



THE SIZE OF THE SOUTH AFRICAN PROPERTY SECTOR

**RESEARCH REPORT
Financial year 2014/2015**

October 2015

Foreword

The Property Sector Code was first gazetted in June 2012 and this was certainly a significant milestone for the property sector in general and the Property Sector Charter Council (PSCC) in particular.

In 2013 the Department of Trade and Industry revised the Broad Based Black Economic Empowerment (B-BBEE) Act 53 of 2003 and with this revision - the Property Sector Code had to realign its sector code to the revised B-BBEE framework. It took the PSCC technical committee a great effort, time and commitment to arrive at the final agreed Property Sector Code. And we are grateful for great energy and commitment that was invested by this committee and all other contributions.

Both the BBBEE Act notice 112 of 2007 (Gov Gazette 29617) clause no. 5.4.2.2 and the constitution of PSCC compels and imposes the executive authority and responsibility on the PSCC to “compile annual reports on the state of BBBEE within the Property Sector based in relation to the transformational objectives set out in the Sector Code”.

This report is used assess and record the progress (or lack thereof) of transformation in the property industry, in compliance with the Department of Trade and Industry’s BEE requirements, and to produce annual reports for the relevant bodies, setting out our findings.

There is a quote that is famously attributed to management guru Peter Drucker which says: “If you can’t measure it, you can’t manage it,” – and that is exactly why this research is important. If we are to deliver meaningful reports, we need to know what we are measuring and we need a baseline from which to begin and continuous measure in order to track trends.

With the realisation of the importance of the research, PSCC formed a research committee that guides all the relevant research under taken under charter council. To-date this research committee has produced the following research reports:

Phase	year	Research Report Topic	Aim and content of the Report
Phase 1	2012	The Size of the South African Property Sector”	<ul style="list-style-type: none"> This study aimed to size the South African property market as at the end of 2010 to provide a starting point against which various transformation charter imperatives could be assessed. <p>The aim of the research was to create a hub of knowledge about the size of the SA property sector, consolidating information and developing a common and consistent understanding of the sector for all participants.</p>
Phase 2	2013	Impact of the South African Real Estate on the National Economy	<ul style="list-style-type: none"> Examined and analysed the annual income flows generated by the property sector. Property Sector’s contribution to South Africa’s GDP and contribution to the national fiscus The analysis encompassed the entire life cycle of a building, from development concept until demolition of the building, and looked at the financial revenues attributable to the existence of the property during that life cycle It also looks at buildings from an ‘object’ and an ‘investment asset’ perspective.
Phase 3	2014/2015	State of Transformation Report for the Property Sector	<ul style="list-style-type: none"> Status of transformation in line with the Property Sector Code Scorecard as set out in the Gazette no. 35400

All the above are a just merely the beginning on a continuous research reports that the committee will generate as we review them ever so frequently.

This report is a review of phase 1: "The Size of the South African Property Sector" of 2012. The report aims to provide an updated, accurate sizing of the South African property market as at the end of 2014/5 with the intention of providing improved granularity in the public sector and residential sectors

We would also like to thank our research committee for their tireless efforts in ensuring that this project moved swiftly from concept to reality. Everyone involved is an expert in their particular field and has made a selfless and forward-looking contribution to the project. The research committee includes the following members: Mashilo Pitjeng (chair). Musa Ngcobo, Prof Francois Viruly, Kgaogelo Mamabolo, Elaine Wilson, Unathi Kunju, Maande Mphaphuli and Portia Tau-Sekati (CEO of the PSCC).

As work progresses, we hope to build a better and clearer picture of the Property Sector. We welcome any contributions from experts and industry participants which will assist us in improving the quality and accuracy of the research.

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Context

The proposed research is an update of the 2012 research study entitled “The Size of the South African Property Sector”. This study aimed to size the South African property market as at the end of 2010 to provide a starting point against which various transformation charter imperatives could be assessed.

The aim of the research was to create a hub of knowledge about the size of the SA property sector, consolidating information and developing a common and consistent understanding of the sector for all participants. The report constituted a first step of a larger project by the Property Sector Charter Council. Subsequent phases involved an analysis of the Property Sector’s contribution to South Africa’s GDP as well as ownership and activity patterns within the sector, and was informed by input received from this report

However, since the initial research was completed, a combination of low interest rates and an improved macroeconomic environment has resulted in an increased supply of new buildings as well as refurbishment of existing buildings by both the private and public sectors. Property values have also increased on the back of improved rental growth and an improved outlook.

Therefore, the update of the research will aim to provide an updated, accurate sizing of the South African property market as at 2014/2015 with the intention of providing improved granularity in the public sector and residential sectors.

COVERAGE

The 2014/2015 review of the South African property market's size was expanded to include the following market segments:

1. Commercial Property
2. Residential

Formal Residential

Informal Residential*

3. Public Sector

State Owned Enterprises (SOEs)

9 metropolitan and 10 selected local municipalities

Public Sector – Dept. of Public Works*

4. Zoned urban land

* New Coverage

Approach

The starting point for this research was the initial research released in 2012 which was based on a baseline date of December 2010.

Any approach must ultimately permit the estimation exercise to be regularly reviewed, both initially and over the longer term and as new information surfaces.

3. Estimate market size

The first version of this research – released in 2012 & based on 2010 data – acted as a baseline for this update. Where deemed fit, the same sources of information was used.

3. Segment market

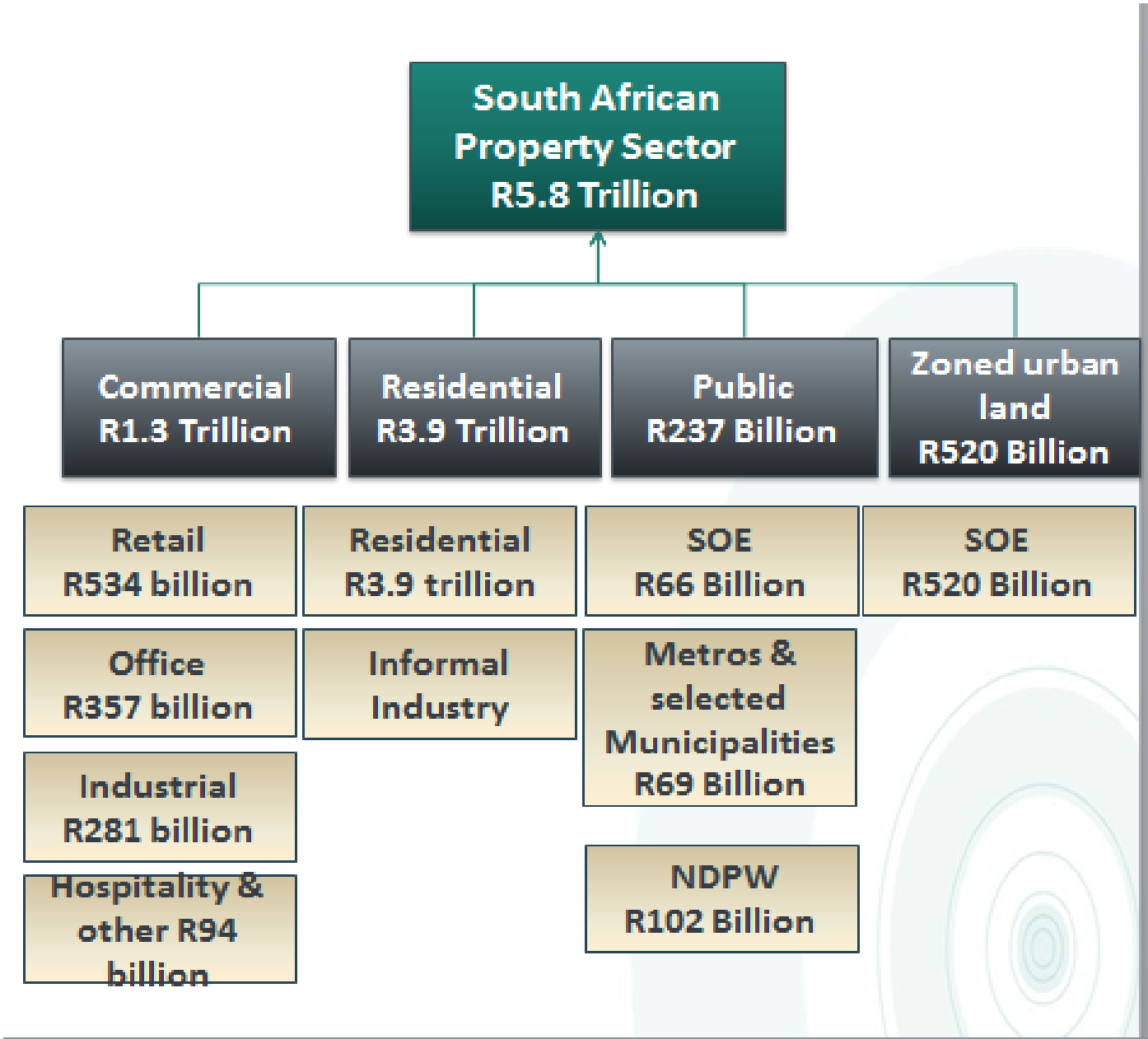
A primary basis for segmentation was identified per sector. It is important to ensure that the market segmentation is both meaningful and relevant

3. Apply value factor

The 2012 release of this research acted as a baseline with respect to the value that was applied to each market segment. The baseline capital value per square meter was projected forward based on IPD data per segment

Headline Results Overview

Rand Billions



Headline Results Overview

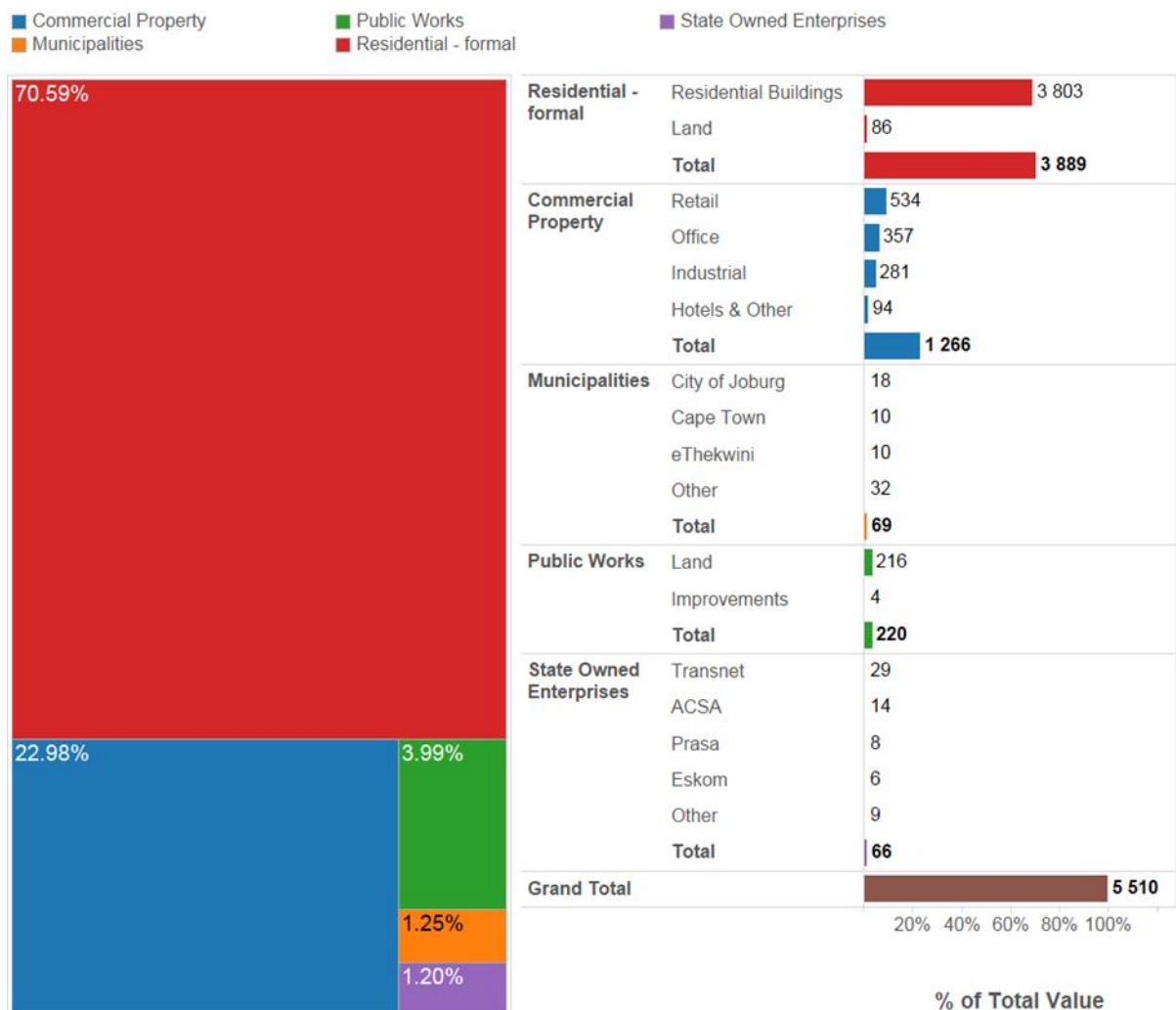
Rand Billions

The size of the South African property market was estimated at R5.5 trillion for 2014/2015.

The residential sector accounted for the bulk of this at R3.9tn or 72.5%.

The commercial property sector contributed 23.6% of the total with the balance accounted for by the public sector in the form of municipalities, Public Works and State Owned enterprises.

The graphic below summarises the results of the research



Commercial Property

Institutionally Owned,
Professionally Managed



COMMERCIAL PROPERTY SECTOR

R1.3TN

Property Type	Owner Type
Retail R534bn	REITs R297.7bn
Office R357bn	Unlisted Funds R130.7bn
Industrial R281bn	Life & Pension Funds R48.6bn
Hotel R74bn	Corporate/Other R789bn
Other R20bn*	

* Estimate for "Other" category
Based on IFO Database

Key findings

The size of the commercial property market was estimated at R780bn in 2010.

Based on 2014/2015 data, this number is now estimated at R1.293 trillion.

The majority of this increase was as a result of capital appreciation- 40%+ for all three main commercial property sectors – although there has been a significant increase in gross lettable area through new development and refurbishment.

On a sector level, the largest increase in market size was observed in the hotel sector where a combination of higher construction cost and a significant number of new builds resulted in a 64% increase.

The largest increase in floor area was recorded in the Office sector where floor area increased by 2.5% CAGR for the period 2010-2014.

The listed property sector continues to increase its ownership share and as at December 2014 this stood at over R297bn. Life & Pension funds accounted for around R49bn while the capital value of properties owned by unlisted funds stood at around R131bn.

Headline Results Per Sector:

COMMERCIAL PROPERTY SECTOR

1

Estimate market size

BUILDING ON PSCC BASELINE STUDY DATED 2010

millions of square meter

RETAIL	OFFICE	INDUSTRIAL	HOTEL
39.8	32.2	58.9	61.5*

* Thousands
of rooms

2

Segment market

TO ACCURATELY ESTIMATE VALUE

primary basis of segmentation

RETAIL Size	OFFICE Grade	INDUSTRIAL Segment	HOTEL Rating
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3

Apply value factor

BASED ON 2014 YEAR END DATA

Rand ('000) per square meter; weighted average

RETAIL	OFFICE	INDUSTRIAL	HOTEL*
13,604	11,088	4,780	1,146

* Rand ('000)
per key

MSCI



PROPERTY
CHARTER

CHANGE IN market size 2010-2014

Retail

Formal retail estimated at 20.7m m2 based on SACSC directory (2013) & workings by MSCI Real Estate (2014)

Traditional retail estimated at 18m m2 in 2010 – this was projected forward at a rate of 6.1% (or 1.5% CAGR) based on building completion estimates from StatsSA for the period 2011-2014.

Market was segmented by type and a value applied to each segment. The value factor used in 2010 was projected forward using IPD capital growth factors.

Floor area millions of square meter; gross lettable area

2010	2014	CHANGE (%)
37.3	39.8	6.7%

Capital Value Rand per square meter; Weighted average

2010	2014	CHANGE
9,115	13,408	47%

Market Size Rand billions

2010	2014	CHANGE (%)
340	534	57%

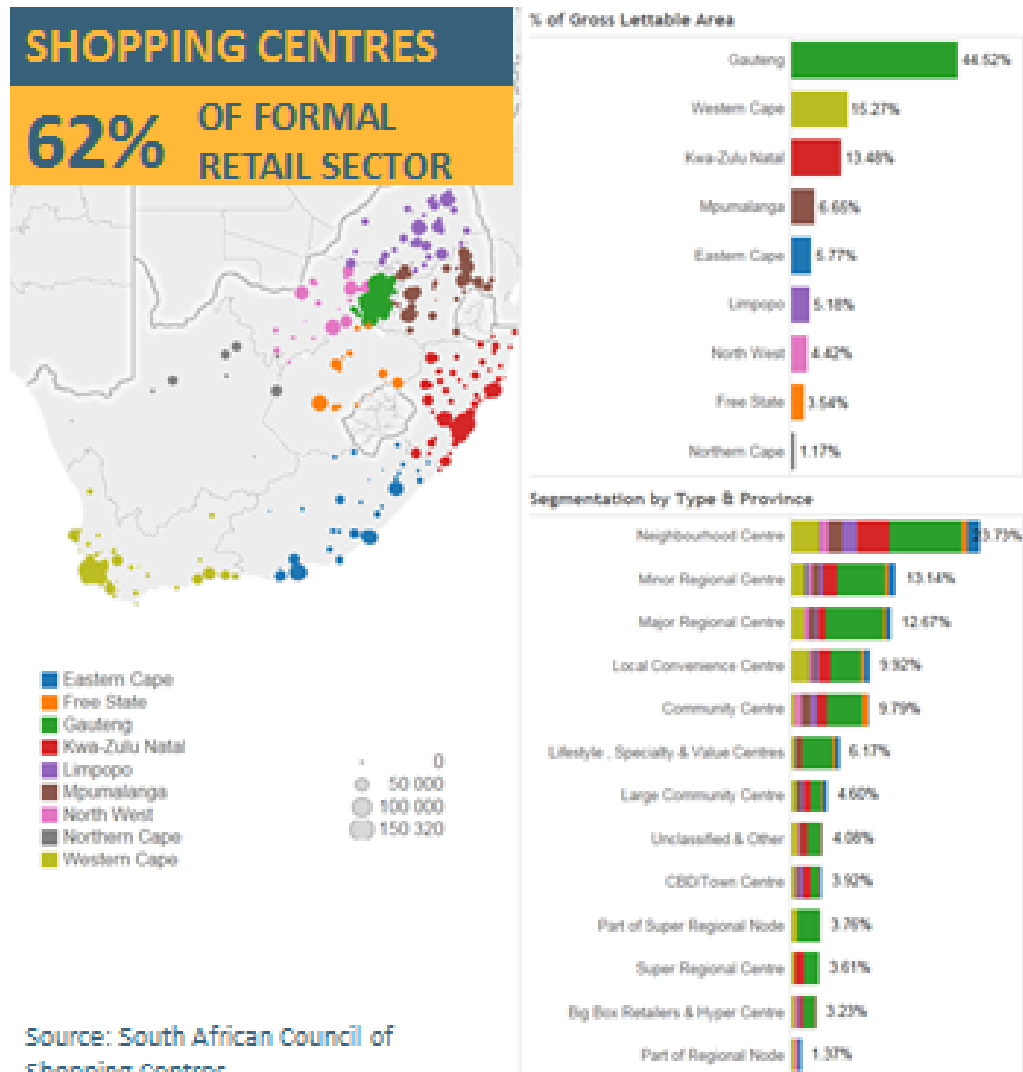
MSCI 

Source: MSCI Real Estate, SACSC, StatsSA



Retail Shopping Centres

SPLIT OF Gross lettable area by type & province



CHANGE IN market size 2010-2014

Office

The SAPOA OVS provides a figure of 16.8m m2 as at the end of 2014 - with an estimated coverage at around 85%.

An additional 14.8m m2 of space is added to account for areas not covered by the SAPOA OVS. (14m m2 in 2010 escalated by 1.8% CAGR based on StatsSA building completions.

Market was segmented by grade and a value applied to each segment. The value factor used in 2010 was projected forward using IPD capital growth factors

Floor area millions of square meter; gross lettable area

2010	2014	CHANGE
29.2	32.2	10.3%

Capital Value Rand per square meter; Weighted average

2010	2014	CHANGE
7,808	11,088	42%

Market Size Rand billions

2010	2014	CHANGE (%)
228	357	57%

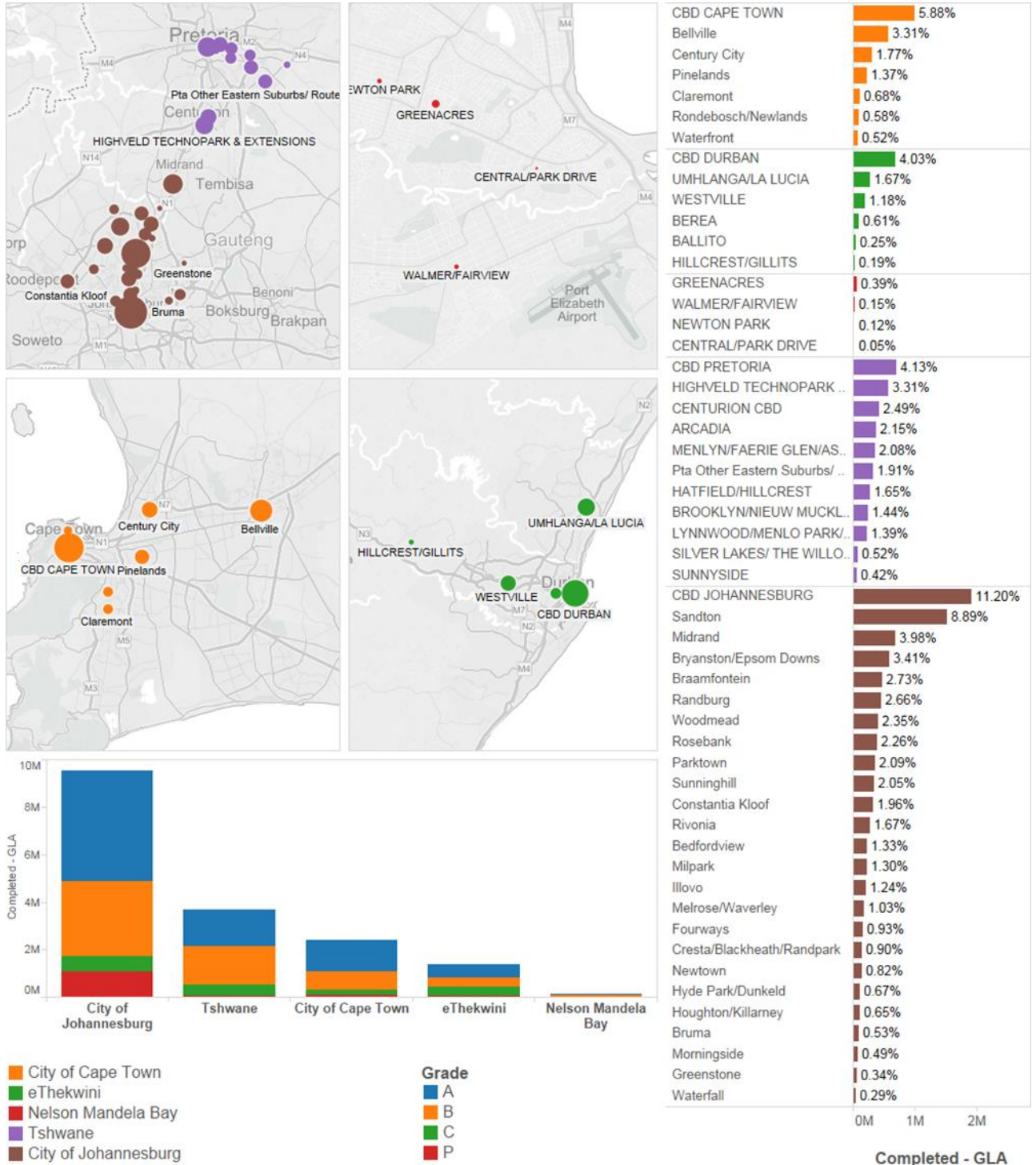


Source: MSCI Real Estate, SAPOA, StatsSA



OFFICE – major nodes

SPLIT OF Gross lettable area by NODE & GRADE



CHANGE IN market size 2010-2014

Industrial

- Industrial market size was estimated at 55m m² in 2010 – based on 2007 BMI estimates and StatsSA industrial & warehousing building completions for 2008-2010.
- Market was segmented by property type and a value applied to each segment. The factored-down value factor used in 2010 was projected forward using IPD capital growth factors.

Number of rooms

thousands

2010	2014	CHANGE
58.8	61.5	4.6%

Capital Value

Rand ('000) value per key

2010	2014	CHANGE
729	1,146	57%

Market Size

Rand billions

2010	2014	CHANGE (%)
42*	74	64%

* Restated based on
new methodology

MSCI 

PricewaterhouseCoopers LLP, Wilkofsky Gruen
Associates


PROPERTY
CHARTER

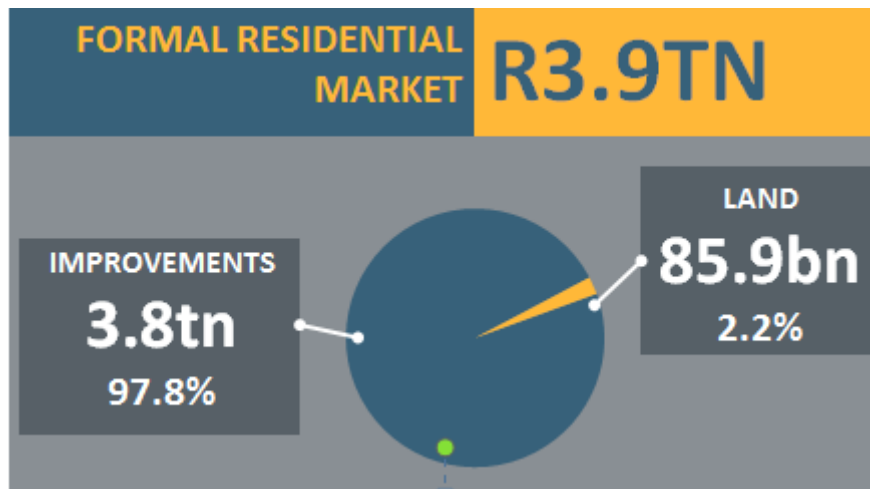
RESIDENTIAL PROPERTY

Formal Residential sector



RESIDENTIAL PROPERTY

FORMAL RESIDENTIAL MARKET; RAND BILLIONS

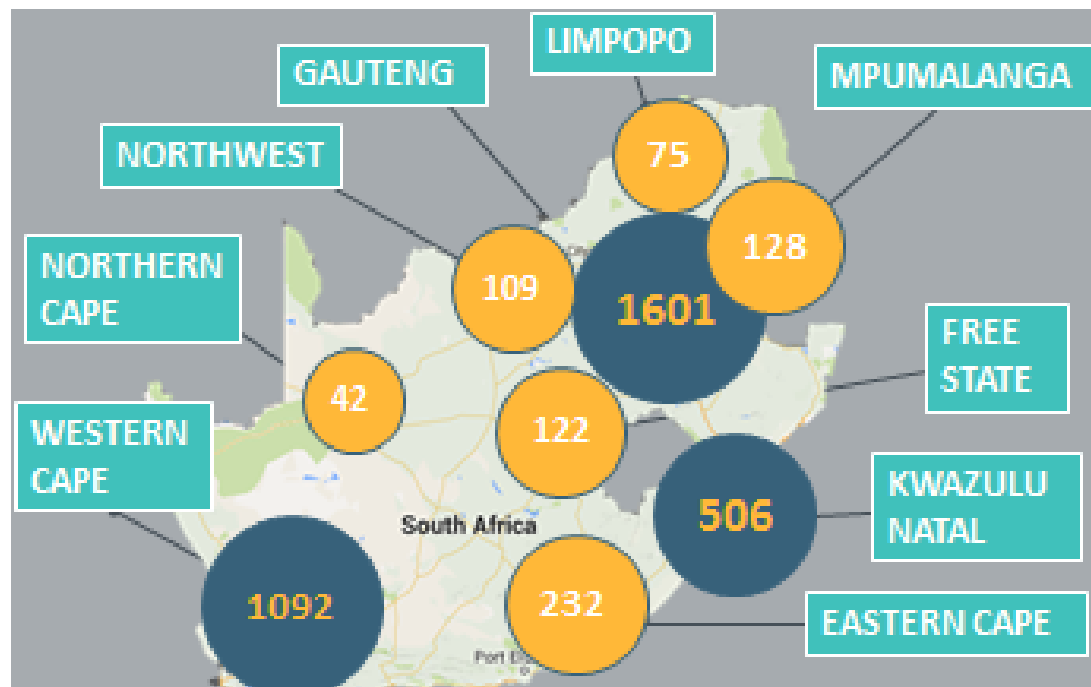


The registered South African residential property market comprises of 6.1 million properties worth R3.9 trillion.

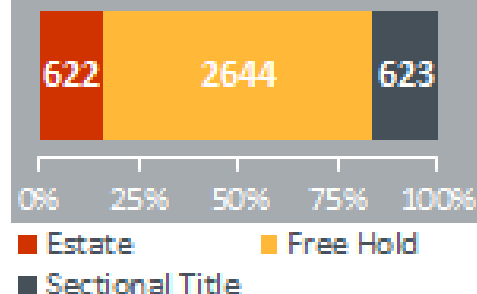
The estimated size of the formal residential market is based on research by Lightstone – a company that analytically identifies the residential property market making use of the following variables:

1. Municipal zoning
2. Private vs. Non Private ownership (also analytically identified);
3. Property Type (e.g. farms are identified and removed);
4. Lightstone's market value modelling, and
5. Purchase Price

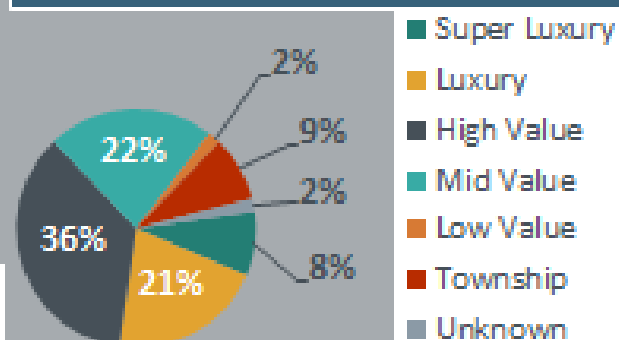
RESIDENTIAL PROPERTY GEOGRAPHICAL SPLIT; RAND BILLION



PROPERTY TYPE (R bn)



VALUE BAND (% BY VALUE)



Super Luxury: areas characterised by houses valued at over R3m

Luxury: R1.5m - R3m **High Value :** R750k – R1.5m

Mid : R250k– R750k **Low Value:** < R250k

RESIDENTIAL PROPERTY

Informal Residential Industry



METHODOLOGY

INFORMAL RESIDENTIAL SECTOR

Data was also obtained from the National Department of Human Settlements (DHS) and the they use both data from DHS the HAD both of which rely principally on data collected by other entities such as provincial departments, municipalities and private companies. Provinces and municipalities collect data on informal settlements using survey and non-survey methodologies most typically through aerial photography.

While this methodology cannot provide a detailed profile of the households in the settlement it can provide a basis to estimate the number of structures, households and individuals that are in each settlement. In some cases municipalities augment this data with internally generated data on municipal service provision as well as the location of points of service (such as education, health care and transport).

Eighty20 engaged with each province and the larger municipalities (where possible) via email and telephonic communications in order to obtain and understand these estimates and methodologies.

DEFINITION: INFORMAL SETTLEMENT

The census defines an informal settlement as: 'An unplanned settlement on land which has not been surveyed or proclaimed as residential, consisting mainly of informal dwellings (shacks)'. In turn, the census defines an 'informal dwelling' as: 'A makeshift structure not erected according to approved architectural plans'.

INFORMAL RESIDENTIAL SECTOR

NUMBER OF HOUSEHOLDS

**INFORMAL RESIDENTIAL
(NR OF HOUSEHOLDS)**

543,000

PROVINCE	NUMBER OF HOUSEHOLDS	% OF TOTAL
GAUTENG	114 142	21.01%
MPUMALANGA	105 913	19.49%
NORTH WEST	102 045	18.78%
FREE STATE	63 762	11.74%
LIMPOPO	45 243	8.33%
KWAZULU-NATAL	41 078	7.56%
EASTERN CAPE	26 318	4.84%
NORTHERN CAPE	24 968	4.60%
WESTERN CAPE	19 860	3.66%
TOTAL	543 329	100.00%

Source: Department of Human Settlements

Data for the City of Cape Town (Western Cape) incomplete & to be confirmed



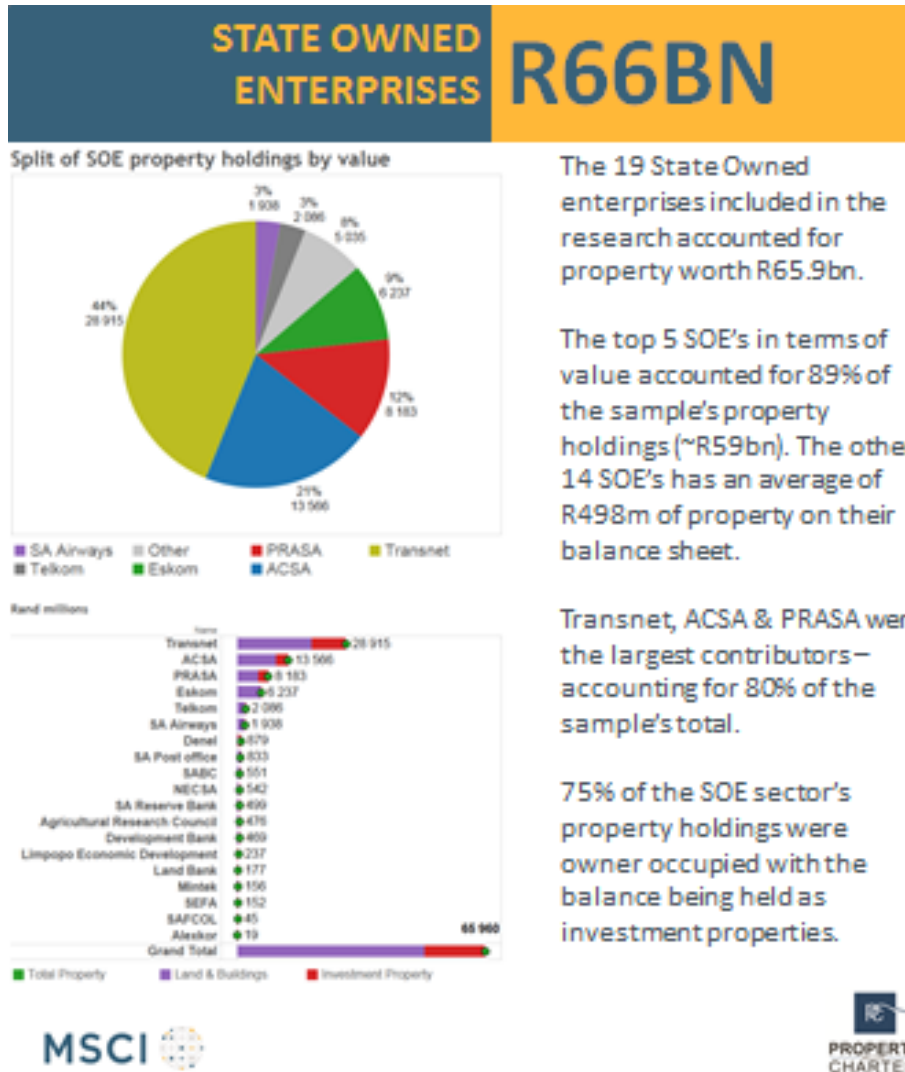
PUBLIC SECTOR

19 largest State Owned Enterprises



State Owned Enterprises (SOEs)

Values in rand millions; as at March 2015



The 19 State Owned enterprises included in the research accounted for property worth R65.9bn.

The top 5 SOE's in terms of value accounted for 89% of the sample's property holdings (~R59bn). The other 14 SOE's has an average of R498m of property on their balance sheet.

Transnet, ACSA & PRASA were the largest contributors – accounting for 80% of the sample's total.

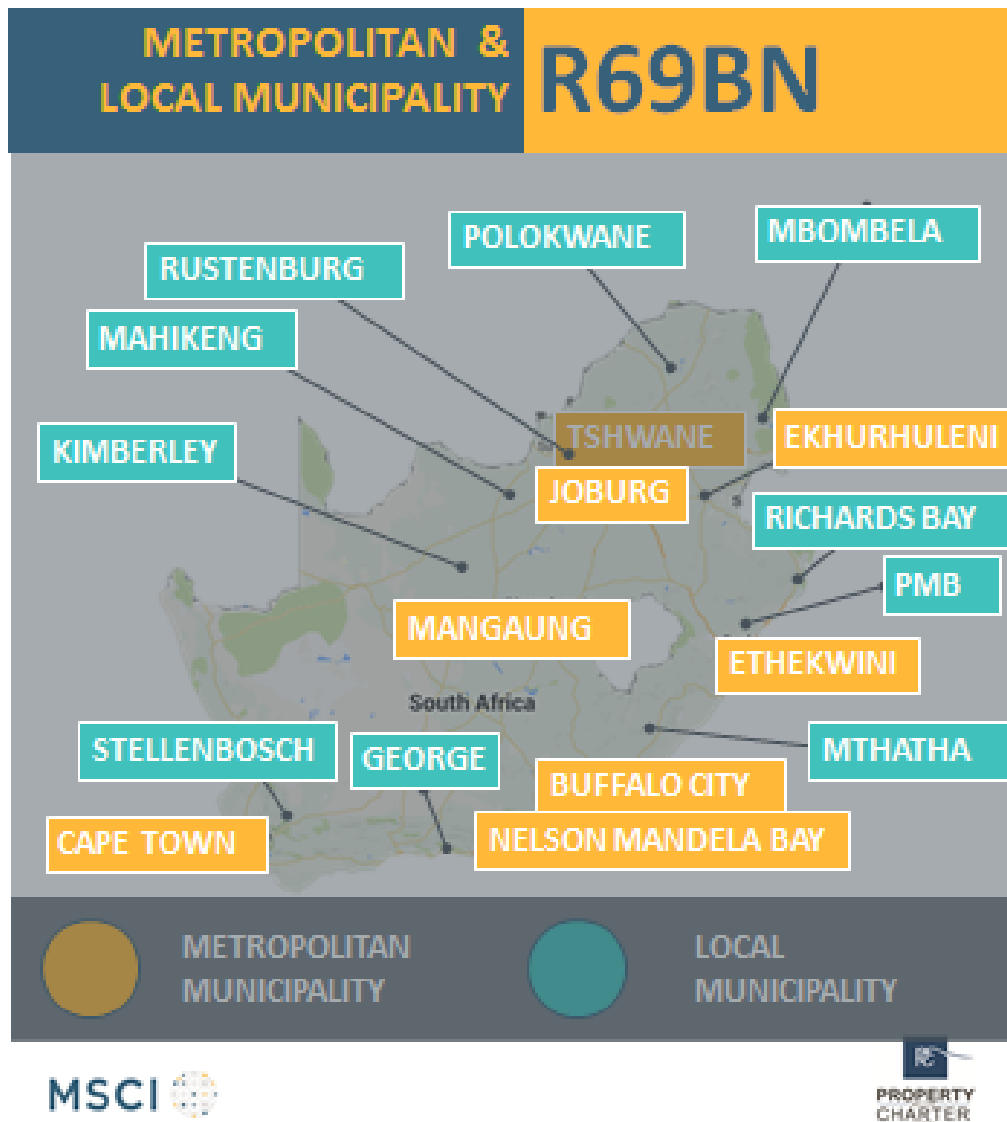
75% of the SOE sector's property holdings were owner occupied with the balance being held as investment properties.

Public sector

**9 Metropolitan & 10 Selected Local
Municipalities**

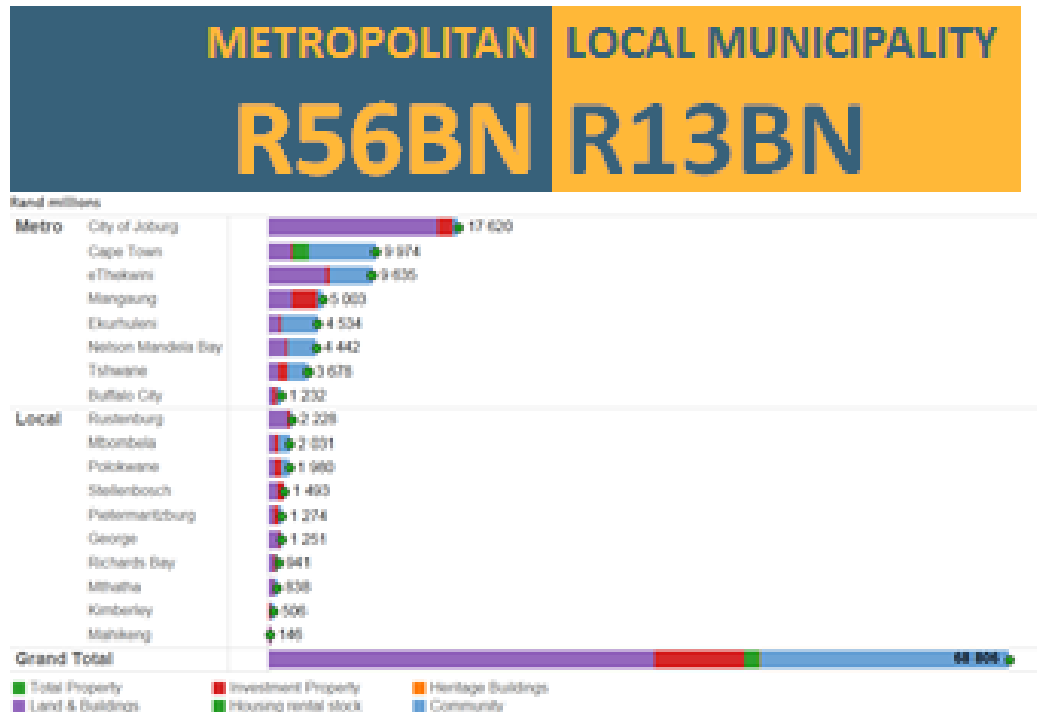


Scope – metros & selected local municipalities



Municipalities

values in rand millions; as at March 2015



The property holdings of municipalities forming part of the scope of the research was R68.8bn for the year ended March 2014.

The 8 metropolitan municipalities accounted for R56bn (82% of the total) with the 10 selected local municipalities accounting for a further R13bn. Gauteng's three metros contributed ~R24bn of the total.

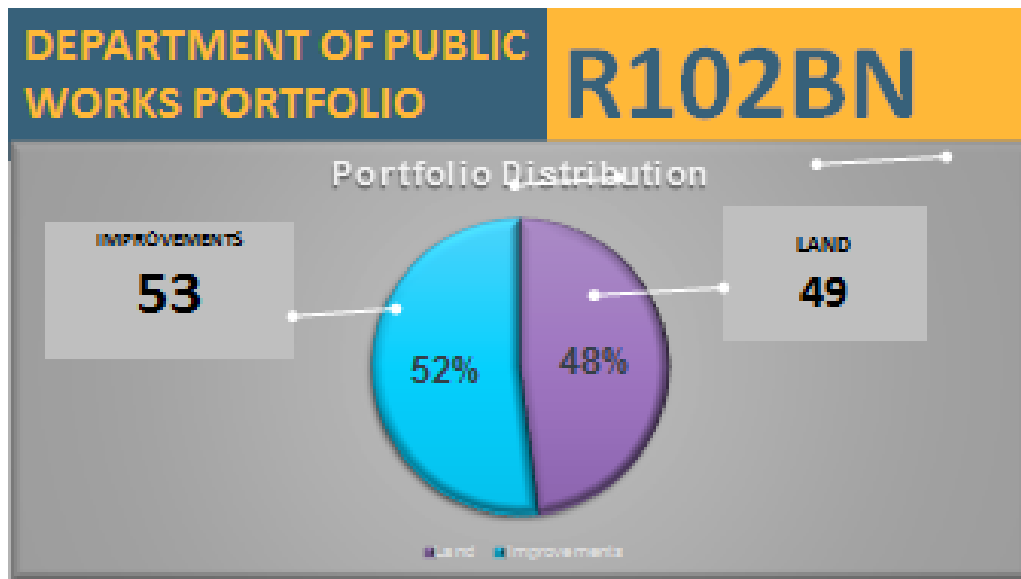
Public sector

Department of Public Works



Public Sector

The department of public works



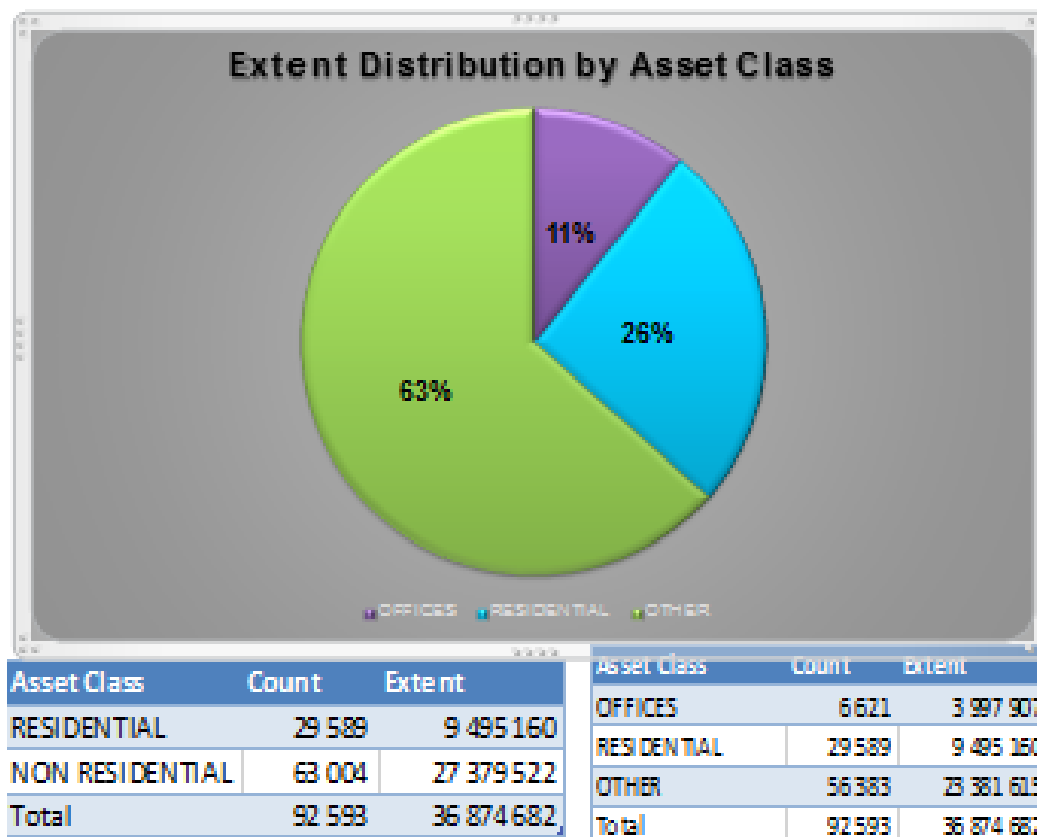
The value of the portfolio of assets under DPW is R102 billion, as at 31 March 2016.

The value stated, of the portfolio, reflects the fair value of the assets and takes into account the condition of the assets in the portfolio

The figures mentioned above are inclusive of all property types that NDPW is a custodian of. This implies that estimation of the replacement cost of the portfolio is not a straight forward one as the different property types have different replacement costs per square meter.

Public sector

The department of public works

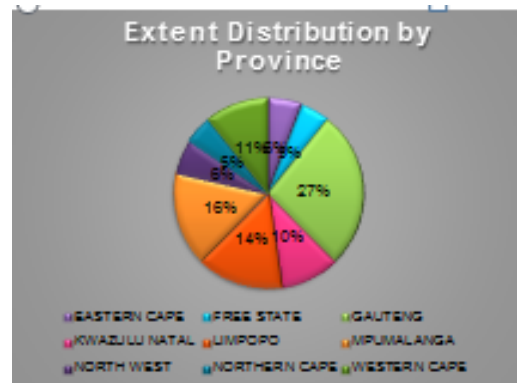


A high-level classification of the portfolio shows offices constitute 11% of total assets.

Most of the portfolio is in the form of non-residential, other asset types used in service delivery.

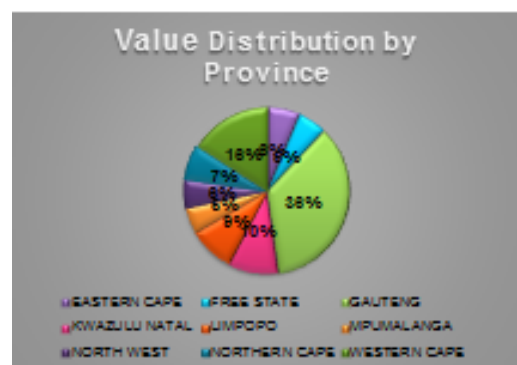
State Owned Enterprises (SOEs)

Values in rand millions; as at March 2015



Extent Distribution by Province

- Gauteng, Mpumalanga and Limpopo are the top 3 in terms of extent.
- Free State and the Northern Cape being the bottom two with the smallest portfolio in terms of extent.



Value Distribution by Province

- Gauteng, Western Cape and Kwazulu-Natal are the top 3 in terms of value.
- Free State, Mpumalanga and the North West being the bottom three with the smallest portfolio in terms of value.
- The higher proportion in terms of value for Gauteng and the Western Cape is representative of the higher unit value per square meter of property in the two regions compared to others.

ZONED URBAN LAND



ZONED URBAN LAND

estimated valuation

ZONED URBAN LAND

R520BN

From the report presented to the Minister of Agriculture and Land Affairs (2007) on foreign land ownership in SA, of the nearly 122 million hectares of land in SA, the following estimates are provided: Industrial / Commercial 274,549Ha (2.75 trillion m²) or 0.2%; Urban Residential 1,299,784Ha (13 trillion m²) or 1.1%. Residential properties can be divided into three distinctive market categories, viz. low (below 80m²), middle (between 80m² and 440m² or with a value below R2 million) and high/luxury (bigger than 440m² or with a value more than R2 million).

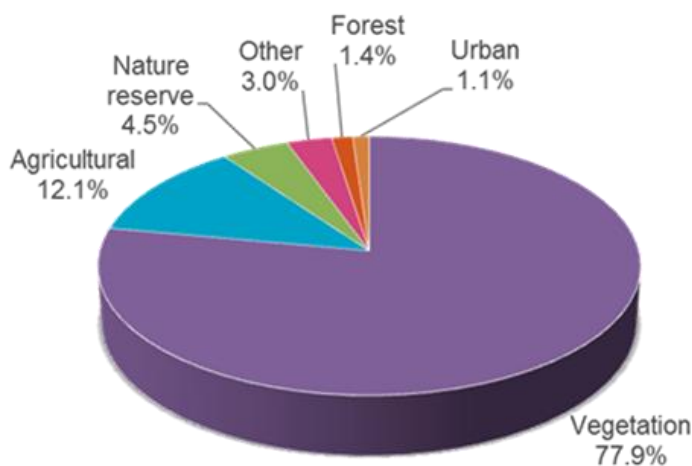
In terms of land use, most of South Africa is under natural pasture(73.2%), approximately 12% is arable productive agricultural land, and about the same proportion is allocated to nature conservation while only about 1% of the land is currently used for urban and residential purposes. An alternative breakdown offered is state land (excluding local authorities) = 20.4%, Trust land = 3.4% and Private = 76.2%.

The report also makes reference to corporate ownership across the four main land uses and by value, head count and size; to this end in terms of urban residential freehold corporates are deemed to own 63.6% by value, 4.67% by head count and 4.13% by size; in terms of sectional title the ratios are 37.97%, 16.26% and 75.93% respectively.

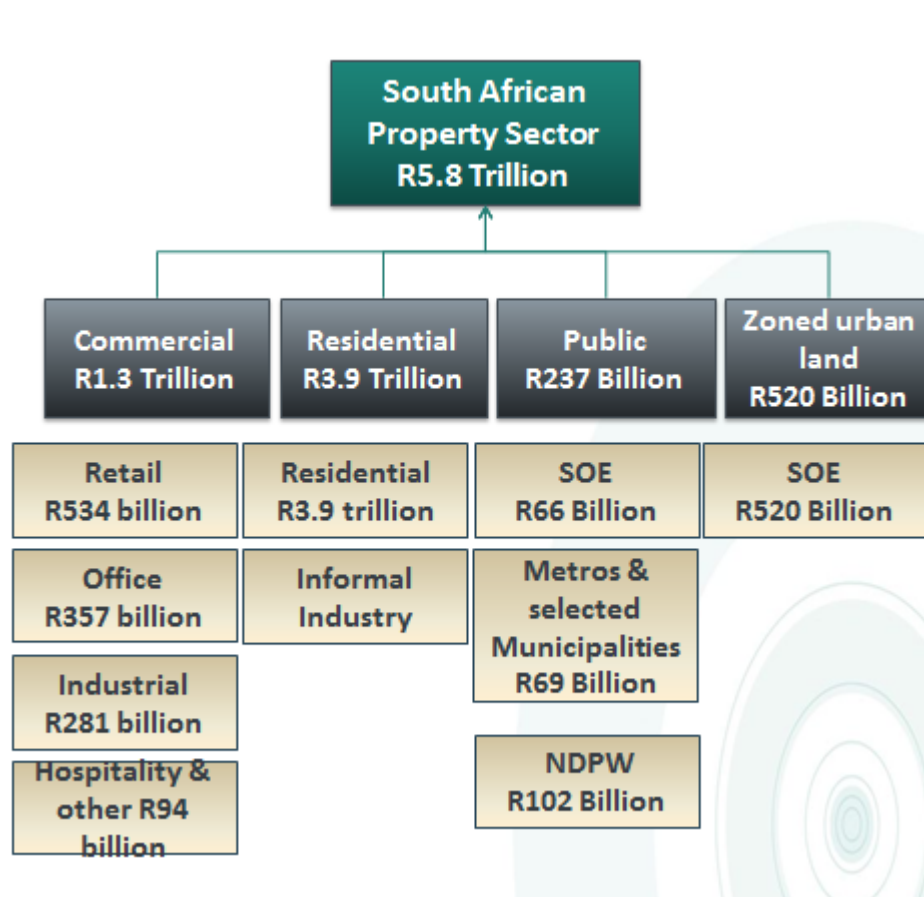
In a report on land-use for South Africa in 1994/1995 based on data obtained from the National Land-Cover Project at the CSIR Satellite Application centre: They show that the major land-use for South Africa in 1994/1995 was natural vegetation (94,999,306Ha or 77.9%), followed by agricultural land – cultivated (14,753,264Ha or 12.1%), nature reserve and conservation (5,539,320Ha or 4.5%), other land (2,459,611Ha or 2.1%), forest land (1,761,649Ha or 1.4%) and land underlying buildings and structures (1,378,952Ha or 1.1%).

ZONED URBAN LAND (cont.)

estimated valuation



The value of zoned land was calculated as the total of building areas (approximately 1 billion m² as the sum of residential, non-residential and public buildings), then applying acceptable rates of a land cost ratio of 15% and a rate per square metre of R3,500/m² to provide a total value of approximately R520 billion.



SUMMARY

STATE OF TRANSFORMATION IN THE PROPERTY

Overall Excellent performance above target

Enterprise Development – 115%

Socio-Economic Development – 115%

Still below target but good performance

Ownership – 82%

Preferential Procurement – 82%

More focus required

Skill Development – 69%

Management Control – 60%

Employment Equity – 55%

Economic Development – 54%

ACRONYMNS

ACSA	Airports Company of South Africa
B-BBEE	Broad Based Black Economic Empowerment
CAGR	Compound annual growth rate
DHS	Department of Human Settlements
DPW	Department of Public Work
GDP	Gross Domestic Product
IPD	Investment Property Databank
PRASA	Passenger Rail Agency of South Africa
PSCC	Property Sector Charter Council
SACSC	South African Council of Shopping Centres
SAPOA OVS	South African Property Owners Association
SAPOA OVS	SAPOA Office Vacancy Survey
SOEs	State Owned Enterprises

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City of Cape Town	Annual Financial Statements, June 2014
City of Joburg	Annual Financial Statements, June 2014
Denel	Annual Financial Statements - 2015
Department of Human Settlements	Report on extent of Informal Settlements Within NUSP Municipalities As On: 02 March 2016
Department of Public Works	Report on portfolio value
Development Bank	Annual Financial Statements - 2015
Ekurhuleni Metropolitan Municipality	Annual Financial Statements, June 2014
Eskom	Annual Financial Statements - 2015
eThekweni Metropolitan Municipality	Annual Financial Statements, June 2014
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Limpopo Economic Development	Annual Financial Statements - 2015
Mahikeng Local Municipality	Annual Financial Statements, June 2014

Special acknowledgements and thanks

Property Sector Charter Council (PSCC) would like to express its sincere appreciation to all those who worked with such determination and dedication on completing this report. Special gratitude goes to the following members of the Research Committee:

- Mr Mashilo Pitjeng (Chairperson)
- Prof Francois Viruly
- Mr Musa Ngcobo
- Ms Kgaogelo Mamabolo
- Ms Elaine Wilson
- Ms Portia Tau-Sekati (CEO of PSCC)

This team contributed their time and intellectual efforts selflessly. Their dedication, willingness and commitment to this project and the property sector in general remain undoubted and the value that they have put into this project remains unmatched. Special appreciation goes to the chairperson of the committee for investing his full effort in leading the committee to achieving its goal. An additional special vote of thanks goes to our technical expert, Prof Francois Viruly, who continually and persuasively conveyed a spirit of adventure with regard to this research.

Another acknowledgement goes to MSCI Real Estate for driving the research and consolidating the report. Sincere thanks go to Niel Harmse (the researcher), Phil Barttram,

who is now leading the project and Ruramai Munyaka and Jess Cleland (the former researchers).

We want to thank everyone who has made a contribution to this research, directly or indirectly, big and small. We value your input and contributions and hope you are able to continue to enhance this research through feedback and responses in your various roles.

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