

## **South Africa Direct Property Good Asset Class**

When compared with other asset classes, SA direct property was trumped by equities and listed property in 2009, but it outperformed the bond market.

These findings emerged from the SAPOA/IPD South African Property Index for 2009, which also showed that over three years, direct property outperformed all other major asset classes.

The index showed that long-term property returns are still in double-digits, with three and five year annualised total returns at 16,2% and 21% respectively. Over the full 15-year history of the index, annualised total returns now stand at 15,9%.

The SA commercial real estate market delivered a total return of 8,7% in 2009.

SA's high domestic annual inflation, relative to most mature global investment markets, at 6,3%, is such that the nominal total return for last year is substantially eroded to 2,3%. The nominal return is comprised of a 30 basis points capital growth, the lowest since 2002, and a resilient 8,4% income return.

SA's performance in 2009 was underpinned by strong net income growth at 9,4%, and very stable income returns of 8,4%. The latter is only 8 basis points down on 2008.

Assessing the commercial market down per sector, the index showed that the strongest capital growth occurred in the retail sector, at 0,9%. At the other end of the spectrum the biggest slider was offices with -1,2% while industrial declined by -0,6%.

Income returns for retail were 7,8% while offices and industrial both achieved 9,2%.

"While nominal returns were strongly in the black, the figure marks the second consecutive year of performance decline in South African property markets following the boom years between 2004 and 2007," said Stan Garrun, managing director of IPD South Africa.

"Given the state of the domestic economy and the relationship between the national real estate market and the wider global downturn, the real inflation-adjusted total return is still remarkably resilient."

Garrun said the 2009 index shows relative strength that can partly be ascribed to less severe financial disruption than in other markets and continuing solid property fundamentals. "Resilient rental growth and occupancy levels have been maintained while development has been minimal.

"As a result, SA real estate has not been re-priced to the extent it has in other mature property markets."

South Africa has produced the highest nominal return of the 11 countries for which IPD has released results to date. Virtually all commercial real estate markets measured by IPD fell into negative territory over the past two years, including the USA, Canada, Australia, New Zealand and Japan.

The UK market, which was the first to decline, appears to be in recovery after a 3,5% return was delivered last year. This was a significant turnaround from the -22,1% in 2008.

The US, the world's largest commercial real estate market, suffered a steeper negative return last year, at -17,5%, compared to 2008's -7,3%.

Throughout the rest of Europe, 2009 annual returns published thus far have generally been positive, the notable exception has been Ireland, which delivered a -23,3% return, while the Netherlands returned -0,2%. Denmark returned 3,9%, Finland 3,8% and Sweden 1,4%.

Elsewhere, returns in Canada were -0,3%, Australia -2,2% and New Zealand -4,1% – all of which were worse than in 2008.