

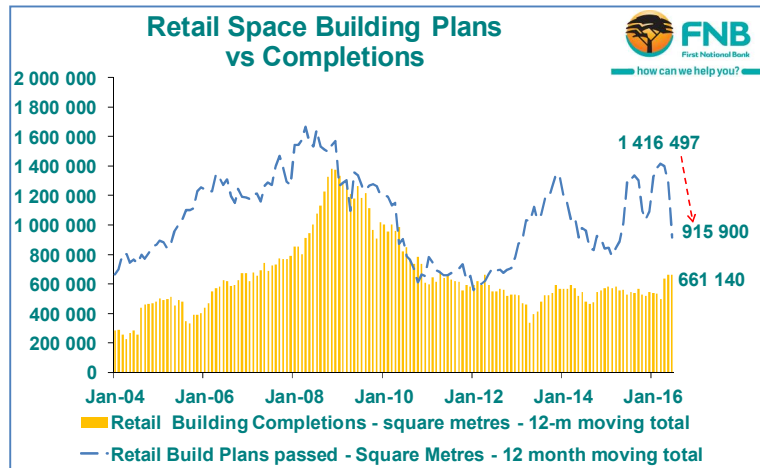
## PROPERTY BAROMETER – JUNE RETAIL BUILDING STATISTICS

Retail Property still being built at a brisk pace, but signs of slowdown have begun to emerge

18 August 2016

June Retail Building Statistics complete the 2<sup>nd</sup> quarter building picture, and pointed to a still-brisk pace of Retail Space building activity for the 2<sup>nd</sup> quarter as a whole.

216,627 square metres of additional shopping space were completed in the 2<sup>nd</sup> quarter of 2016, which represents a growth rate of 314% on the 2<sup>nd</sup> quarter of 2015. However, it must be borne in mind that the small number of relatively large scale projects in the Retail Building Sector means that from month to month and even quarter to quarter the completions figures can be extremely volatile.

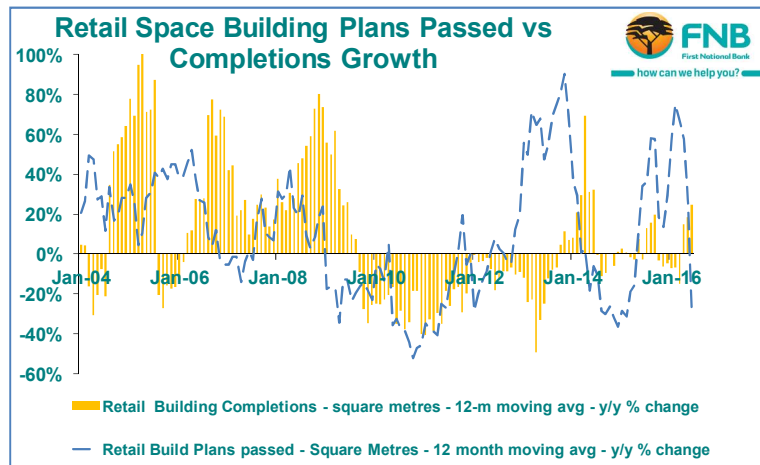


We thus work on a 12-month moving total in order to smooth the data and make sense of it. The 12-month moving total for Retail Space completed for the 12 months up until the June 2016, too, showed a high level of 661,140 square metres completed. This represents year-on-year growth of 25%.

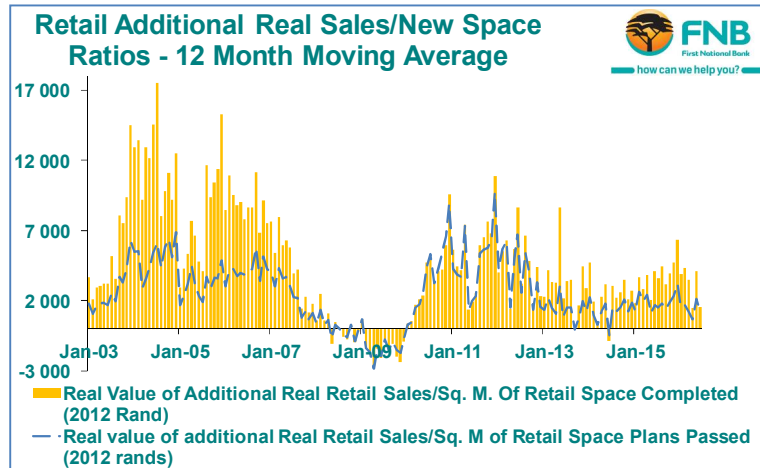
The level of Retail Building Plans Passed, however, makes for even more spectacular viewing, measuring 915,900 square metres for the 12 months up until June 2016.

While still high compared to the post-recession low of 558,006 for the 12 months up to January 2012, it does appear that Retail projects in the planning stages are beginning to subside in total magnitude, and the 12-month total to June 2016 for plans passed represents a year-on-year decline of -30.2%.

Given that Real Retail Sales growth has been slowing recently, it is important that the level of Retail Building Space planned and completed does taper off in the near term, should the sector wish to avoid significant vacancy rate increases.



We update our 2 simple ratios to provide a broad indication as to whether the risk of a rising national vacancy rate could be changing as a result of changes in either the levels of retail sales growth or due to new space development.

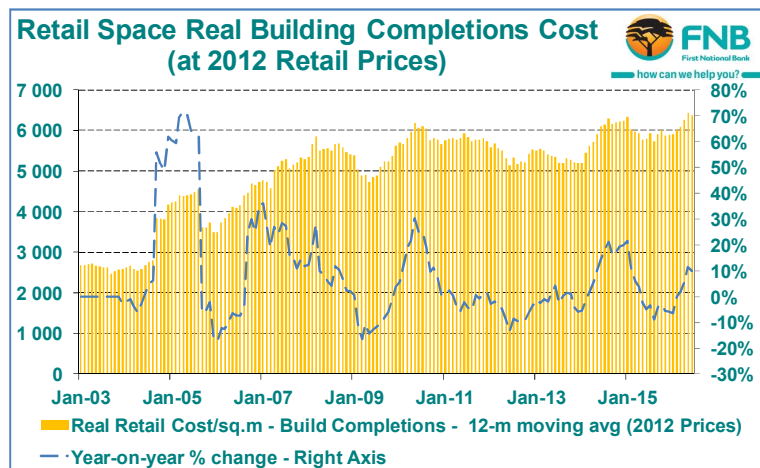


These 2 ratios are the “Real Value of Additional Retail Sales /Sq. m. of New Space Completed” per period, and the “Real Value of Additional Retail Sales/Sq. m. of New Space Plans Passed” per period.

Since a high at the end of 2015, we have seen some decline in both of 2 ratios, a function of some slowing in real retail sales growth in 2016, but also of still-high rates of planning and completion of Retail Space.

Since a high average of R3,178/square metre (at 2012 prices) in additional real retail sales/new square metres of Retail Space planned per month on average for the 12 months to December 2015, the ratio has declined to R1,122/square metre by the 12 months to June 2016..

Simultaneously, the Additional Real Retail Sales/New Square Metres Completed declined from R6,335/square metre to R1,555/square metre over the same period.



Finally, calculating Retail Building Cost Per Square Metre for Retail Space Completed, we see the year-on-year inflation rate in this building cost upon completion running at 10% year-on-year using a 12-month moving average to June 2016.

In conclusion, the declines in the 2 “Additional Real Retail Sales/Sq.m of New Space Planned/Passed” ratios in the 1<sup>st</sup> half of 2016 continue to point to increasing risk of rising retail vacancy rates to come in the near term. It is important for the strength of the Retail Property Market that the pace of development of new Retail Space slows in the near term, given slowing growth in retail sales. Fortunately, the Retail Plans Passed data has begun to provide clearer indication of such a slowdown in the making.

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