

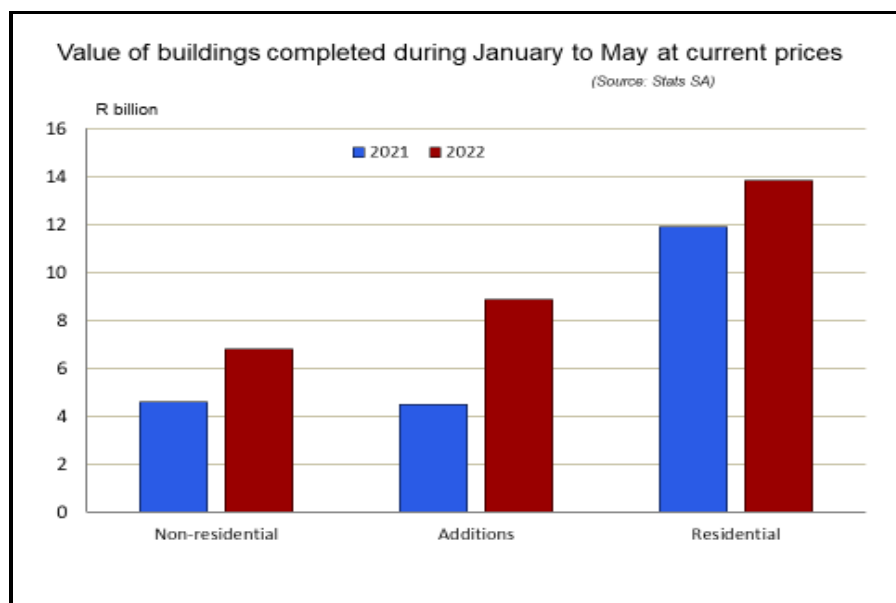
RISE IN BUILDING CONSTRUCTION ACTIVITY

By Dr Roelof Botha, Joint Managing Director, GOPA Group SA

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The first five months of the year witnessed a remarkable improvement in the value of buildings completed in the metros and larger municipalities, with the category for additions and alterations coming out on top in terms of the year-on-year growth rate, namely a whopping 92%.

Although the value of residential buildings completed only rose by 16% year-on-year, this growth remains impressive, as it was generated from a high base. The category for non-residential buildings was placed in between these two, with a hefty growth rate of almost 50%, compared to the first five months of 2021.



The exceptionally strong showing of additions to existing buildings can be linked to the after-effects of the Covid-pandemic, which has led to a structural decline in the occupancy levels of many office apartments. Some of these are now being converted into residential units or multi-purpose real estate, which could include a mix of commercial, hospitality and warehousing facilities.

It is worth noting that additions and alterations to existing buildings have now overtaken non-residential buildings as the second most important category. This type of construction activity is inherently more labour intensive than non-residential buildings and also allows for a significant participation rate of relatively smaller firms.

REITs recovering

Several Real Estate Investment Trusts (REITs) will be buoyed by these trends, with non-residential properties still feeling the pinch of lower occupancy rates induced by the Covid-pandemic. Although the listed property sector has outperformed the JSE all share index over the past year, its five-year performance remains in the red.

According to Moneyweb, a resumption of dividend payments by most REITs has improved investor confidence in the sector, with most fund managers forecasting forward dividend yields of close to 10%. The pandemic has given rise to a structural shift in working conditions, with a large measure of remote work here to stay. This will continue to shape the future performance of the property

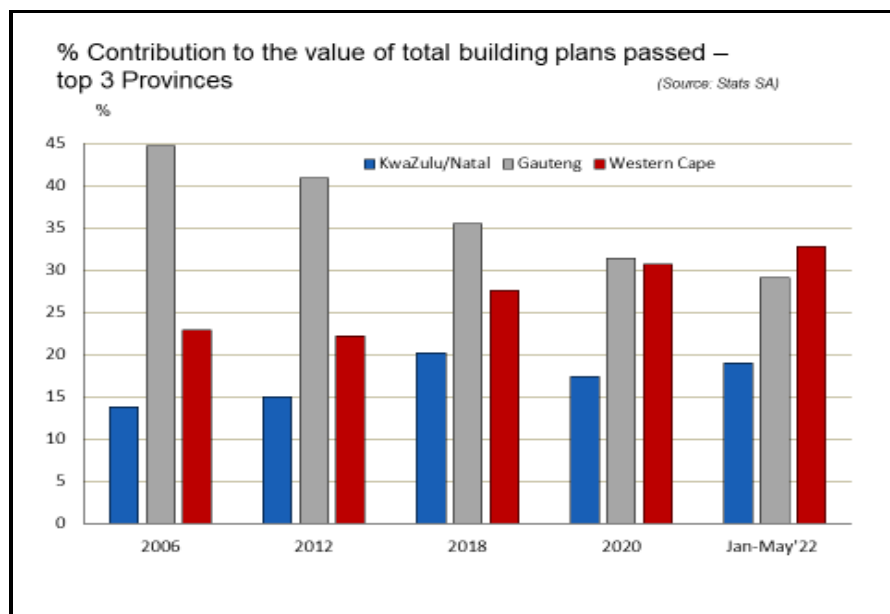
sector, especially with regard to an increase in demand for logistics space and repurposing of existing commercial and residential buildings.

The revival of building activity is aligned to the results of the latest Afrimat Construction Index (ACI), which outperformed the GDP growth rate during the 1st quarter of 2022 on a year-on-year basis, albeit marginally.

The recovery of the property market from the debilitating effects of the pandemic is reflected in the latest TPN Rental Monitor, which showed an improvement in the national residential vacancy rate from 13.3% in the first quarter of 2021 to 8.3% in the first quarter of 2022.

Rental tenants under pressure

Unfortunately, tenants are facing pressure as a result of higher inflation and higher interest rates, with the number of tenants in good standing dropping marginally from 81.4% in the fourth quarter of 2021 to 80.8% in the first quarter of 2022. Tenants in the R3 000 to R7 000 rental price bracket and those paying less than R3 000 per month were the worst performing categories, but rental brackets above R7,000 continued to rise from the low point recorded in the second quarter of 2020.



The Western Cape currently has the lowest vacancy rate and the highest number of tenants in good standing. The province's superior property market performance is also evident in the fact that it has overtaken Gauteng as the province with the highest value of building plans passed.

These data sets confirm the so-called "semigration" trend that has become prevalent in South Africa, mainly as a result of huge and visible regional differences in the standards of service delivery at municipal level.