

MSCI South African Annual Real Estate Index

RESULTS FOR 2021

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14 April, 2022

Sponsored by



MSCI Shedding light on investment

45⁺

Years in Business

3,000⁺

Employees

35

Global Locations

7,000⁺

Active Clients



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- MSCI World Index
- MSCI Emerging Markets Index
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- ESG Indexes
- Real Estate Indexes
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2 Million time series

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In over 30 markets worldwide

Coverage spanning \$2TN of private real estate assets

20+ years historical data

Ukrainian War

Potential Direct and Indirect Impacts for Real Estate

Limited direct impact on global commercial real estate markets because:

- **Russian capital has very little presence in global commercial property markets: outbound flows have averaged just \$330 million per year in the last five years**
- **Ukraine's institutional property market is small and domestic - international exposure is minimal.**
- The most direct risk to real estate income will come from tenant companies with ultimate parents in these markets
- The US has the majority of companies by number with suppliers (93%) or customers in Ukraine and Russia (source:Dun&Bradstreet)

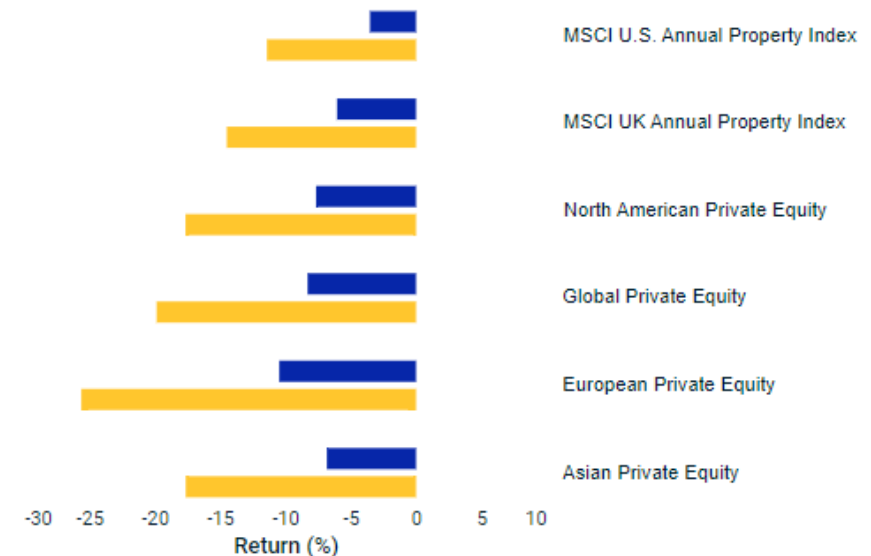
Indirect impact is likely to be more significant

- Fed through via commodity prices, inflation, bond yields and ultimately perhaps economic growth.
- The main mechanism is likely to be through higher energy prices, which add to the inflationary forces already being felt.
- Germany and Italy in particular, have a high reliance on Russian exports of natural gas.
- The impact on markets and tenant companies will not be equal

Potential impact across asset classes

Scenario

- De-Escalation of the Conflict
- War Fuels Stagflationary Pressures



Select Currency

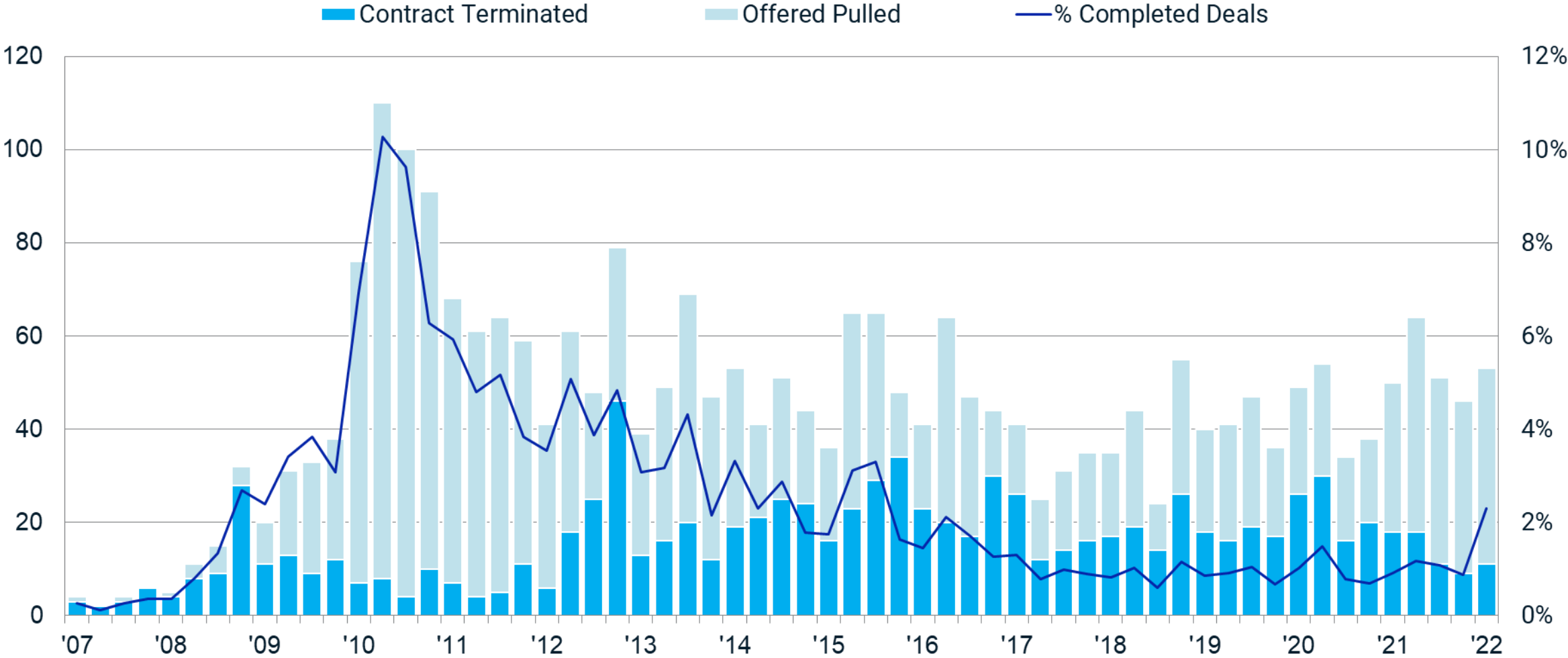
- USD
- EUR
- JPY
- GBP

Select Asset type

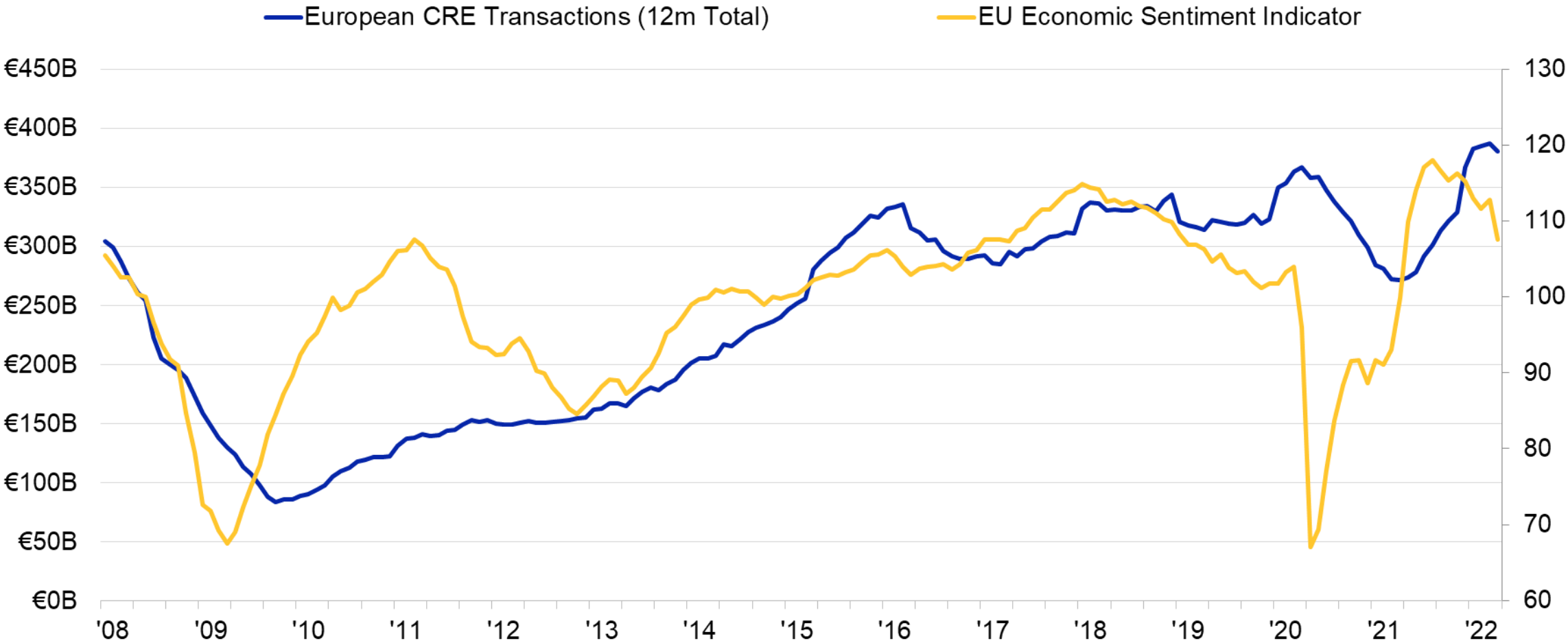
- Overview
- Equity
- Sovereigns
- Corporate bonds
- Private assets

European Transaction Volumes

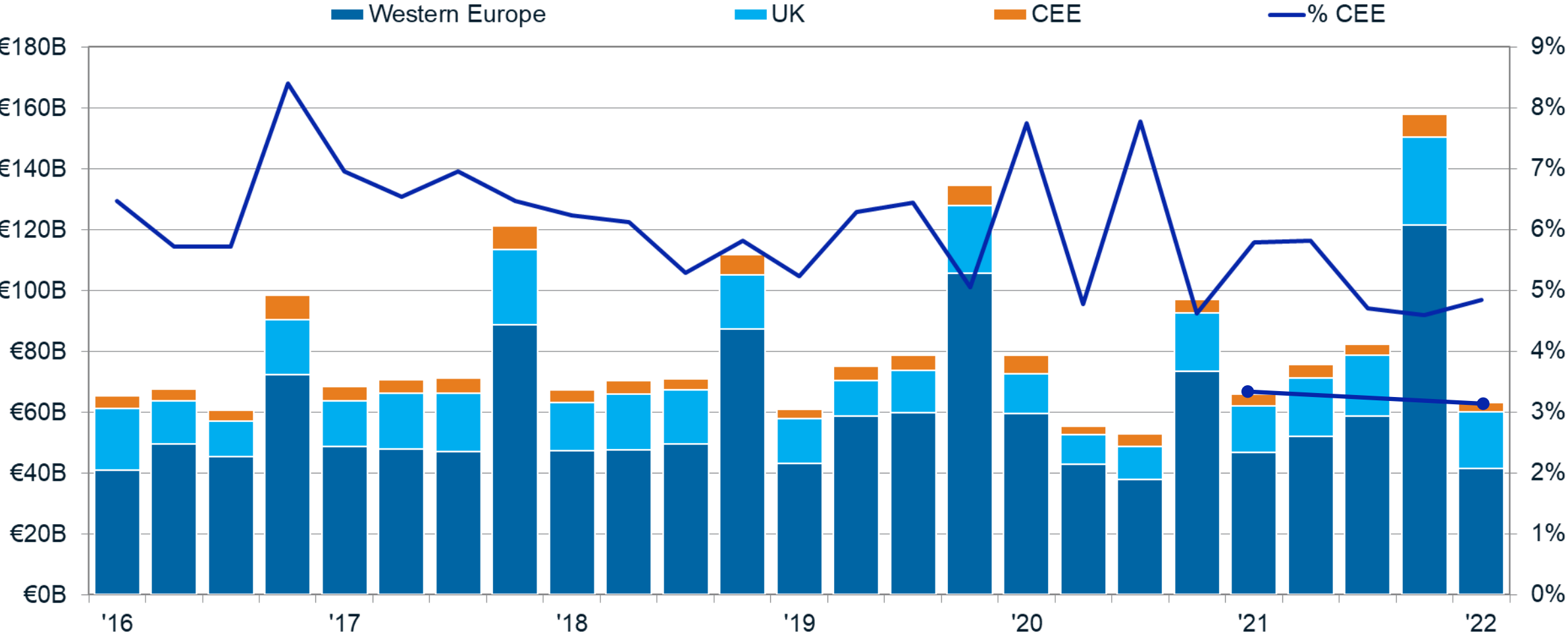
Uptick in uncertainty in Q1



EUROPE: Economic sentiment has been a good lead indicator for investment volumes



EUROPEAN TRANSACTION VOLUMES: Quarterly number on par with Q1'21. CEE slightly up as % Total market



Key themes for South African Real Estate

1

Global View

Where does South Africa fit in the global picture?

What's different about South Africa?

2

South Africa: Direct property return performance

Have returns recovered post COVID, and is the recovery equal across sectors and property types?

Are there clear winners and losers?

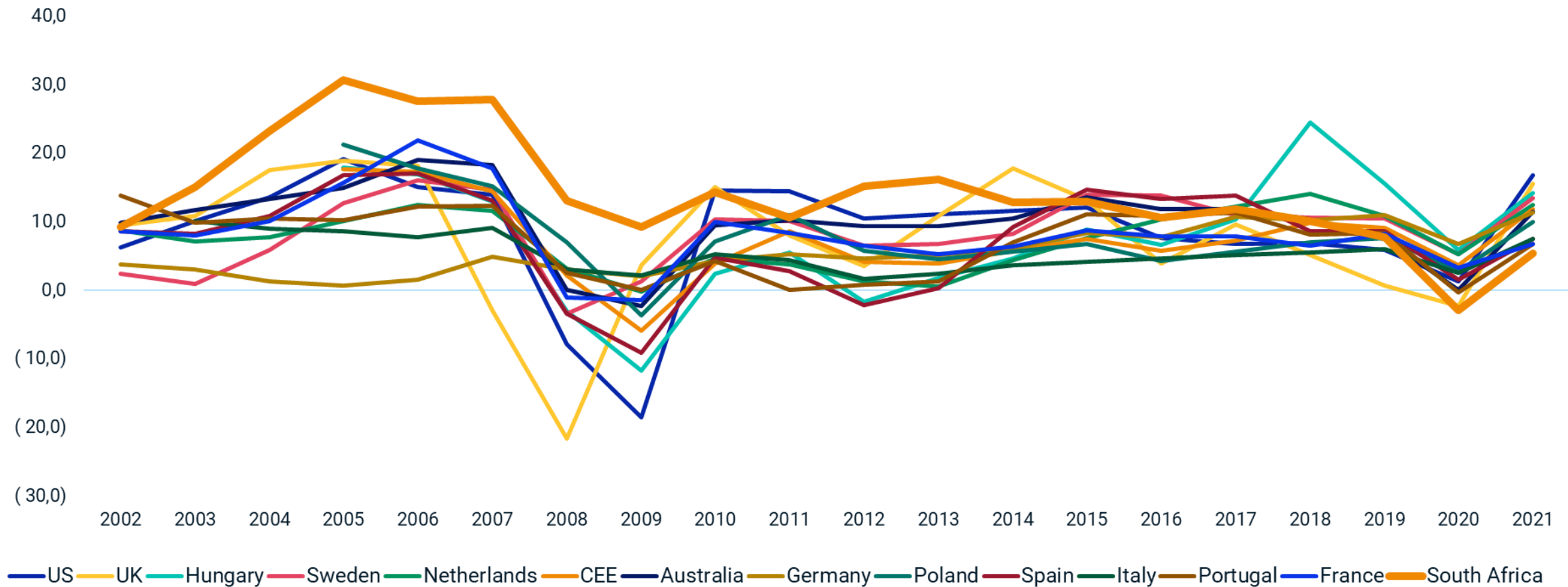
3

South Africa: Rentals and vacancy

What direction are the fundamentals going? Are trends inflecting?

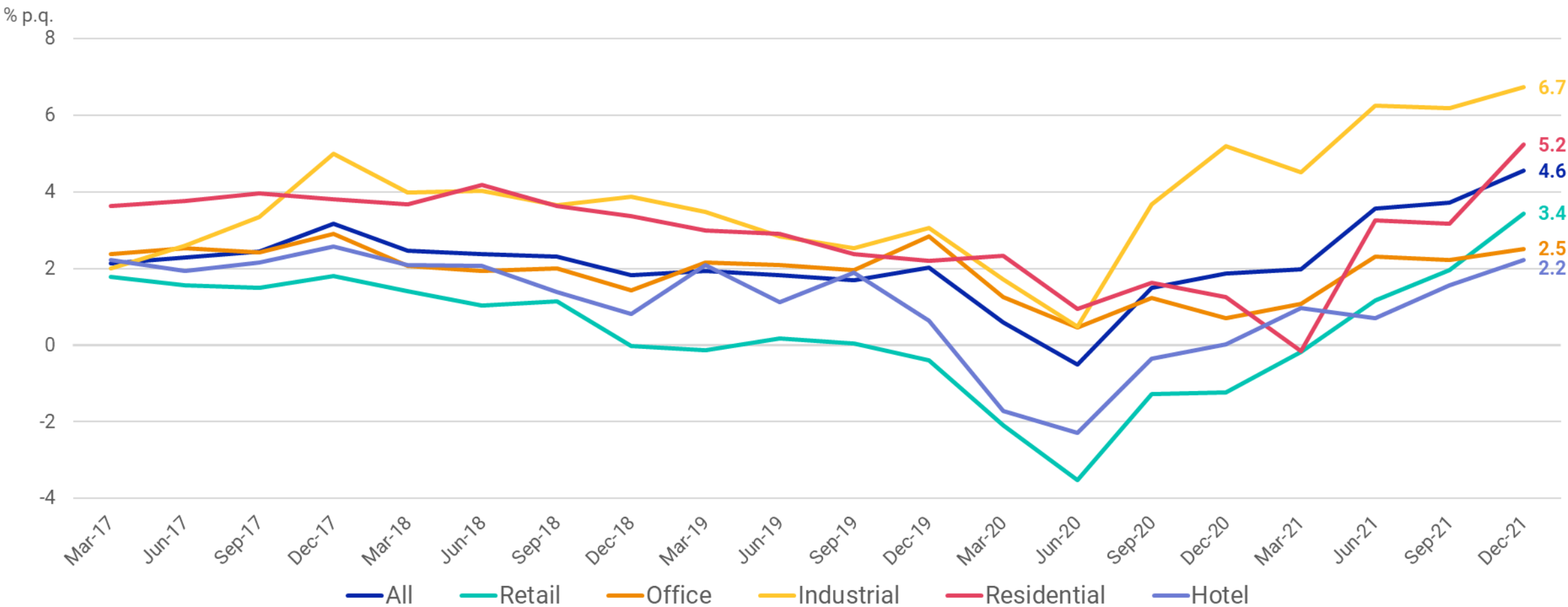
Global direct property returns – South Africa at the bottom of the pile since COVID

MSCI Real Estate Market Indexes – Total Return, Local Currency



European quarterly returns show the large gap between sectors remains

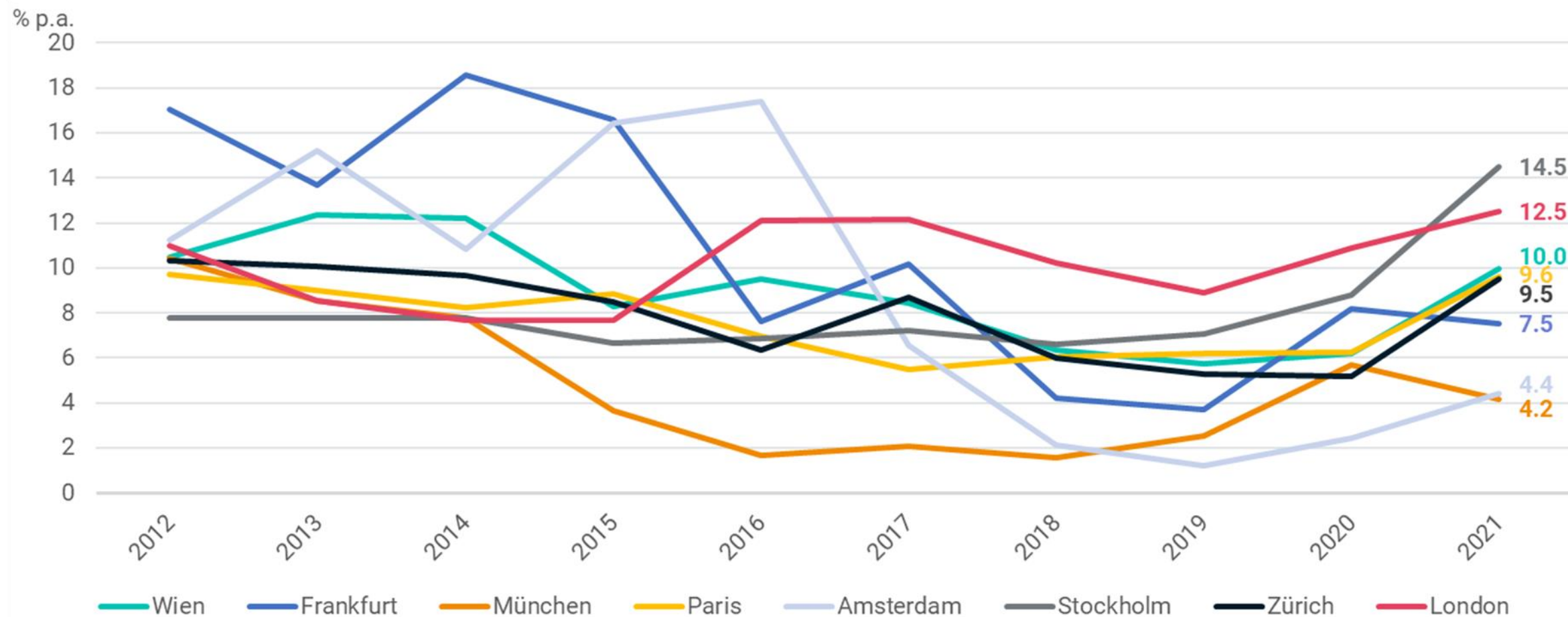
MSCI European Quarterly Property Index (Research release)
Quarterly total return on all assets in local currency for the last 20 quarters by sector



European cities see office demand decrease

Vacancy rate trends for the office market

Standing investments only

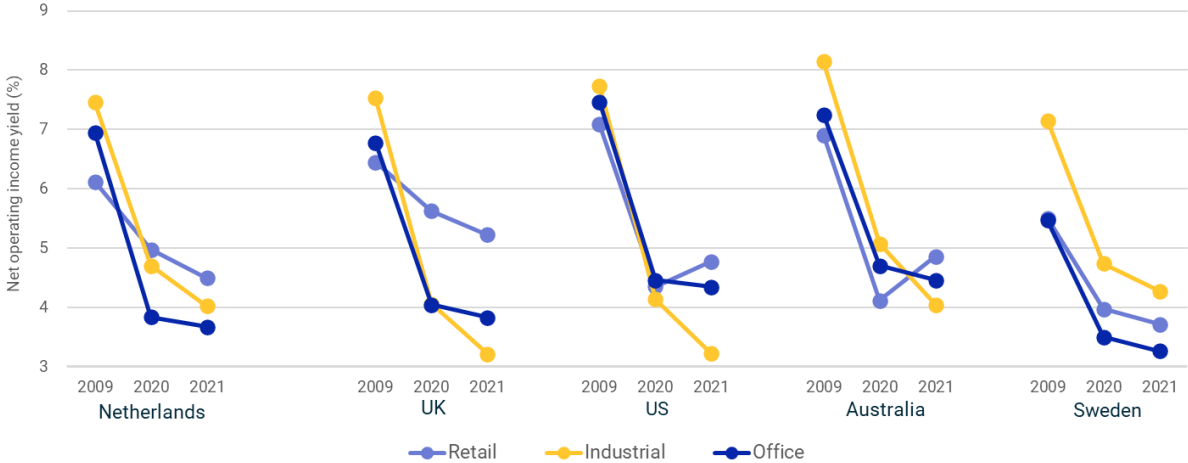


Globally, industrial returns spread widens with yield compression at the top end

Industrial assets dominated the US performance distribution

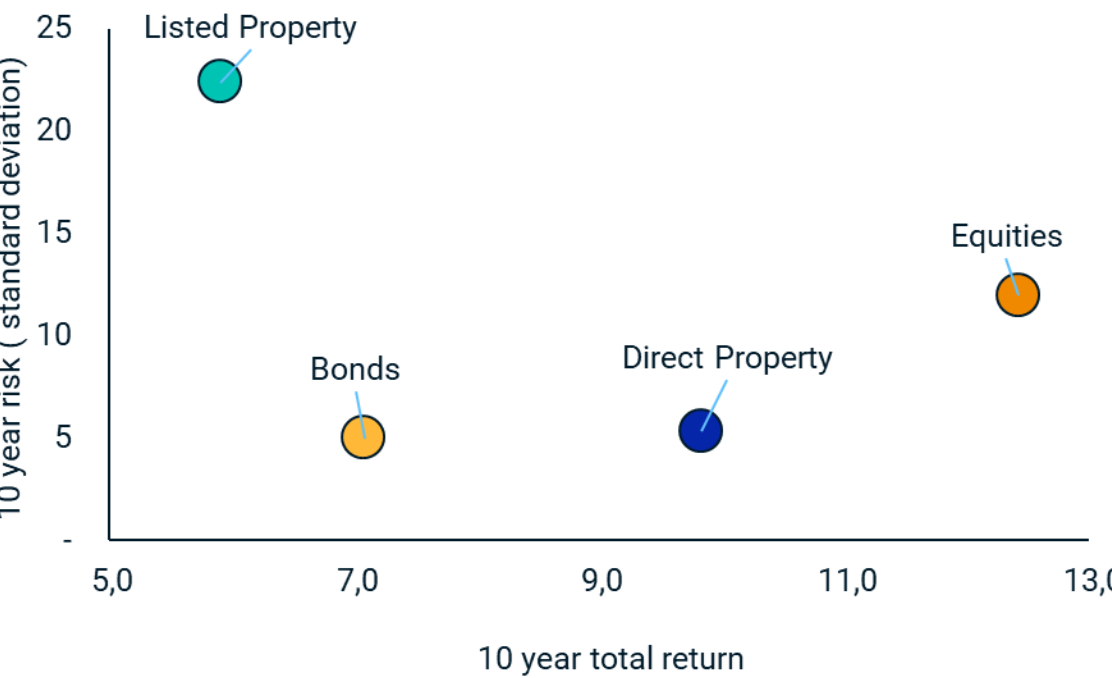


Net operating income yield per country as at Dec-09, Dec-20 and Dec-21



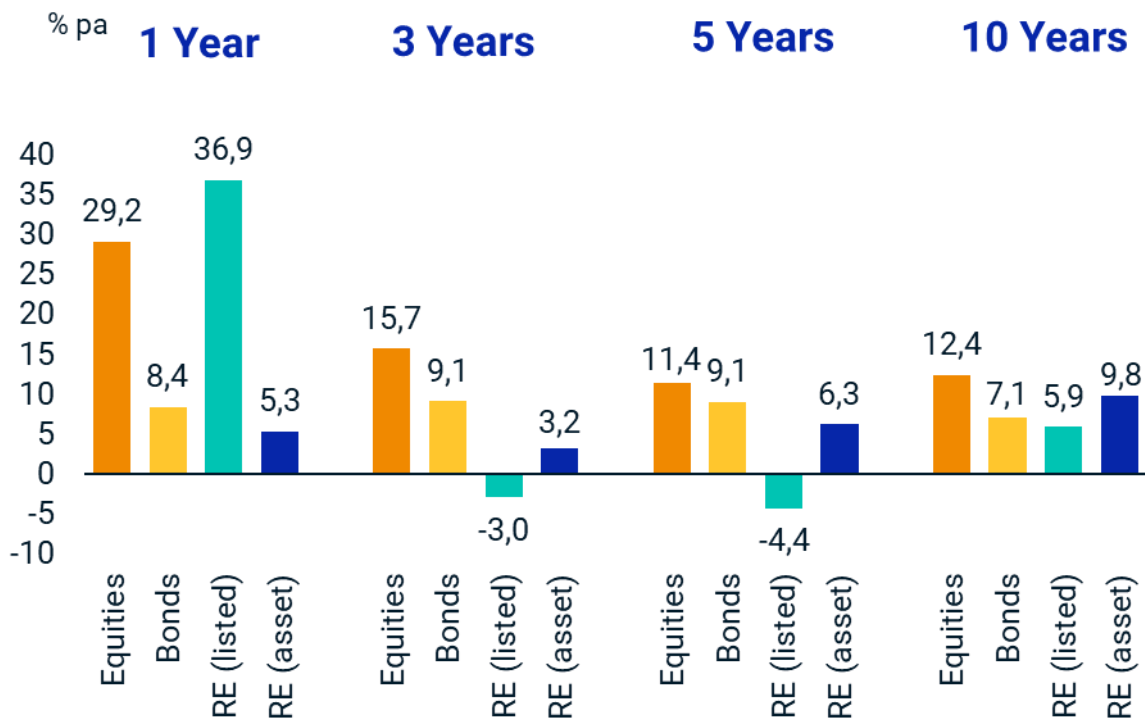
South African asset classes – rebound in listed RE but direct real estate has been less volatile over longer term

South Africa Multi Asset Class Performance
10 Year Annualised Risk to Return



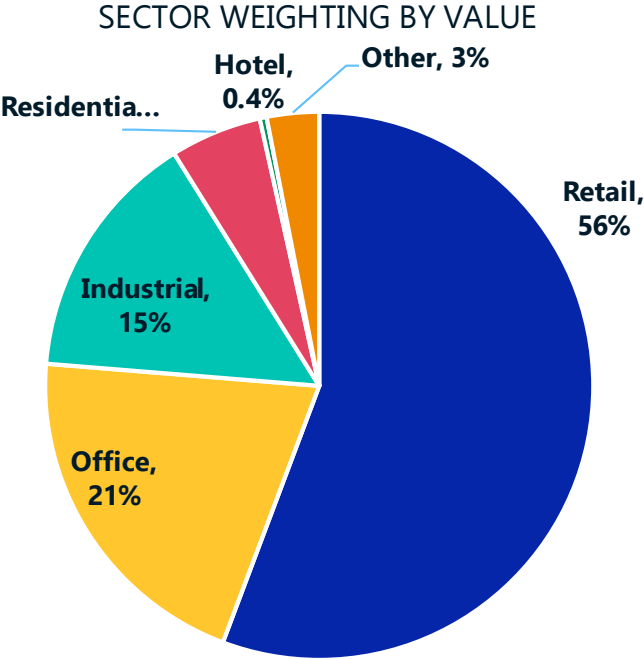
Note: Results shown here for direct real estate and fund-level real estate are based on separate quarterly samples
Sources: JP Morgan (bonds); MSCI (equities, property equities, direct real estate, and fund-level real estate)

South Africa Multi Asset Class Performance
Annualised Return



MSCI Real Estate South African Universe composition

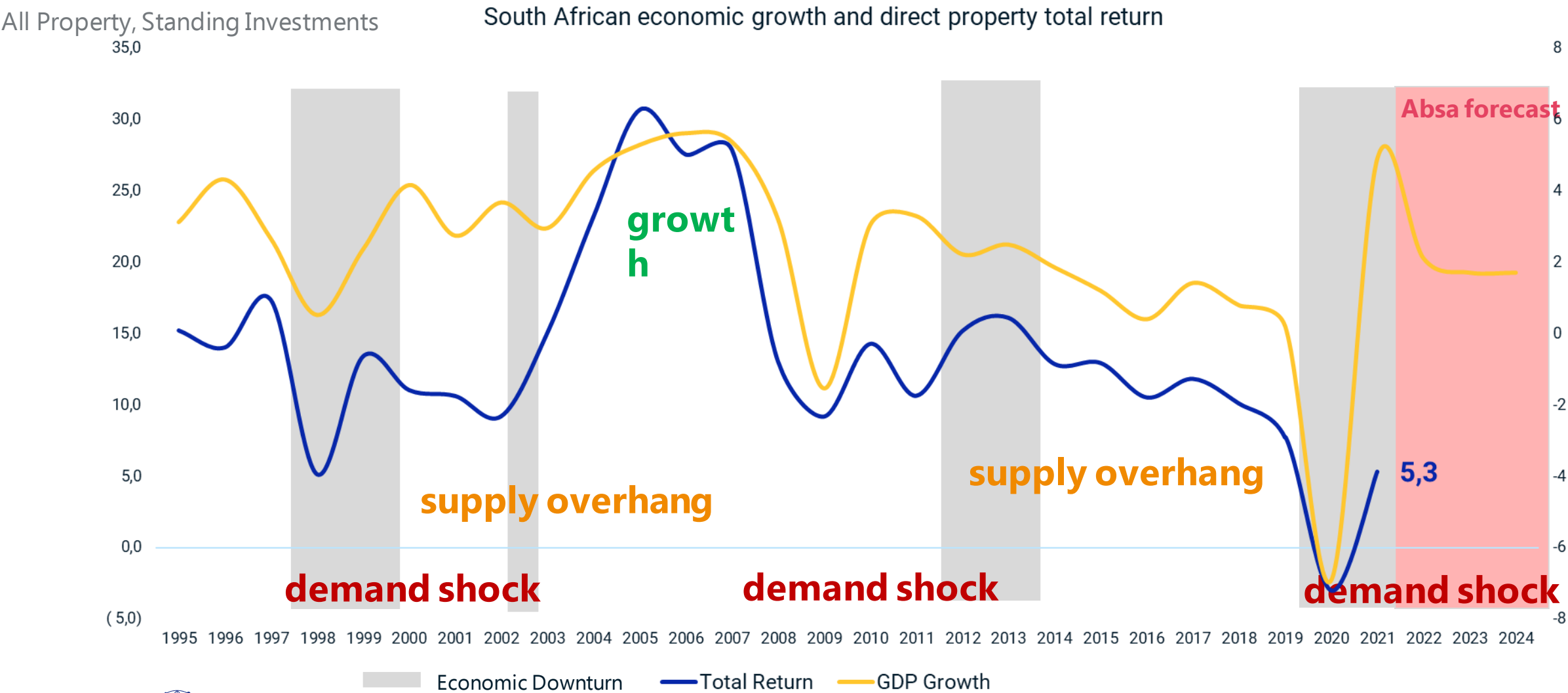
Unlevered directly held real estate



2,224 properties,
valued at **R382billion**
from **26 portfolios**



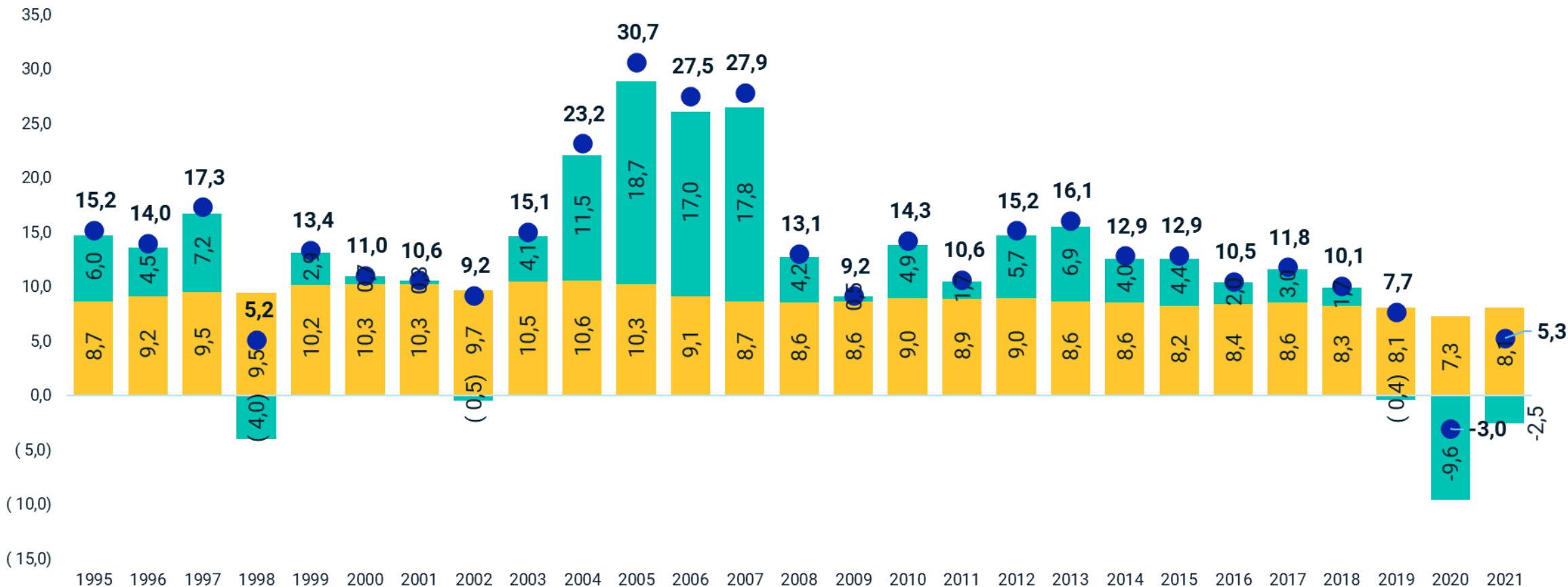
Property Returns usually follow GDP growth down but lags upturn until excess supply is absorbed



South Africa: capital return still in negative territory but income return recovering to pre-covid levels

Standing Investments

Total Return components, Capital Return and Income Return

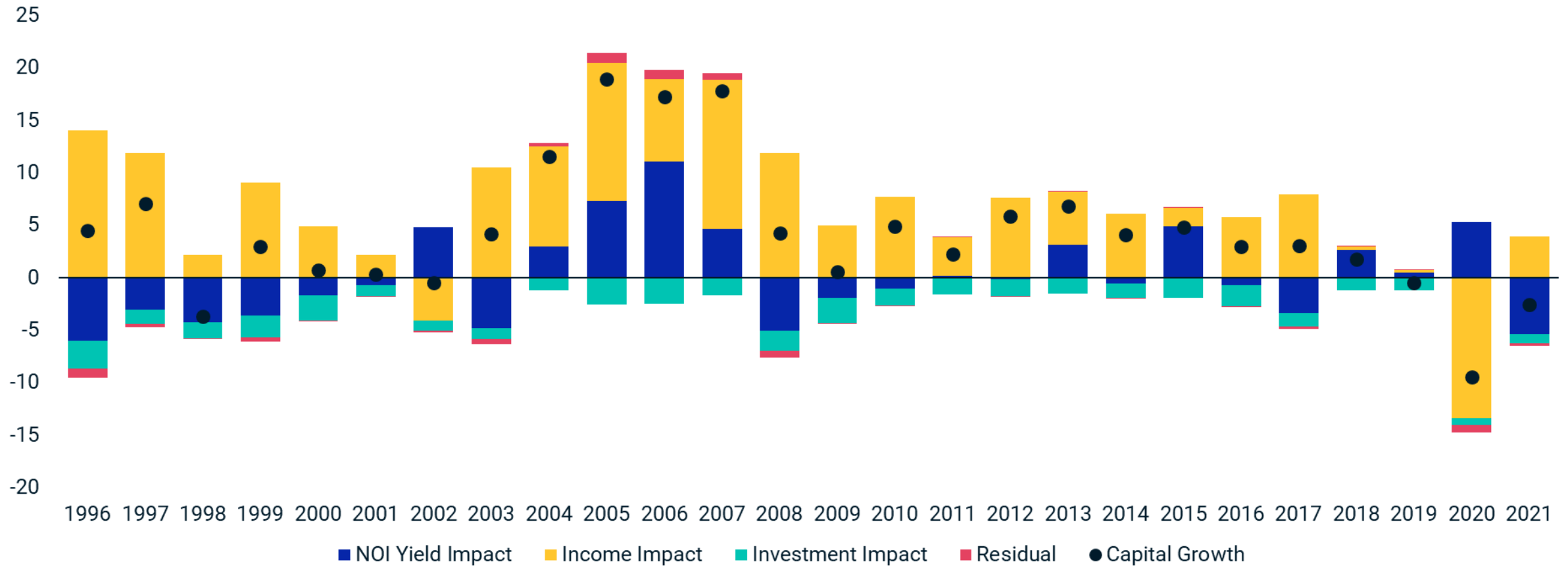


South Africa: Decomposing the return on capital

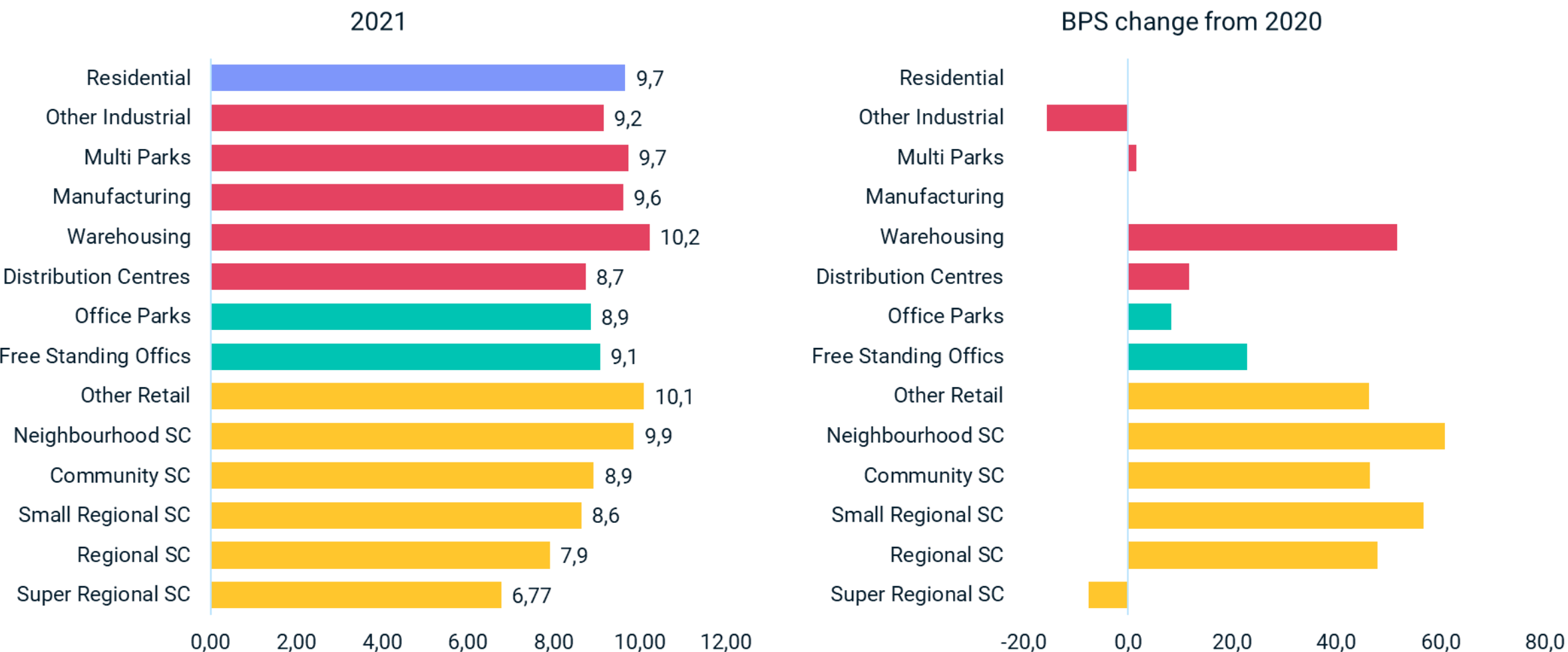
– yields have weakened

Capital Growth (return) decomposition

All Property; Same Store



South Africa: cap rates, in general, have softened



Sectors returns

Negative capital return across sectors but most severe for offices

Standing Investments

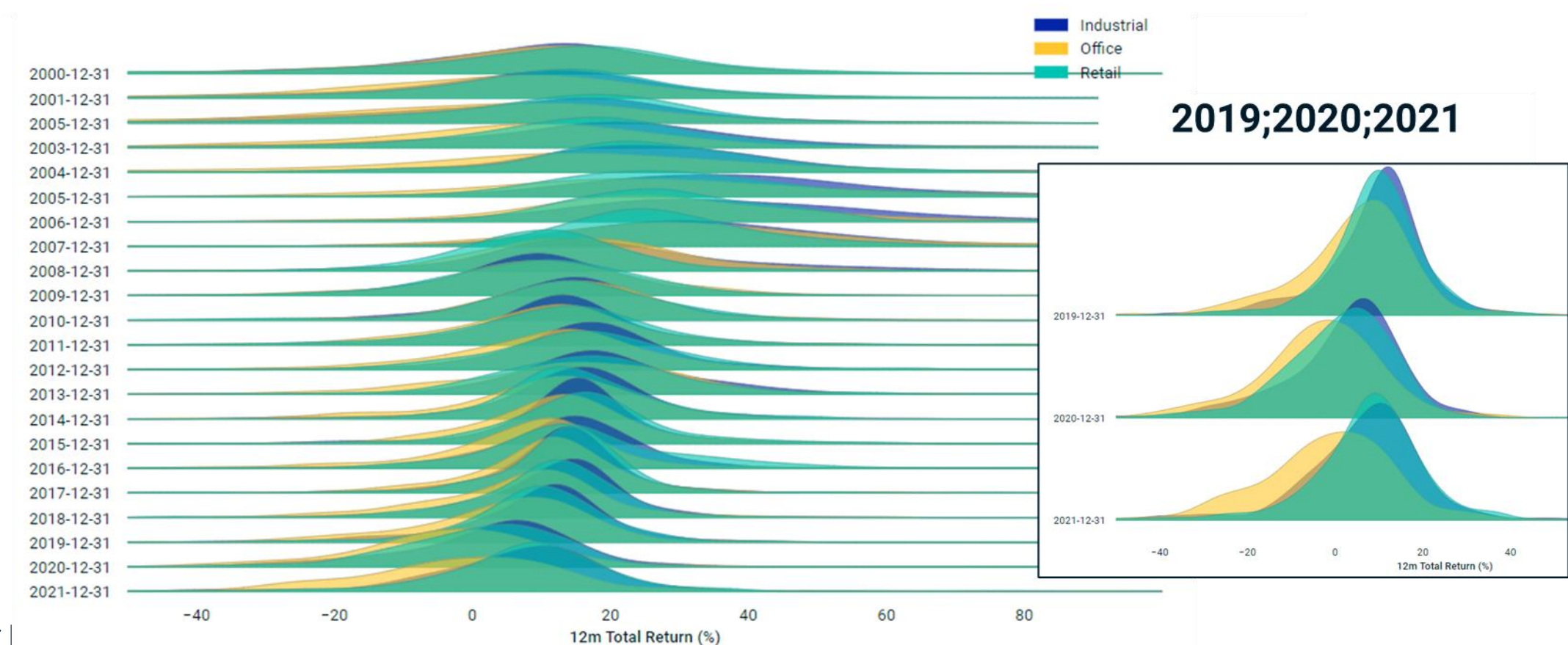
Total Return components, Capital Return and Income Return, by Sector



2021 Retail and industrial distribution of returns very similar

Office underperformed & distribution had a longer negative tail

Distribution of Annual Total Return
MSCI South Africa Annual Property Index; By Sector

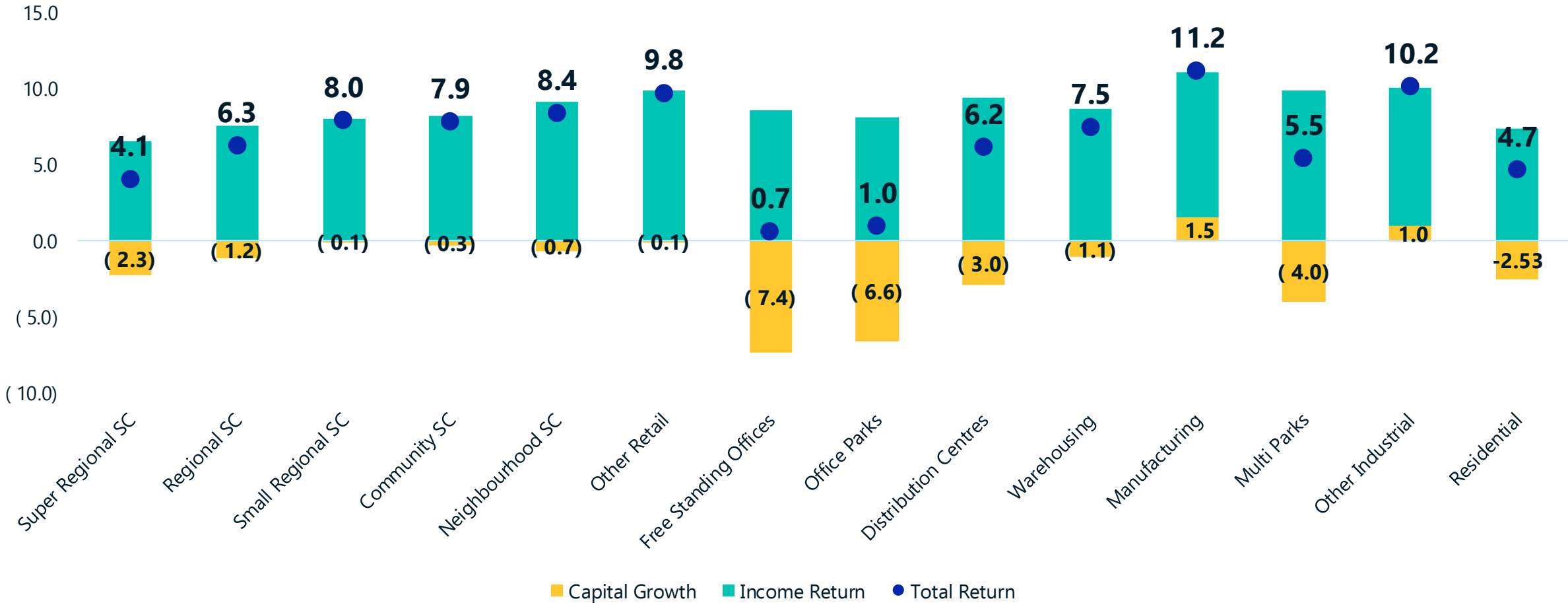


Returns by market segment

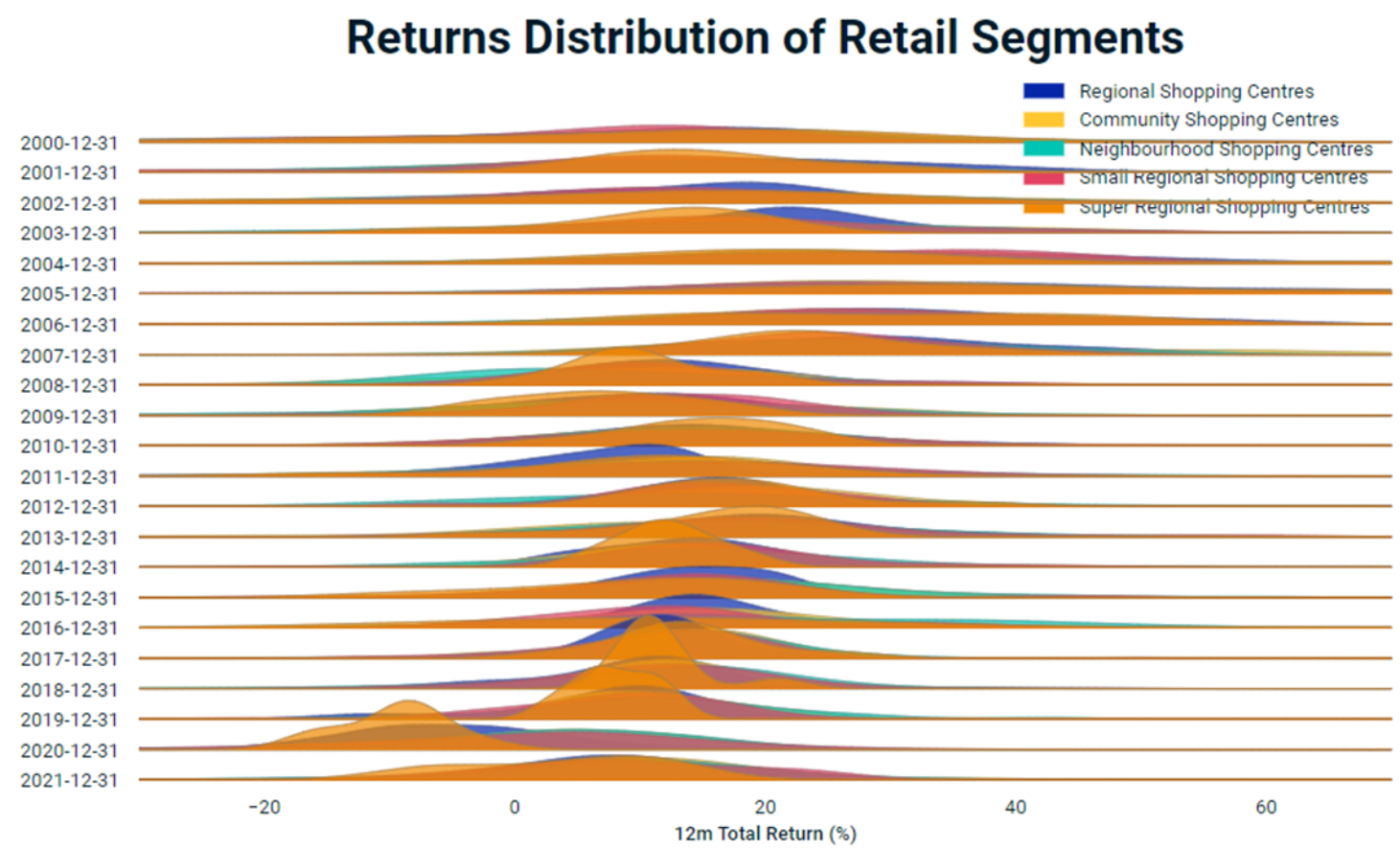
Large retail still under pressure as capital returns are negative

Standing Investments

Total Return components, Capital Return and Income Return, by market segment fro 2021



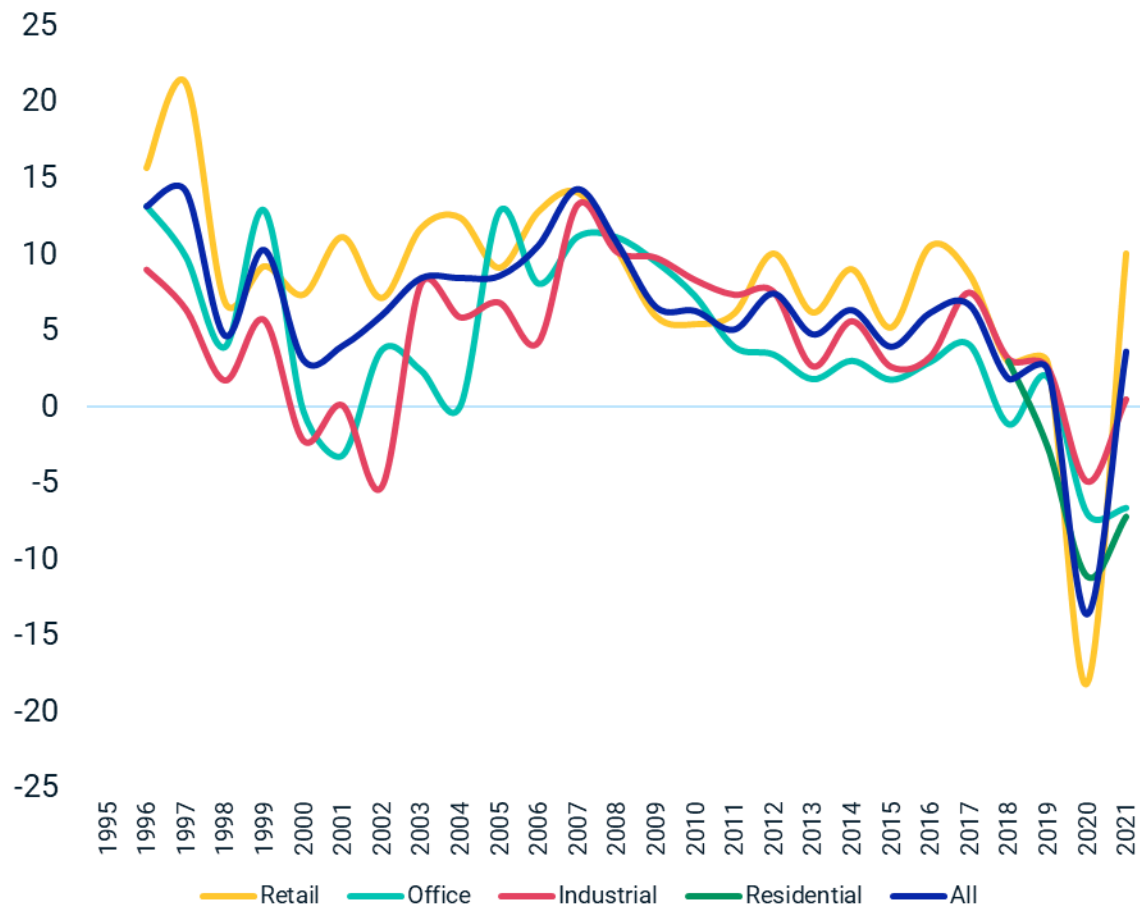
Retail distribution shows high performing properties across the sectors but the tails are skewed to the left



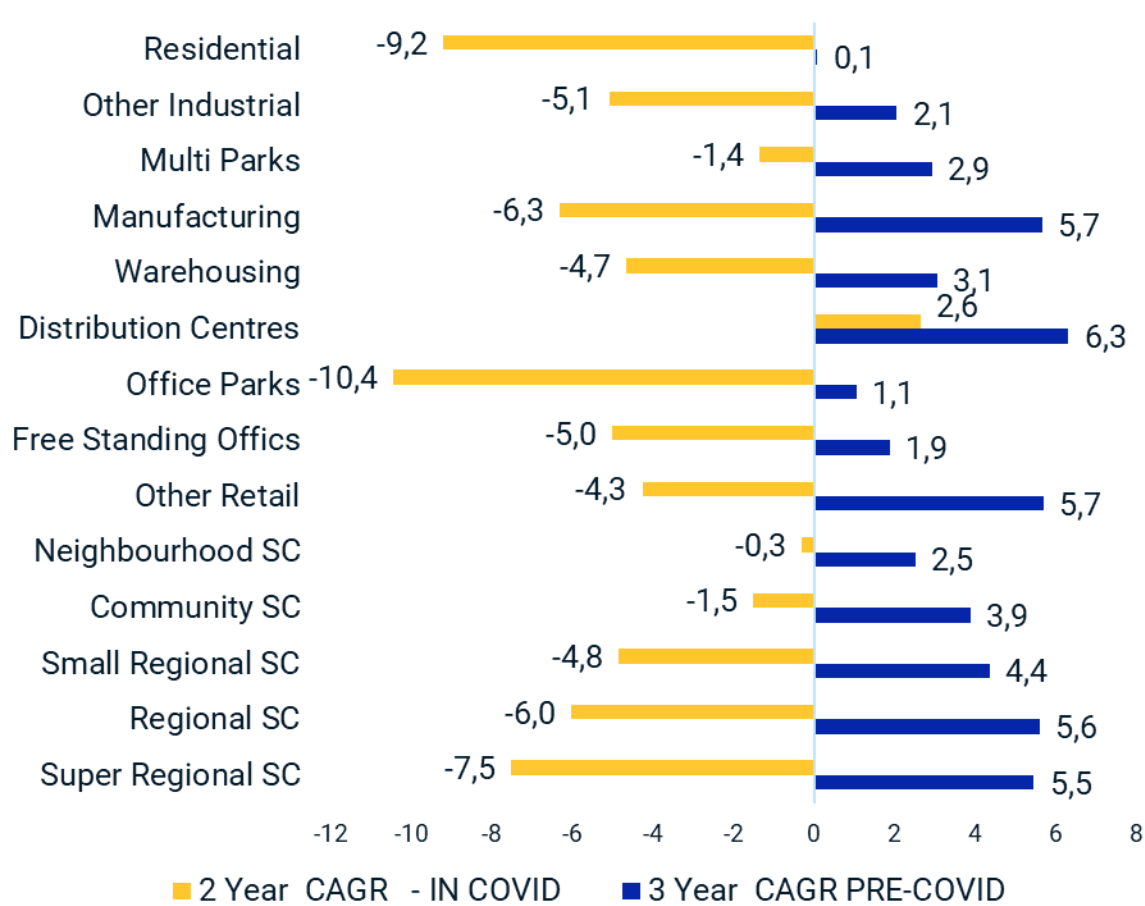
Net income growth has not yet recovered after COVID

Same Store

Net Operating Income Growth (y-o-y)



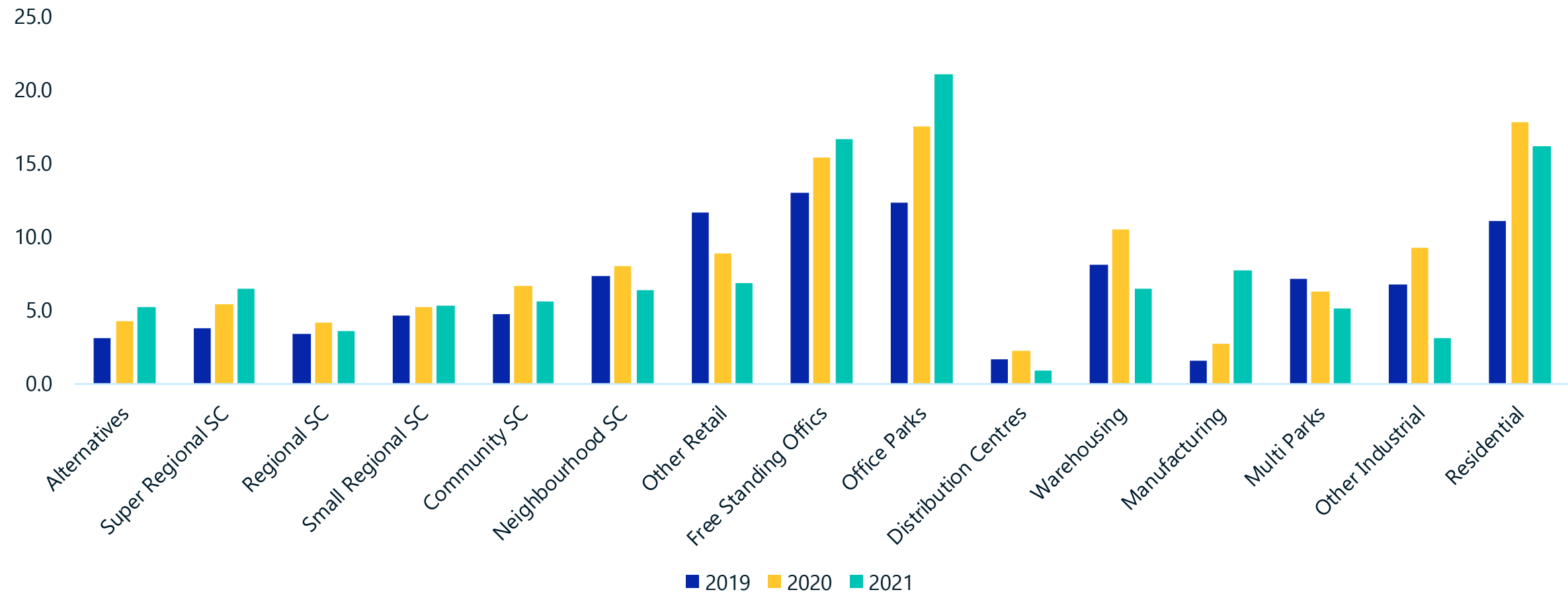
Net Operating Income Growth (Y-on-Y)



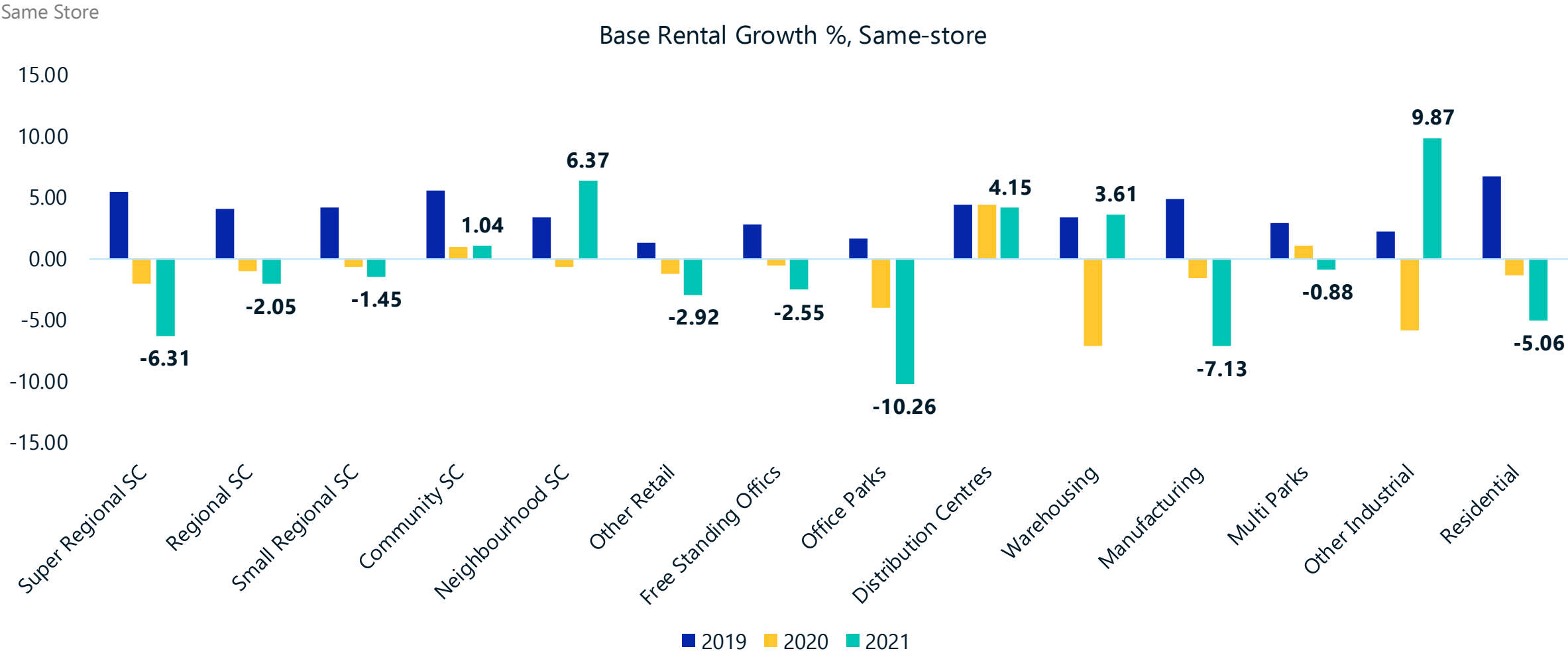
Vacancies consistently lowest for distribution centers while super regionals and office creep up

Standing Investments

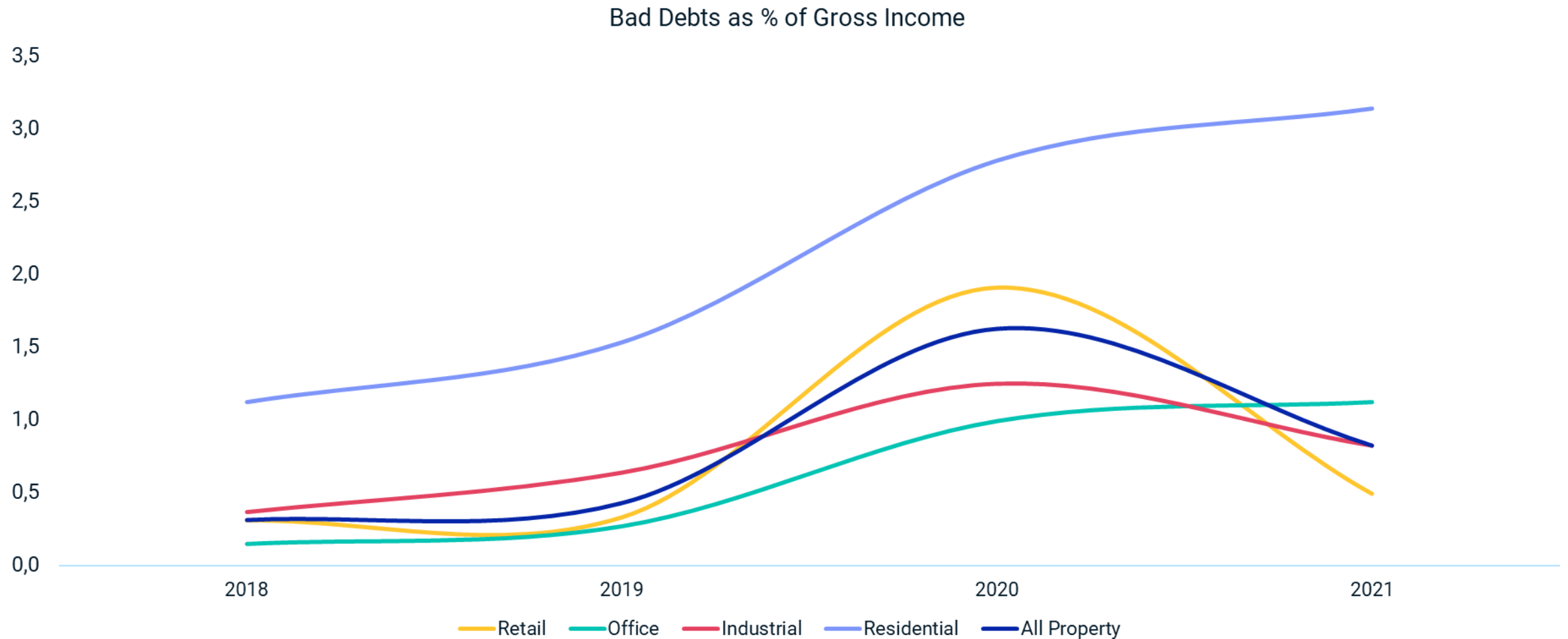
Vacancy as % of GLA



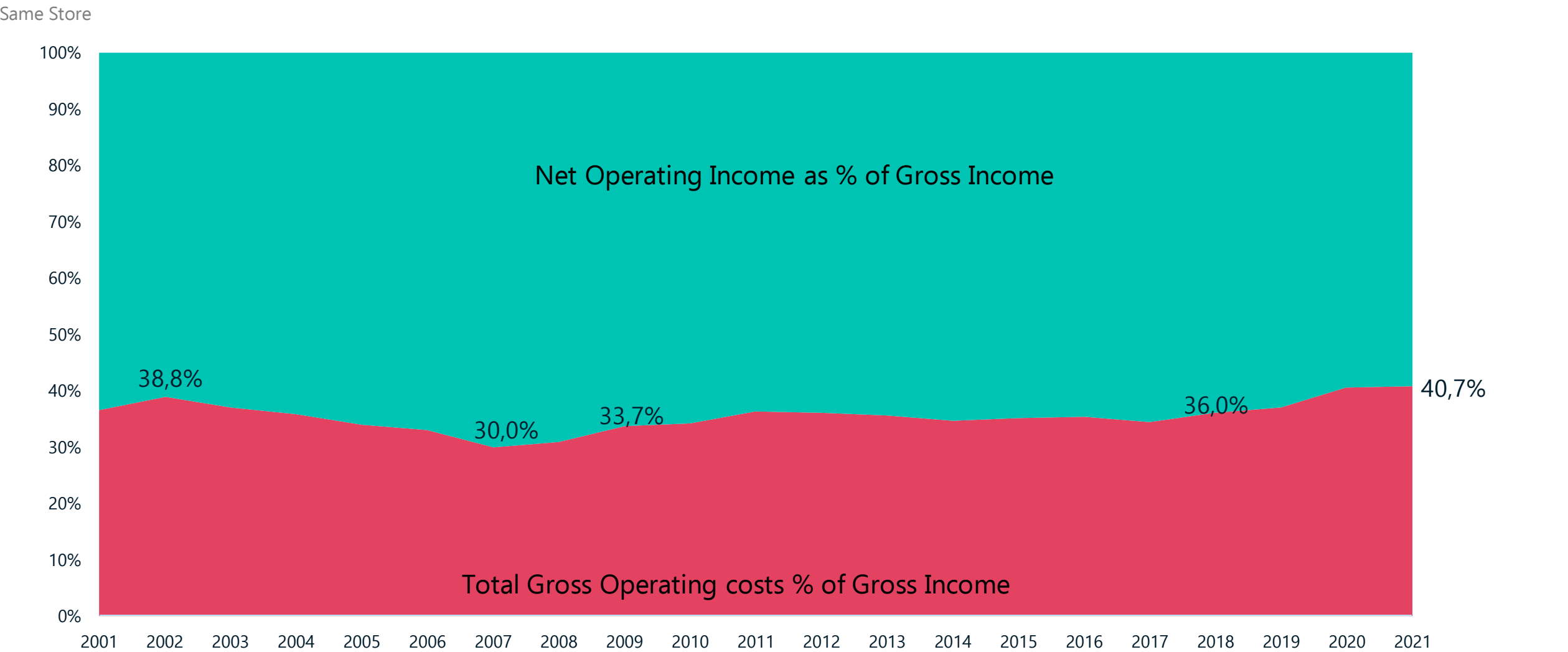
Rental growth declining further to maintain occupancy



Bad debts generally down but not to pre-covid levels.



Gross cost to income ratios continue to climb and erode net operating income



Summary

- Global property returns, including South Africa, have bounced back to positive levels. However, South African returns are the lowest returns reported for 2021 thus far.
- South Africa:
 - Returns are back to positive and in line with current inflation. Income return is back to pre-covid levels but capital return is still negative
 - The spread of returns across the sectors has widened in 2021 with a more pronounced tail, suggesting that more assets are under performing the benchmark than before.
 - While retail is showing a strong recovery, super regional shopping centers still lag smaller retail formats in terms of rental reversions and vacancy.
 - Offices are struggling most with recovery in a low growth environment and as COVID induced office WFH scenarios play out.
 - The industrial sector, in particular DC's, were unaffected by COVID in the same way that retail and offices were. Fundamentals in manufacturing have declined owing to other external factors.
 - The residential sector shows the impact of weak economic growth and high unemployment through the increasing rental reversions.

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