

2006 Highs In Commercial Building

According to John Loos, property strategist for FNB Commercial Banking, the release of December building statistics by StatsSA for the year 2006 reported that the real value of building plans passed reached the highest level on record, and probably safe to say the highest level ever, finally surpassing the previous record set in 1982 around the gold boom period.

Says Dr Charles Martin, senior economist at the Bureau for Economic Research (BER): "According to the BER's qualitative business surveys, building activity (the real value of building plans passed) is now equal to or even higher than that prevailing during the 1981 to 1982 period. The latter period represented a major boom in the economy and building industry.

"The difference this time is that the upswing in the economy, which started in September 1999, is much longer, although perhaps not as robust. The typical reaction to this upswing is that demand for non-residential building construction is boosted by this long growth phase in the economy."

For 2006 in total, StatsSA figures showed a 21% rise in the real value of total commercial building plans passed, reaching an all time high level. "The real value of commercial building completions has some way to go to passing its previous record set in 1985, but nevertheless rose again, by 21,8%, the fourth successive year of increase in real terms. Judging by the gap being opened up between the real value of plans passed versus completions, it would appear that the rising long term trend in real value of completions has some years to go," says Loos.

Office space remains the laggard, and saw a decline in new stock completed. "However, a further rise in the square metreage of plans completed and very low vacancy rates still indicate that this sub-sector's great contribution to the building numbers has yet to come," says Loos.

Martin points out that if office space completions are calculated on a square metreage basis, then its completions declined in 2006. "If you compare the square metre completion figures for office space from January to December 2006 and those from January to December 2005, then office space completions have been declining by 34%," he says.

"Building plans passed over that period for office and banking space show a 57,5% increase, implying we could see solid activity in that market for the year ahead.

"Building plans passed (measured on a square meter basis) for industrial space over that period show a 30,8% increase, while retail space declined by 17,5%."

Martin says this constitutes evidence that shopping space is adequately supplied, especially in view of the fact that consumer expenditure is expected to moderate in 2007. "Developments in respect of industrial space is still in positive territory and could improve further as the weaker rand should boost fixed investment in land and buildings in the manufacturing sector during this year," he says.