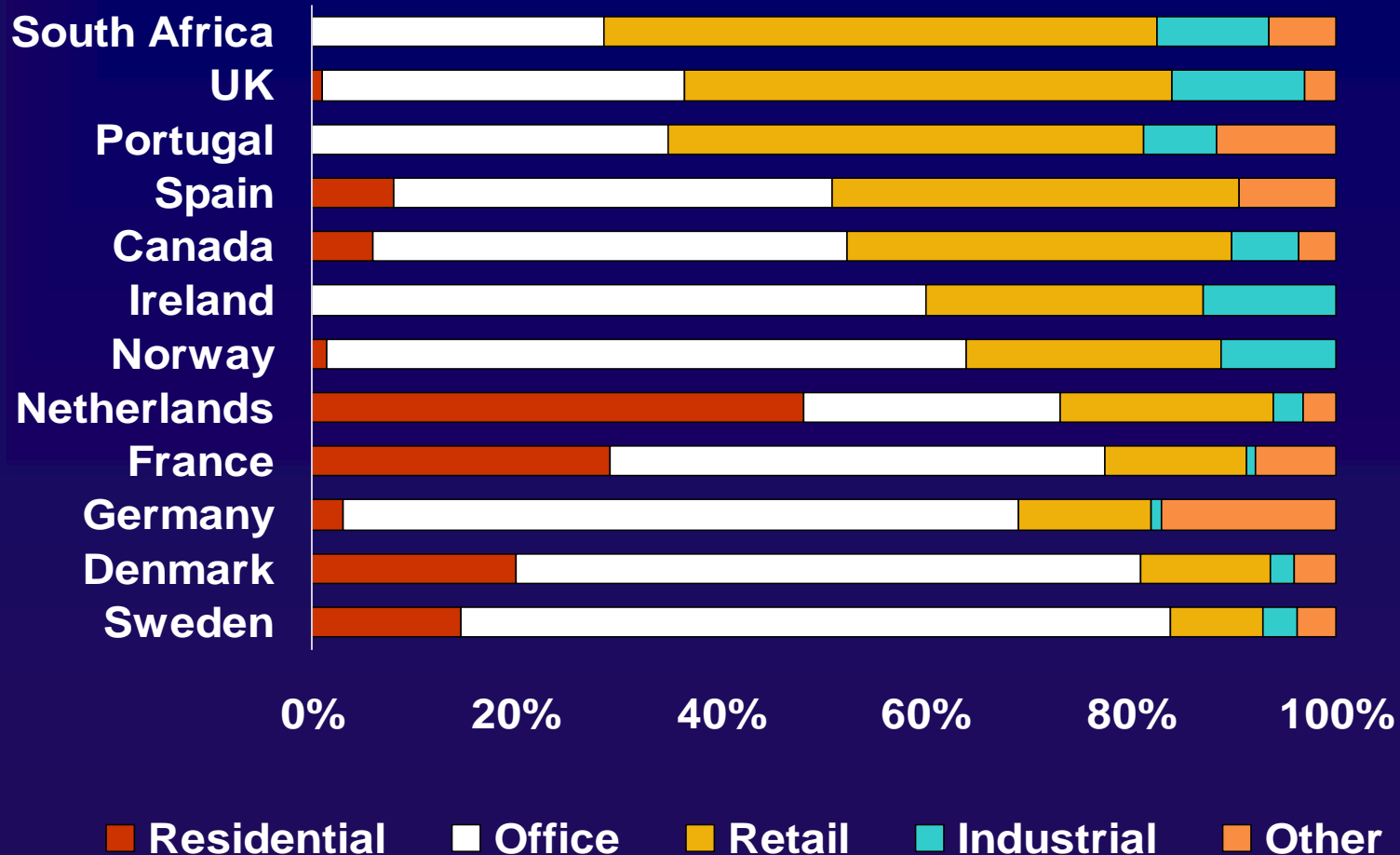
- the approval of the proposed transaction by the Competition Authorities;
- CBS directors and management successfully tendering not less than 30 million CBS linked units held directly or indirectly by themselves in terms of the Offer, which they had irrevocably undertaken to do; and
- CBS linked unitholders successfully tendering sufficient CBS linked units in terms of the Offer such that on implementation of the Offer the PIC will hold not less than 50.01% of the CBS linked units in issue.

The above conditions to which the Offer was subject have been fulfilled, and accordingly the Offer is now unconditional.

The PIC will hold a minimum of 71.88% of the CBS linked units in issue on implementation of the Offer.

Market Structures

Direct Property Portfolios

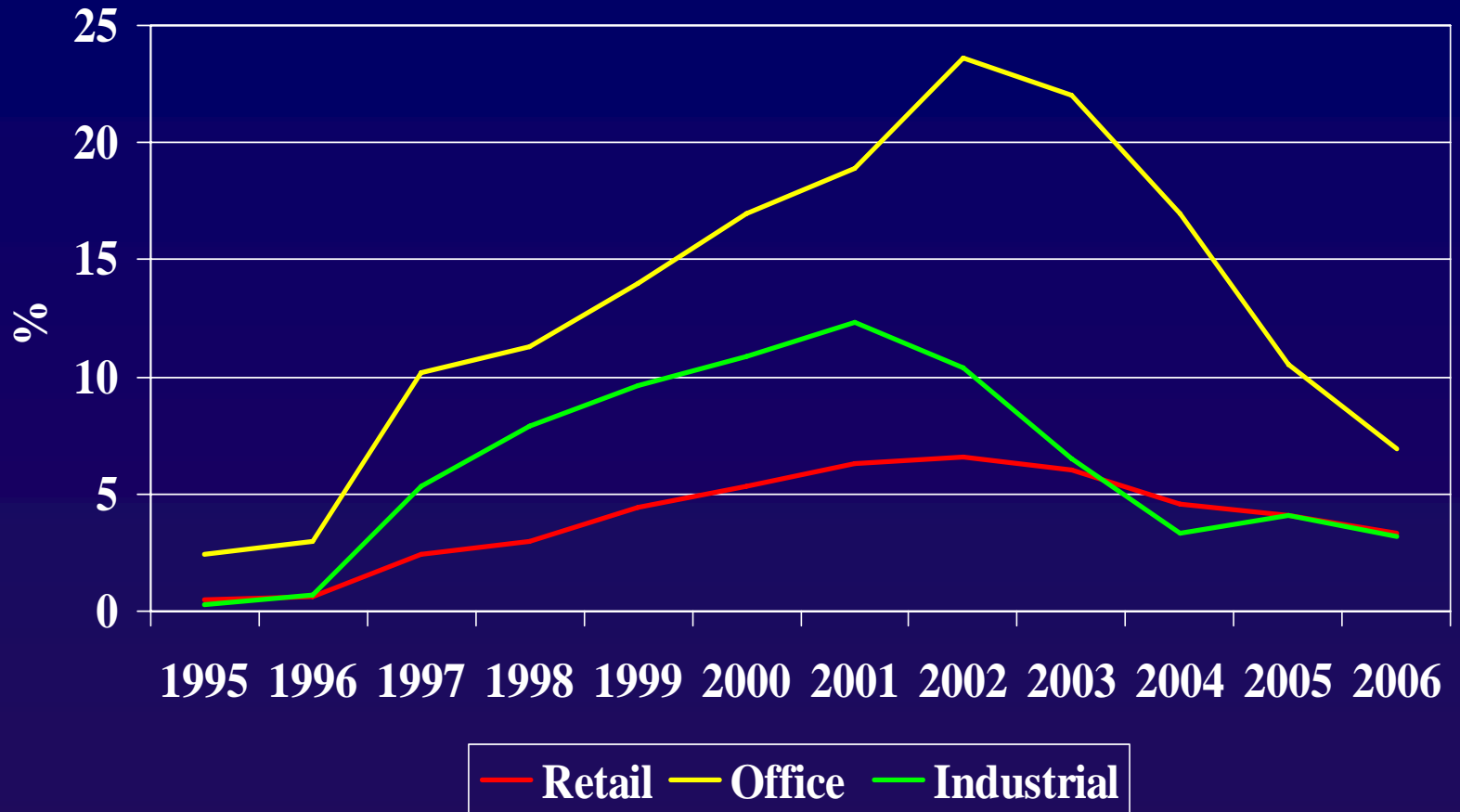


Total Return

Source: SAPIX/IPD

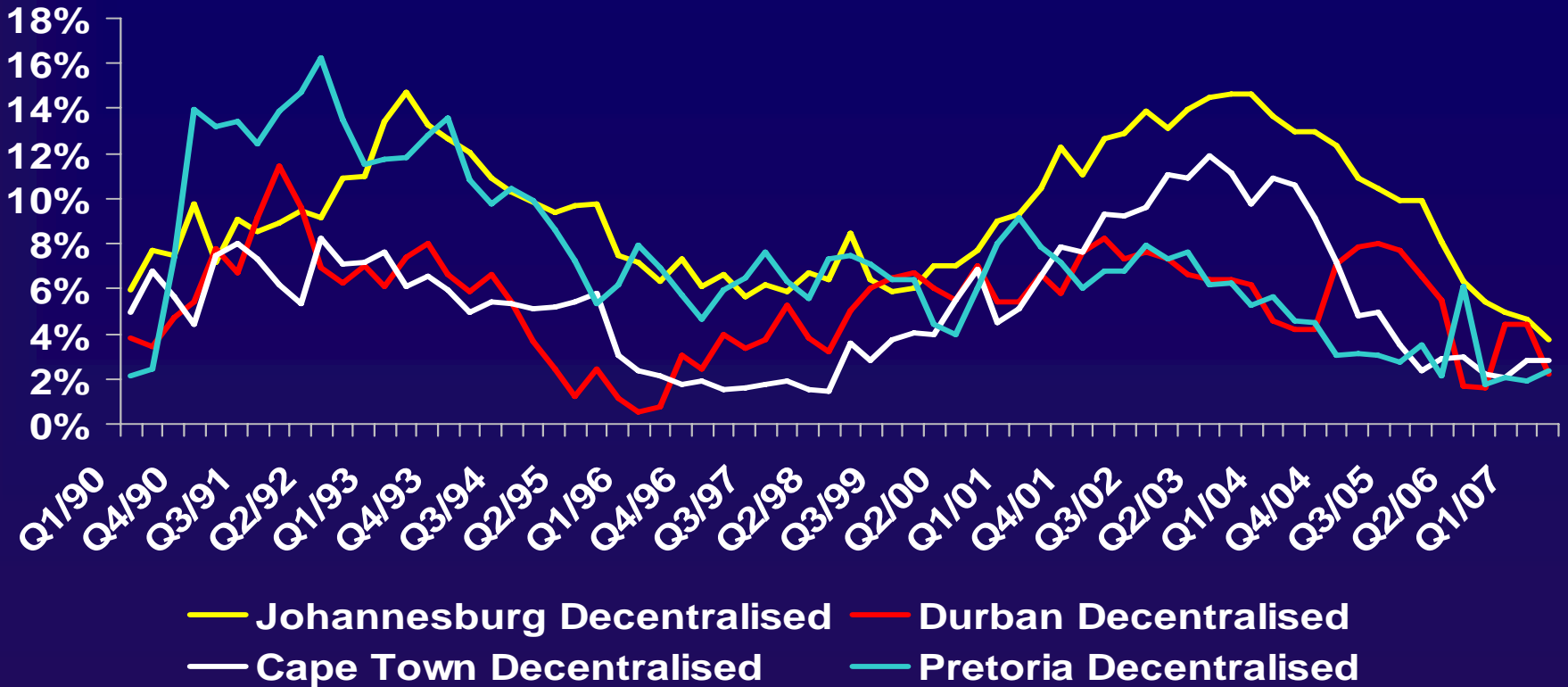
Total Return	97	98	99	00	01	02	03	04	05	06
Retail	23.0	9.1	17.9	10.4	13.4	11.0	17.4	26.1	32.6	27.4
Office	12.8	1.6	9.5	12.7	7.8	5.1	8.5	16.7	25.6	24.5
Industrial	16.8	2.1	8.3	7.1	7.5	8.8	17.5	24.4	33.0	31.1
Other	18.1	5.1	24.9	16.6	10.0	20.5	25.4	27.5	24.7	22.0
Property	17.5	5.1	13.7	11.2	10.6	9.5	15.1	23.4	30.1	26.7

Vacancies per sector (IPD)



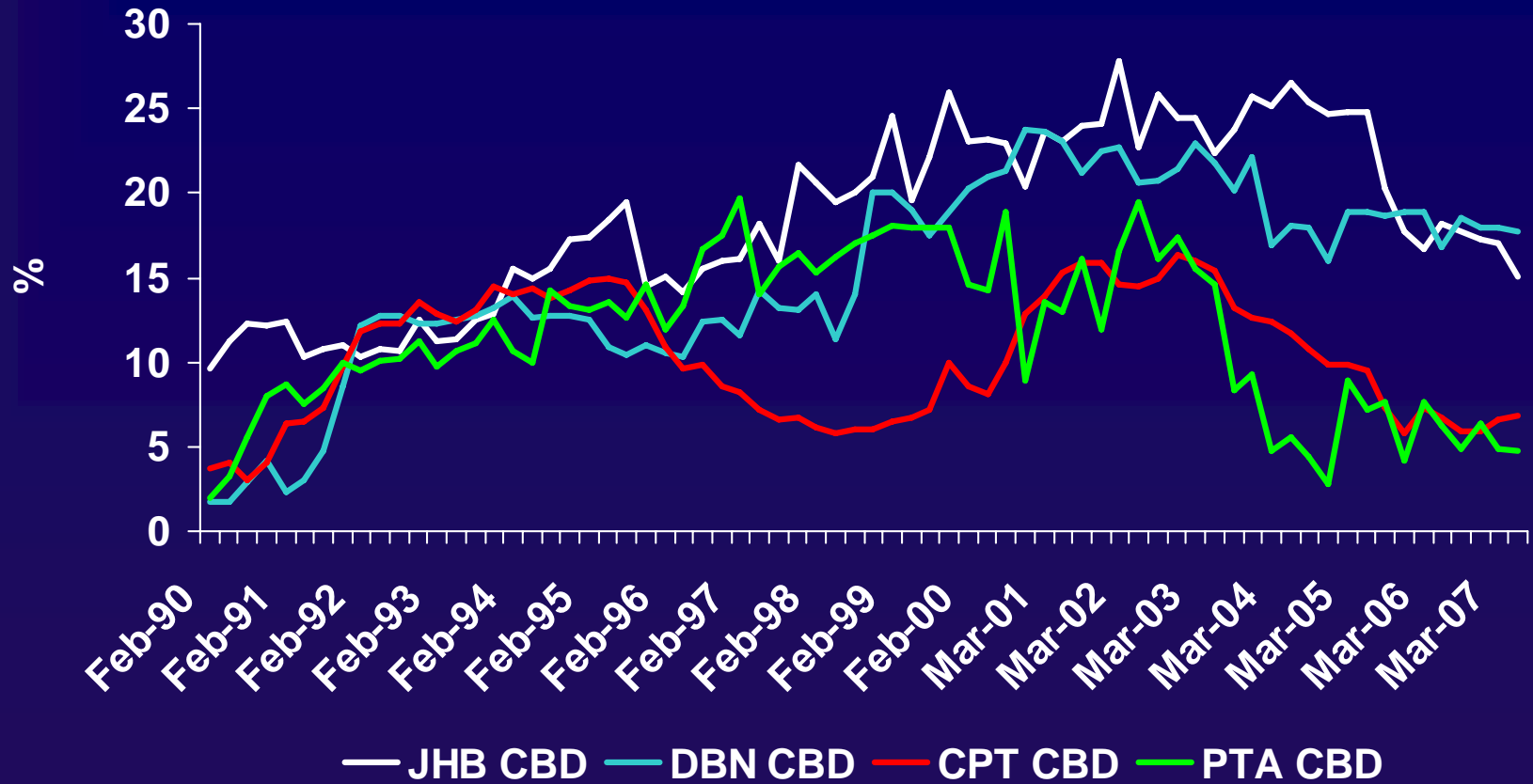
Decentralized (A & B) - Vacancies

Source: SAPOA



CBD Offices - Vacancy Rate

Source: SAPOA



Some Concepts

◆ Vacancy Rate

- ◆ Amount of space in the market that is not occupied
 - Total Stock
 - Amount of space that is vacant.
 - Space under lease but vacant should be considered
 - This is the equilibrium indicator
 - Some vacancy will exist in the market
- ◆ The Natural vacancy rate
 - “ When vacancy rate is below the natural rate, rents will tend to be driven up (and new developments tend to occur). When vacancy is above the natural rate rents will tend to be driven down”

Absorption

Gross Absorption;

“ measures the total amount of space for which leases were signed during the year, regardless where they came from”

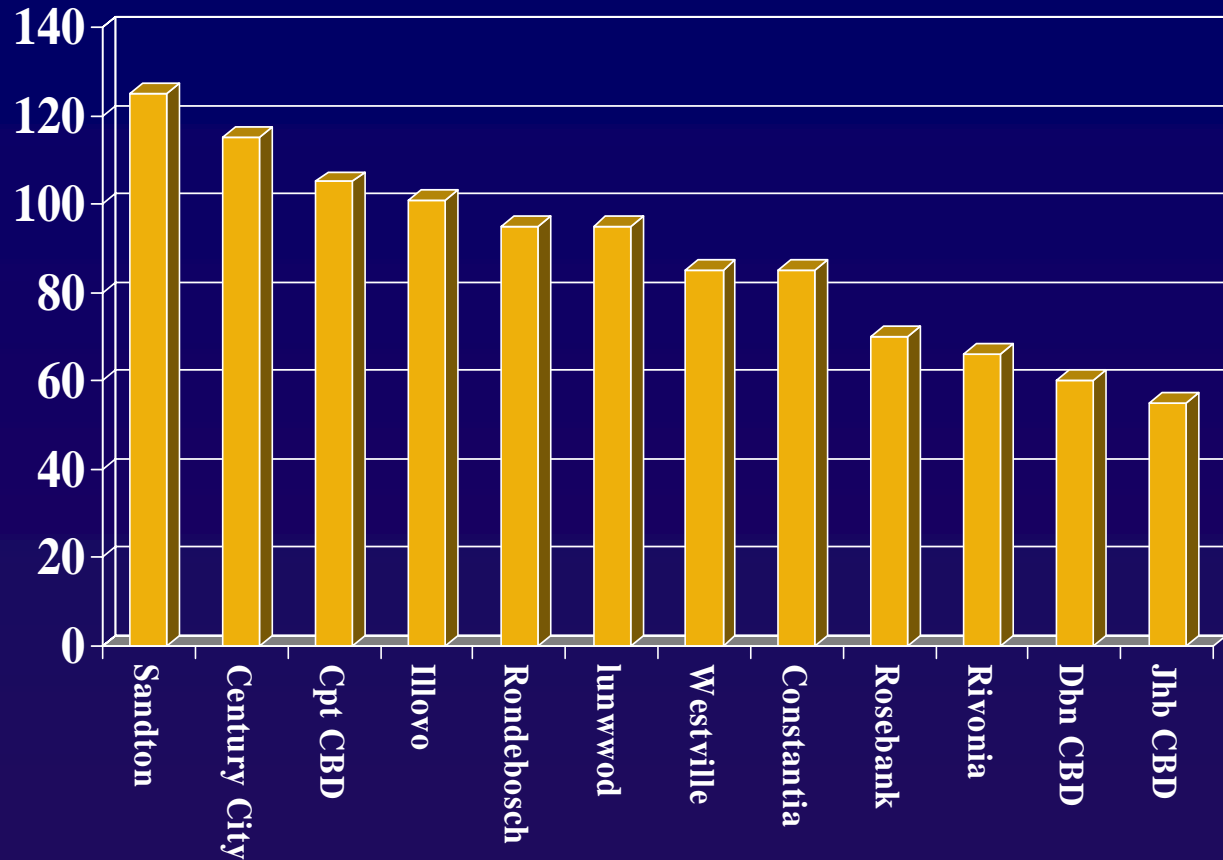
Net Absorption;

“ The net change in the amount occupied space in the market

Sandton take Up

	Dec 2003	Dec 2004	
Rentable	1'012'128	1'043'901	
Available	149'309	120'711	
Occupied	862'819	923'190	
Take up			60'371
Monthly			26 mnth
10% Vac			20 mnth
'02/'03			65 mnth

The "A & P" Grade Rental Gradient R/sqm Q4 2006



A CHANGING CBD OFFICE ENVIRONMENT

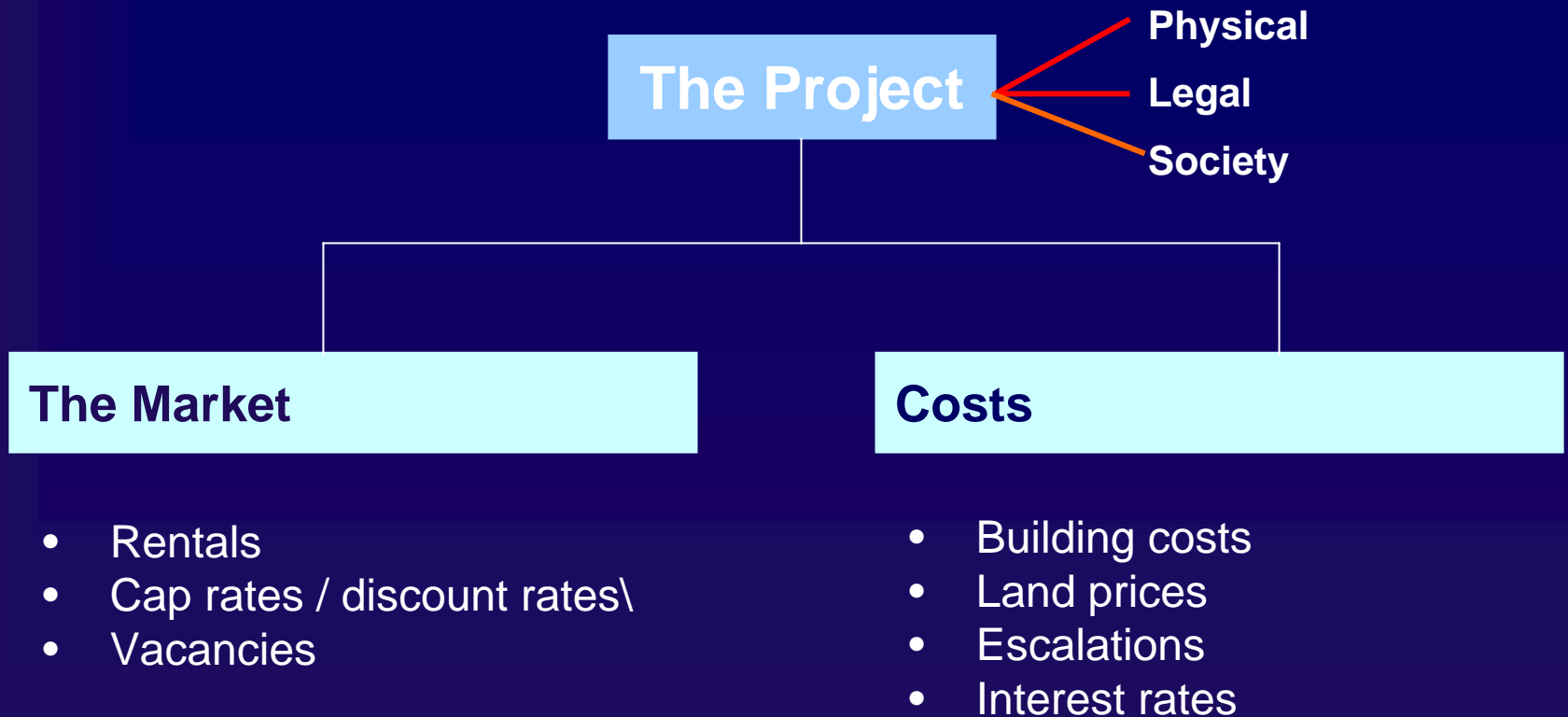
	1st Q 1996	1st Q 2001	1st Q 2006
A Grade	1'216'300	1'325'232	713'200
B Grade	514'000	398'574	632'345
C Grade			288'367
Total	1'730'300	1'723'806	1'633'912

Inner CBD Housing

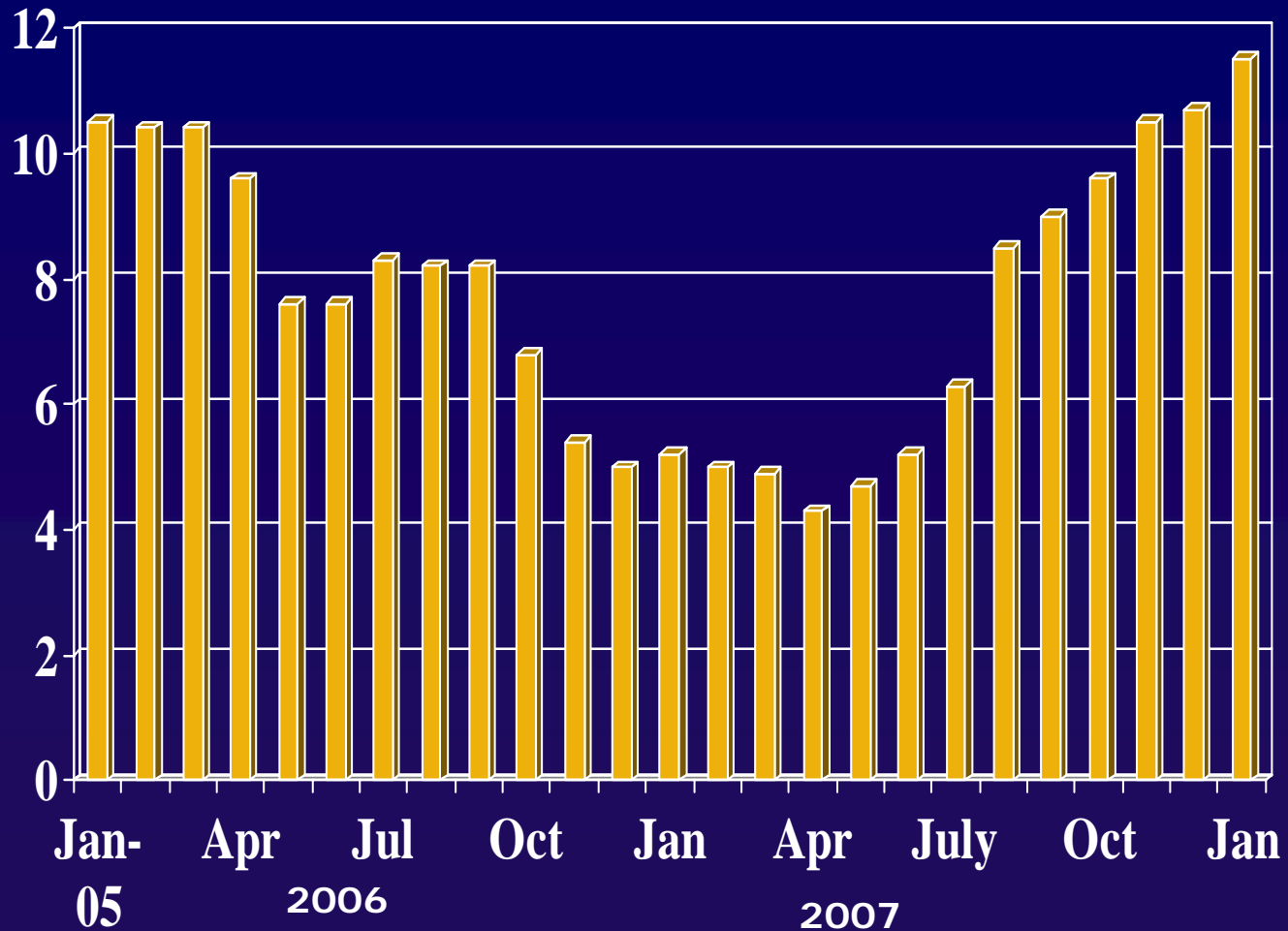
- ◆ Social Facilities
- ◆ High Rise Living
- ◆ Closer to Transport
- ◆ Affordability
- ◆ Contested Commercial vs Residential
- ◆ UDZ Incentives



Value Components

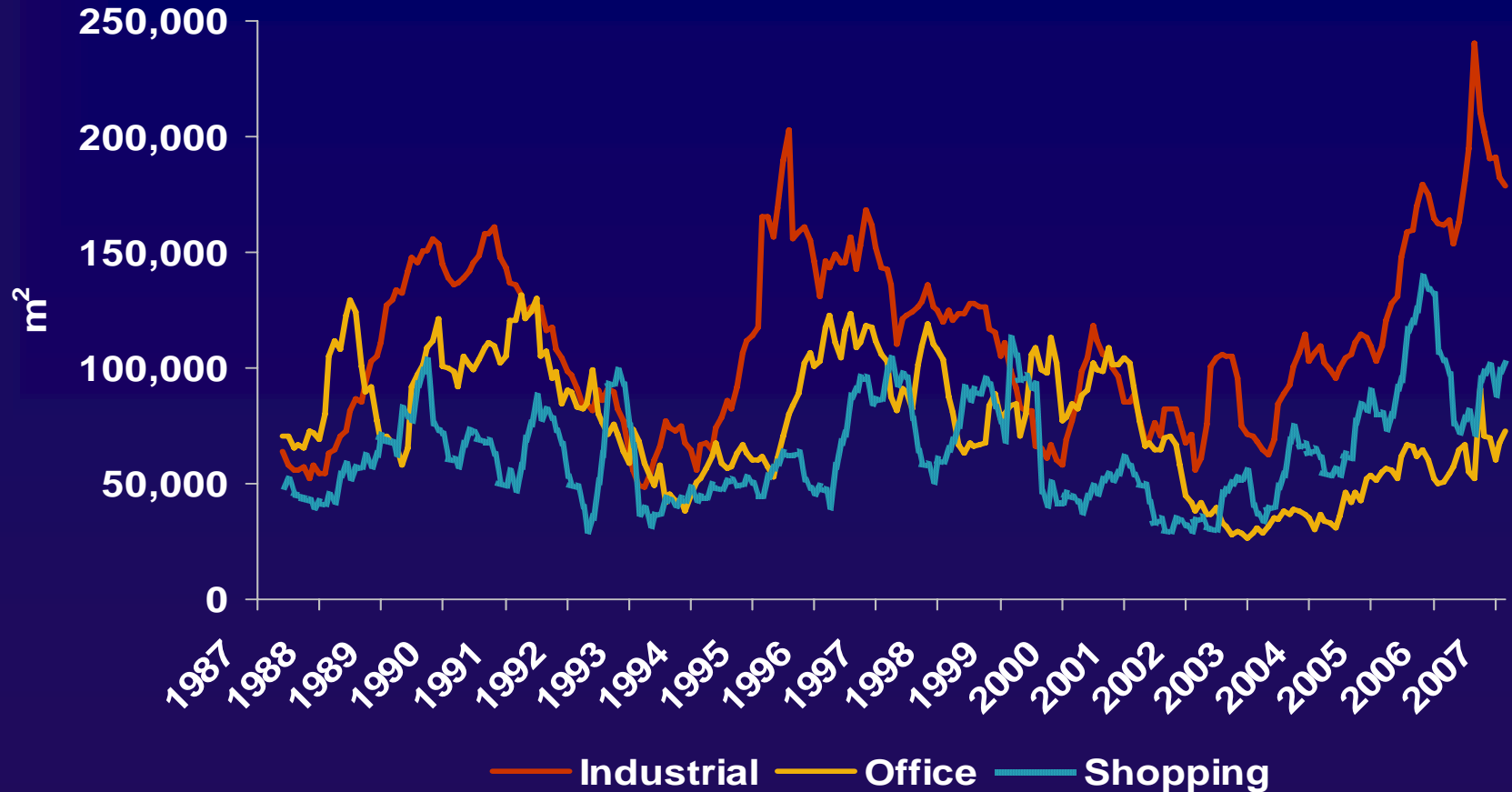


Building Materials Y/Y % Change



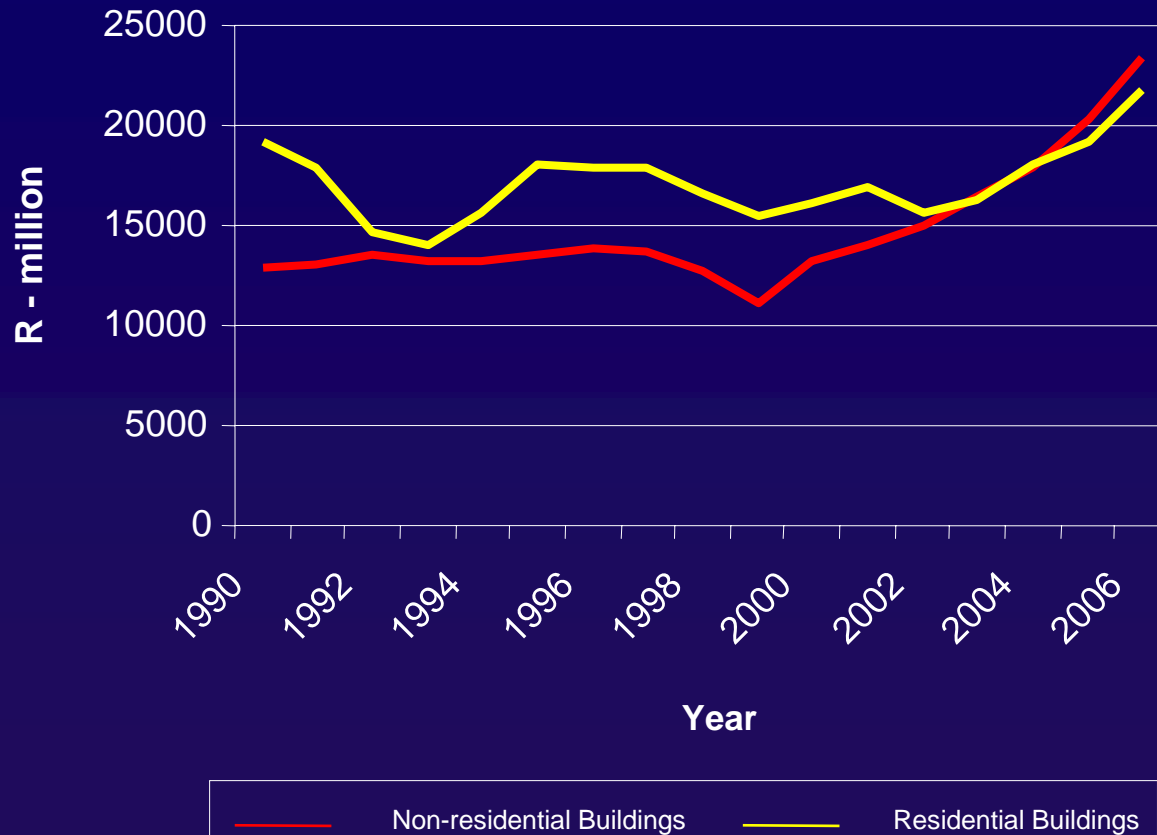
Total Building Plans Passed

Source: STATS SA



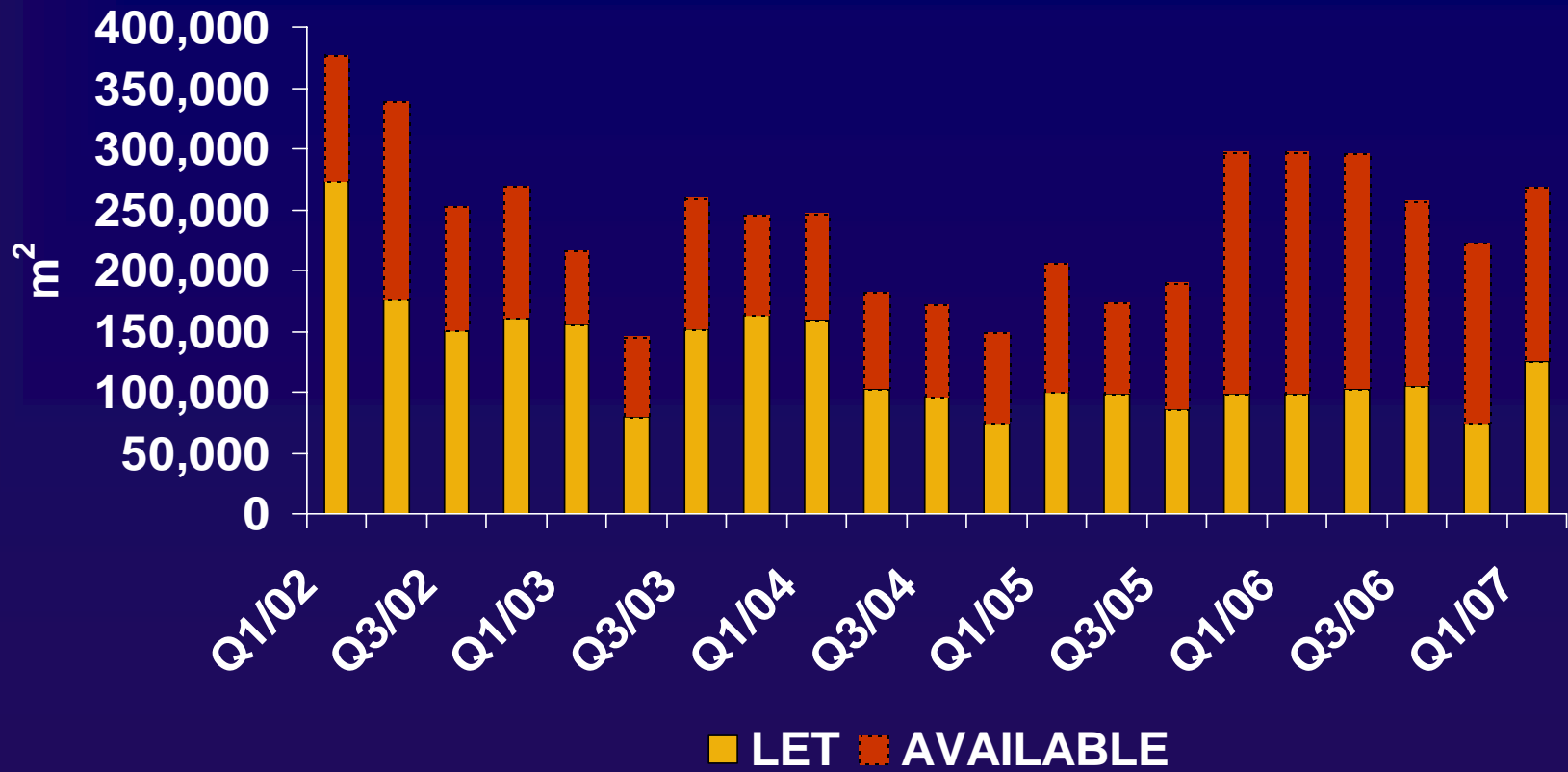
GDFI By Building Sector

Source: BER

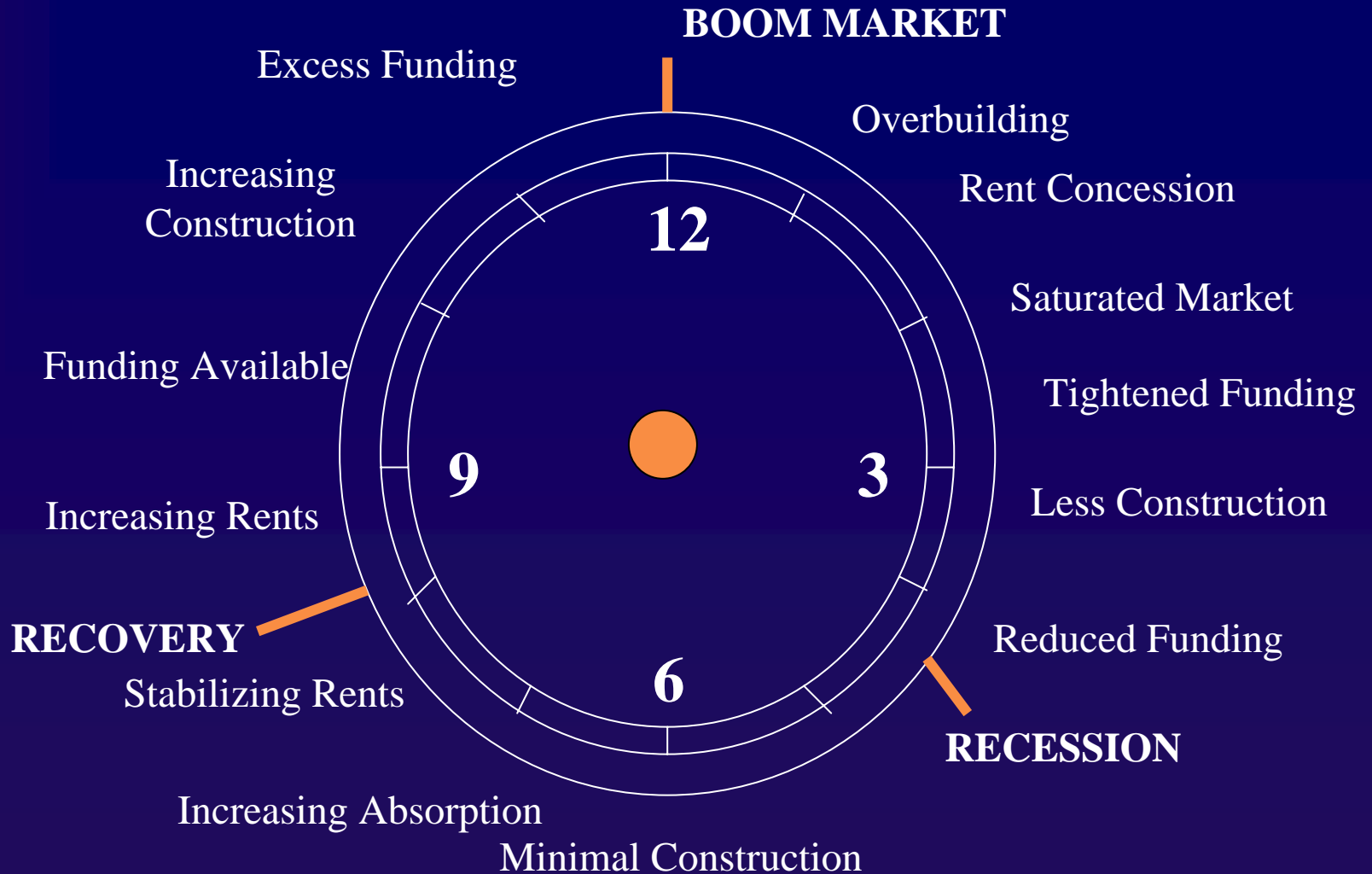


Decentralised New Office Developments (Jhb)

Source: SAPOA



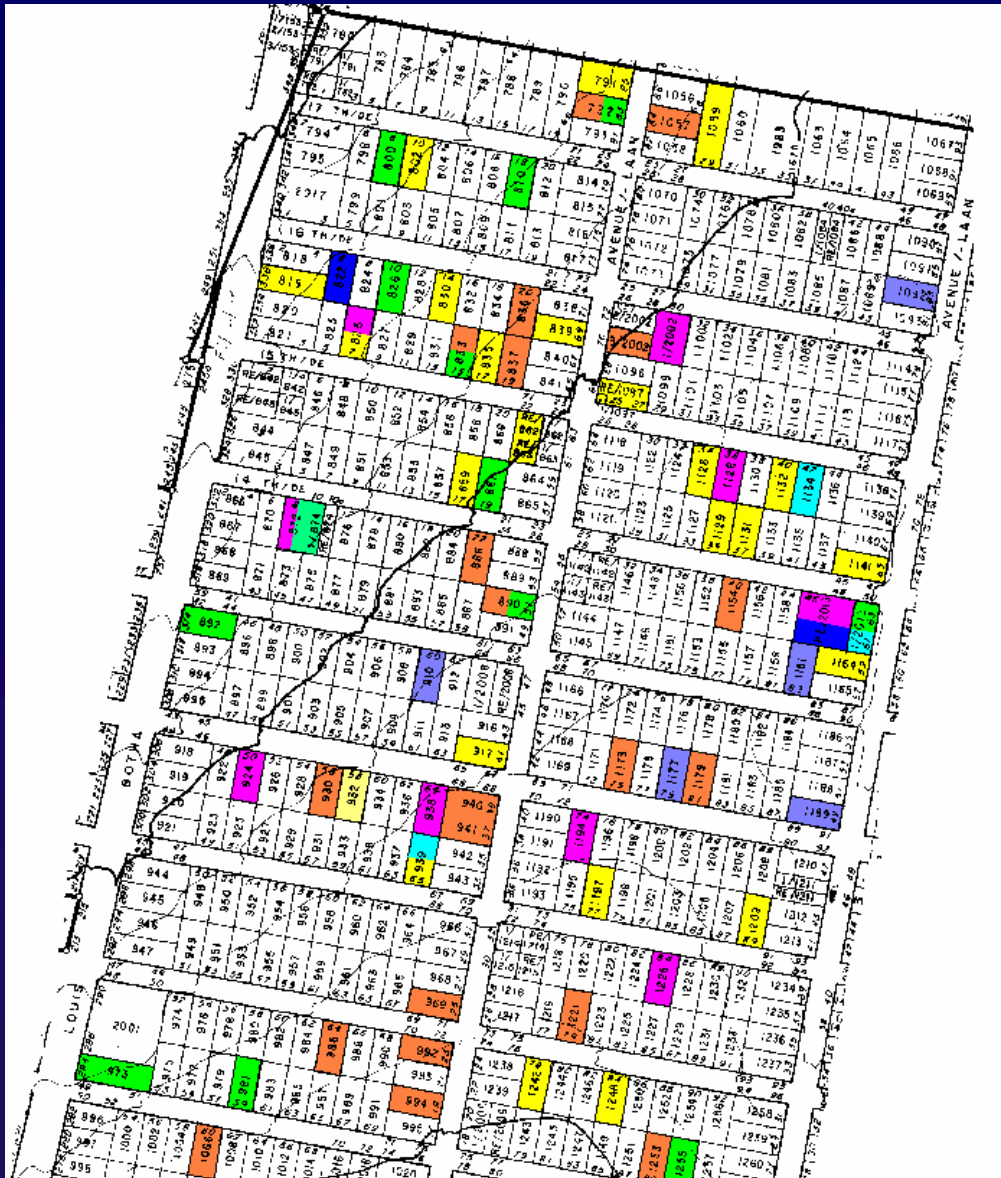
The Real Estate Clock



Counting Buildings



Orange Grove : Sales 2003



- < R150,000
- R150 – R199,000
- R200 – R249,000
- R250 – R299,000
- R300 – R349,000
- R350 – R399,000
- R400,000

The Legislative Environment

◆ The Property Charter:

- ◆ Economic Transformation
- ◆ Unlock obstacles to ownership
- ◆ Promote investment in under-resourced areas
- ◆ Change the composition of ownership, control and management
- ◆ Skills development
 - 30% black people in senior management
 - 15% black women in Senior Management
- ◆ Procurement
 - 70% from BBBEE.
 - 40% from level 1-4.

Policies and Bills ..

- ◆ **Rental Housing Amendment Bill, 2006**
 - ◆ Rental Tribunals, decide on evictions.
- ◆ **Draft Social Housing Bill, 2006**
 - ◆ Create a sustainable Social Housing Environment.
 - ◆ Social Housing Regulatory Authority (SHRA)
- ◆ **Housing Consumers' Protection Measures Amendment Bill (HCPMAB)**
 - ◆ Who is and who is not a builder
 - ◆ Regulate individuals or companies that build homes.
 - ◆ Conveyancer needs to make sure that the builder is registered with NHBR, before registration of a mortgage.
- ◆ **Immovable Asset Management Bill, 2007**
 - ◆ Government Asset Management Bill, 2007
 - ◆ Will influence how government uses its assets.
- ◆ **Municipal Property Rates Act**
 - ◆ Rating on land and Improvements
 - ◆ Rating every four years
- ◆ **National Credit Act**
 - ◆ Full credit history
 - ◆ Expenses
 - ◆ Move to Rental Market

Policies & Bills

◆ National Environment Waste Bill

- ◆ The disposal of waste
- ◆ Littering

◆ Inclusionary Housing

- ◆ Mixing high and low cost housing
 - Infrastructure
 - Finding a voluntary solution

◆ Foreign Land Ownership

- ◆ Is this a town planning or ownership issue?
- ◆ The purpose remains unclear

◆ Amendments to the Provision of Land assistance Act of 1993

- ◆ Land First offered to the public sector



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For Further information:

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