

# MSCI South African Real Estate Index

RESULTS TO DECEMBER 2022

Eileen Andrew

12<sup>th</sup> April 2023



# MSCI Real Estate South African Universe

## Unlevered, directly held real estate

**ATTACQ**  
DEVELOP • INVEST • GROW

**CUBISOL**  
PROPERTY FUND

COMMUNITY  
PROPERTY  
Company

  
Communicare

  
EMIRA  
PROPERTY FUND

  
equites  
PROPERTY FUND

**FAIRVEST**  
LIMITED

  
GEFP  
your investment. your future.

  
GROWTH-POINT  
PROPERTIES

**HYPROP**  
INVESTMENTS LIMITED

  
INDLUPLACE  
DWELLING ON RESIDENTIAL

  
ITHEMBA

  
Investec  
Property Fund Limited

  
JHC  
YOUR HOME  
IN THE CITY  
"Love where you live"

 LIBERTY

two°degrees

 LIBERTY

**momentum**  
METROPOLITAN

 OLDMUTUAL

  
OCTODEC  
INVESTMENTS LIMITED

  
ORX  
PROPERTIES LIMITED

  
PARETO  
GROWING PLACES

  
pulse  
PROPERTY GROUP  
LIVE LIFE

  
REDEFINE  
PROPERTIES

MSCI 

  
RESILIENT  
REIT

  
SA CORPORATE  
REAL ESTATE

 Sanlam

  
TRANSCEND  
Residential Property Fund

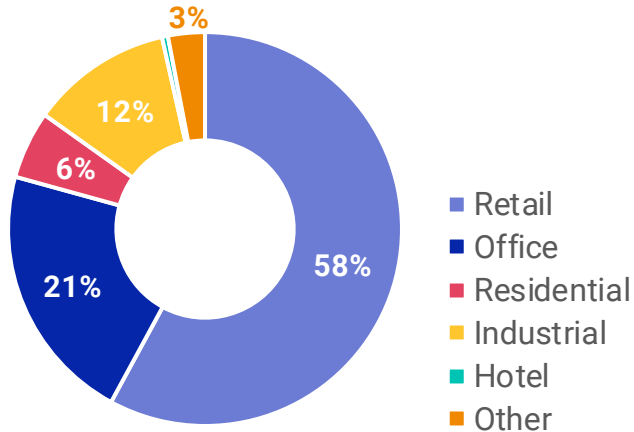
Sponsored by

 (absa)

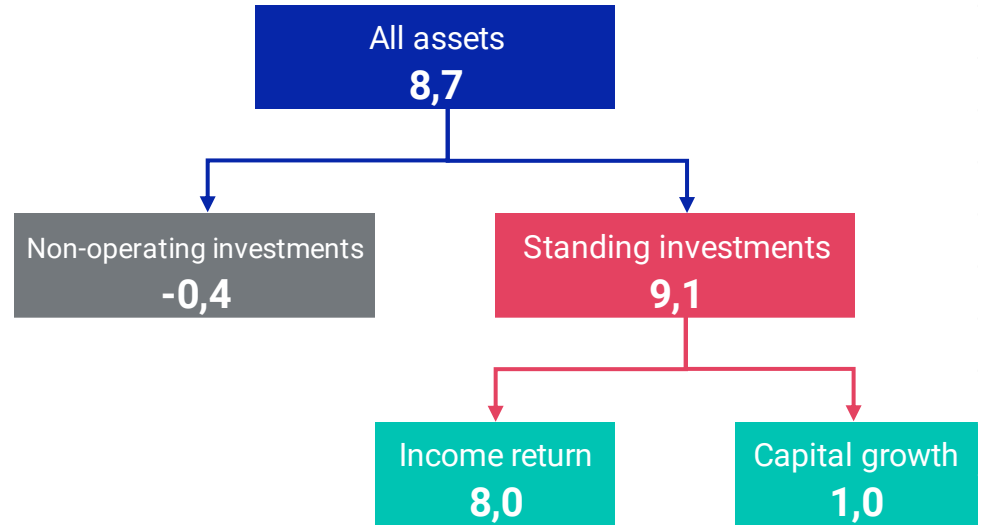
# MSCI South African Real Estate Index December 2022



**1995** INDEX INCEPTION DATE  
**26** NUMBER OF PORTFOLIOS  
**1 971** NUMBER OF ASSETS  
**369,9** UNIVERSE CAPITAL VALUE  
**58%** MSCI COVERAGE



## 2022 RETURNS (%)



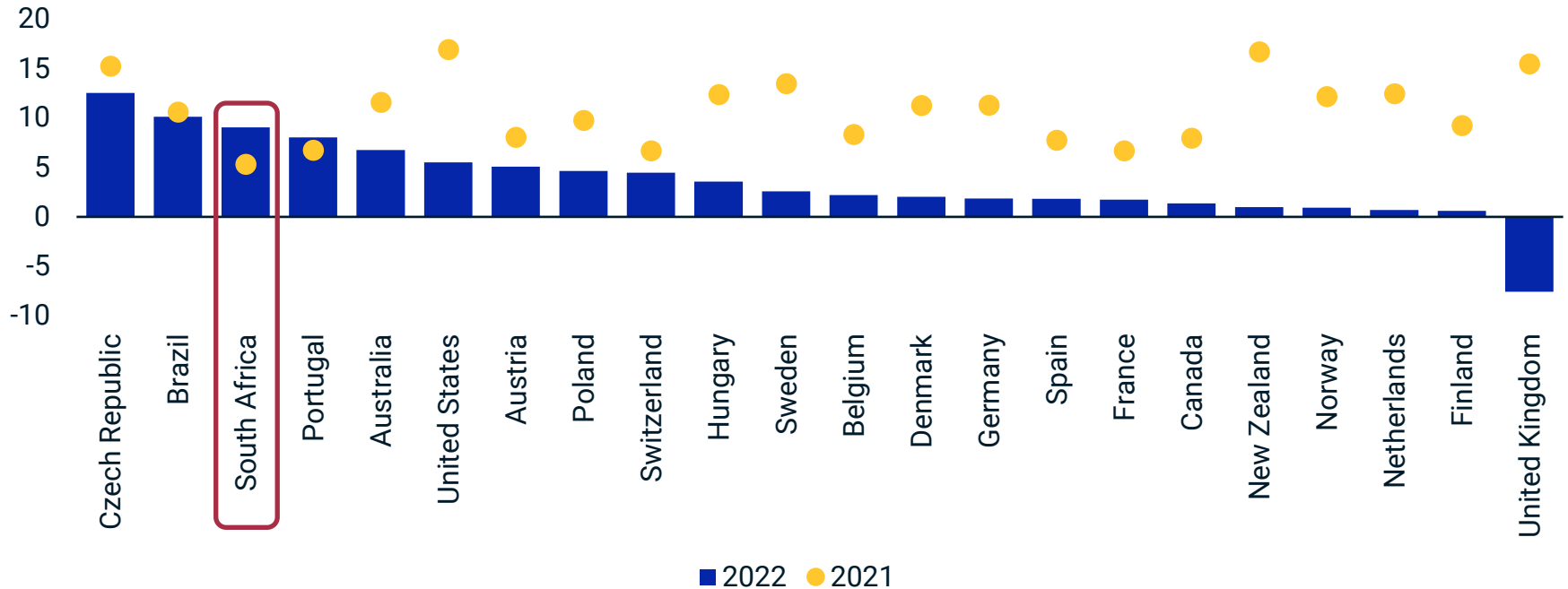
# MSCI SA Index Universe



# SA among few countries with improved return

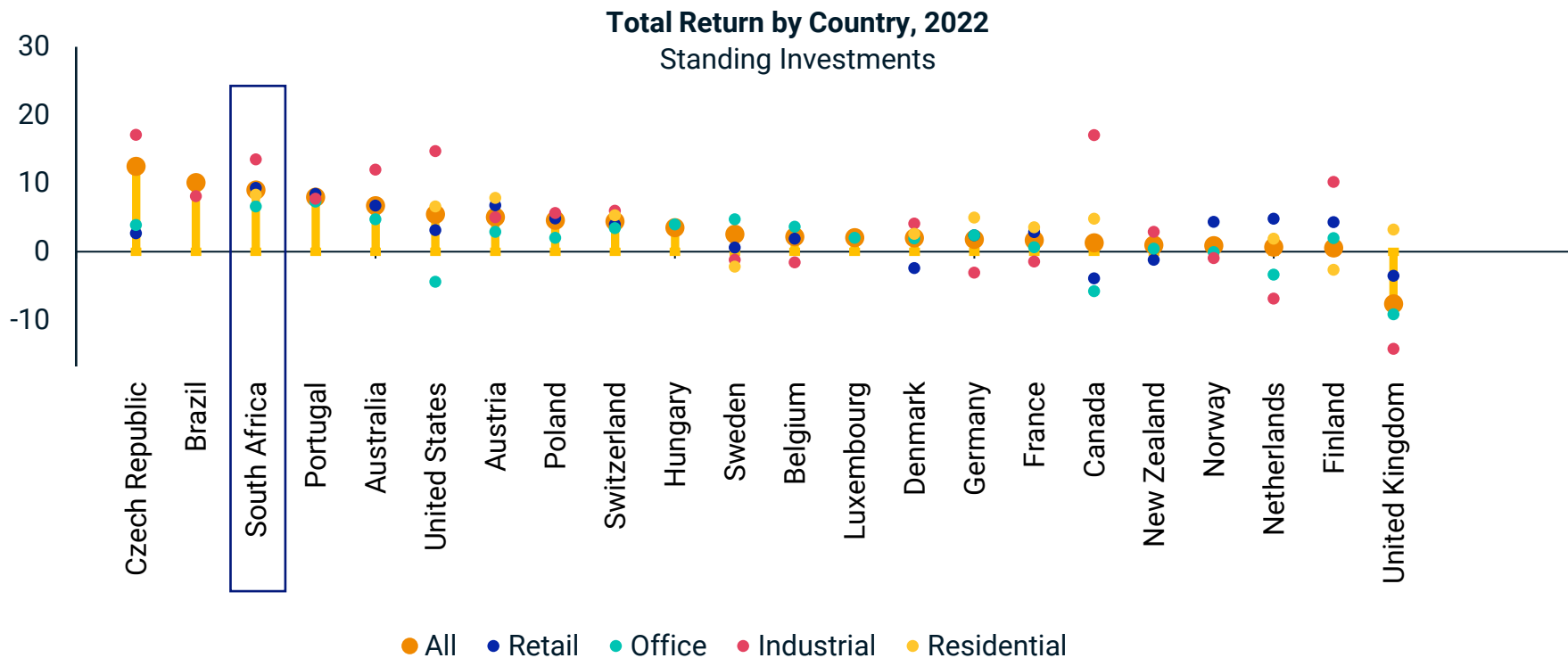
## Comparing 2022 total return to 2021

All Property – Total Return in local currencies



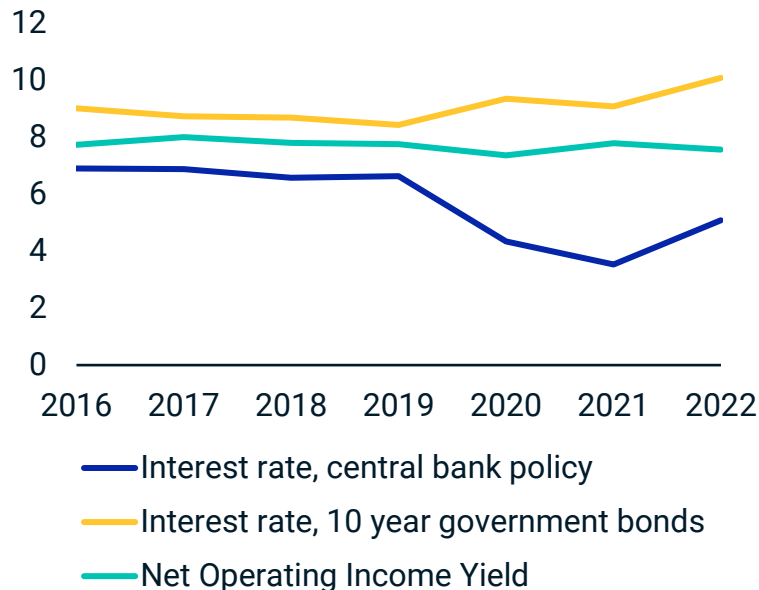
# SA was the top global retail market in 2022

## SA Industrial also among best performing markets globally

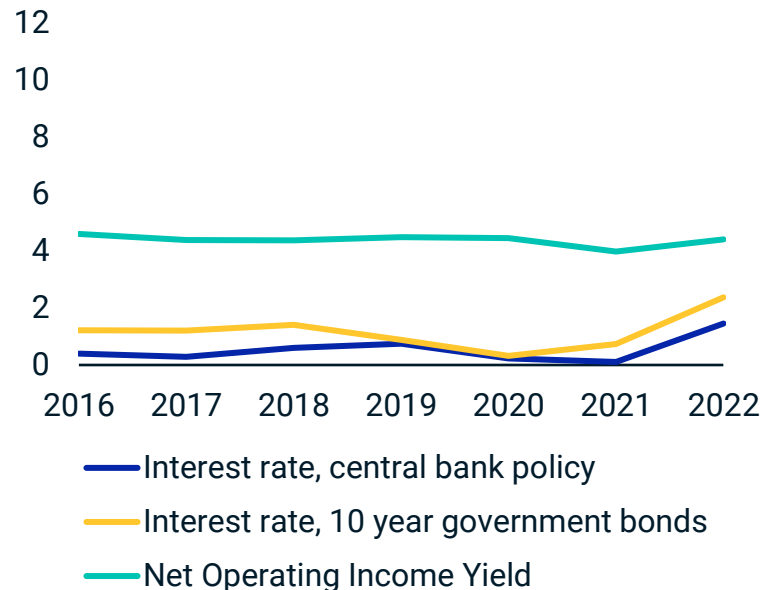


# Rising interest rates – SA Net Operating Income Yield still below long bond yield

## South Africa



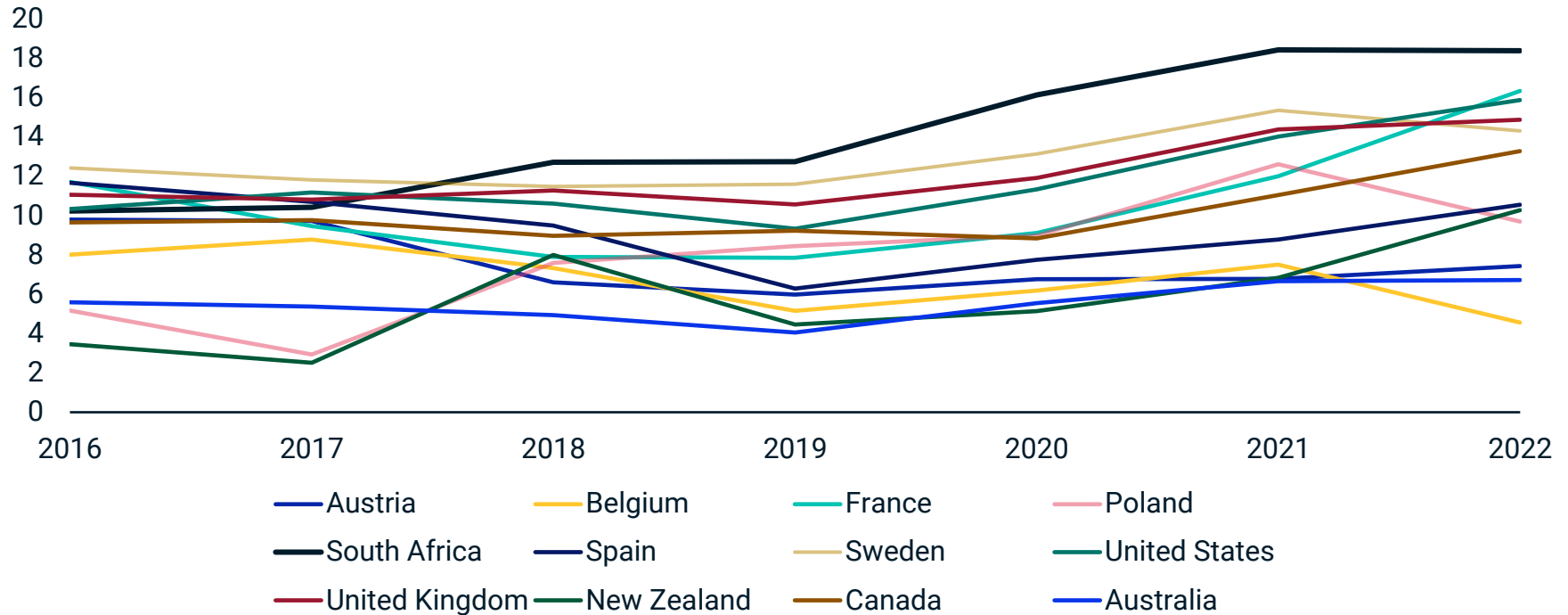
## United Kingdom



Same Store

# SA office vacancy down in '22 while many markets were up but was higher pre-pandemic

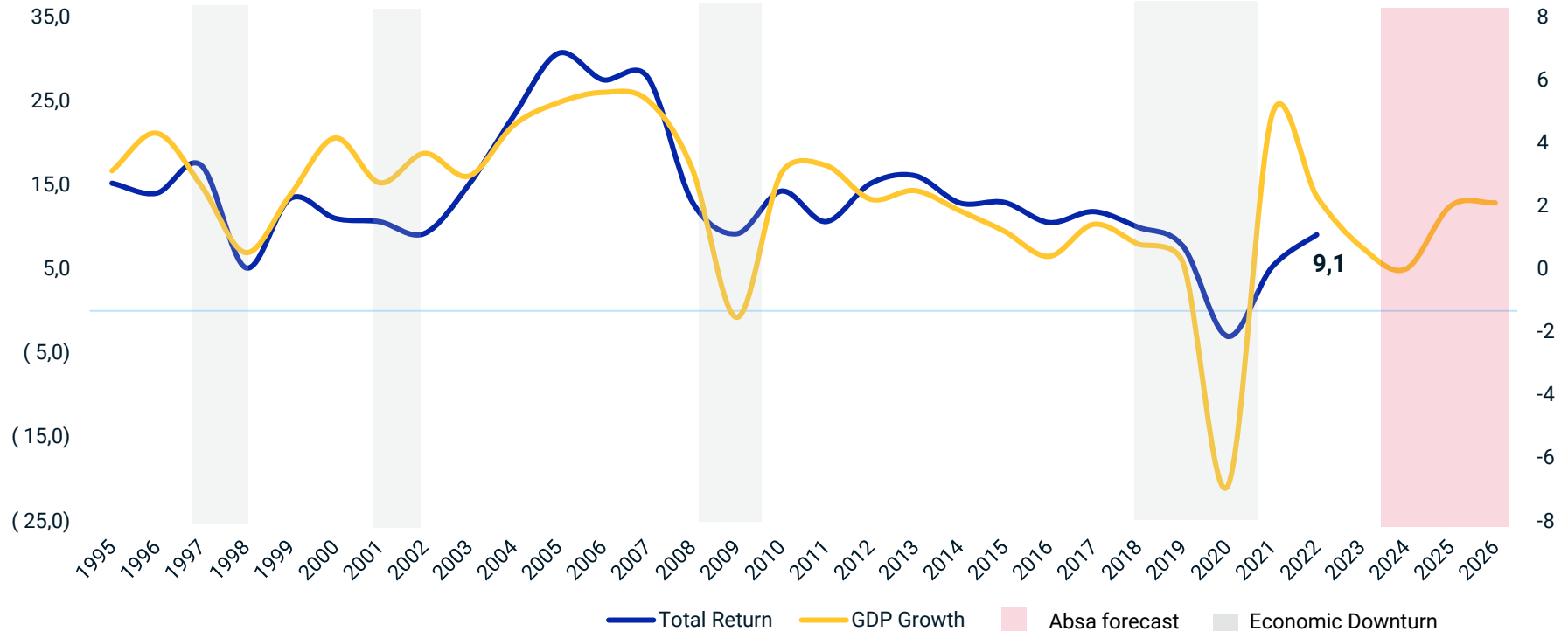
Office – Vacancy Rate





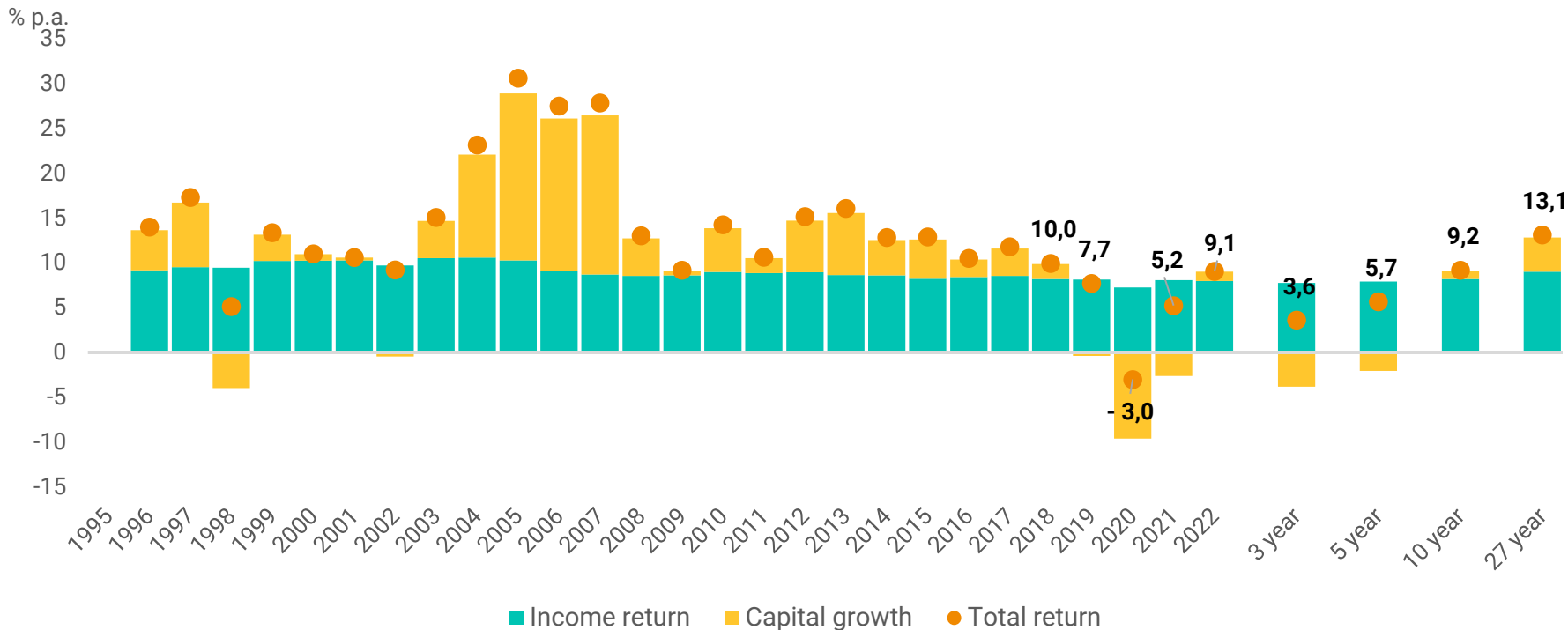
# Property Returns subject to GDP growth downturns but lags upturn until excess supply is absorbed

Standing investment returns in local currency



# Total Return improving to 9.1%

Standing investment returns in local currency

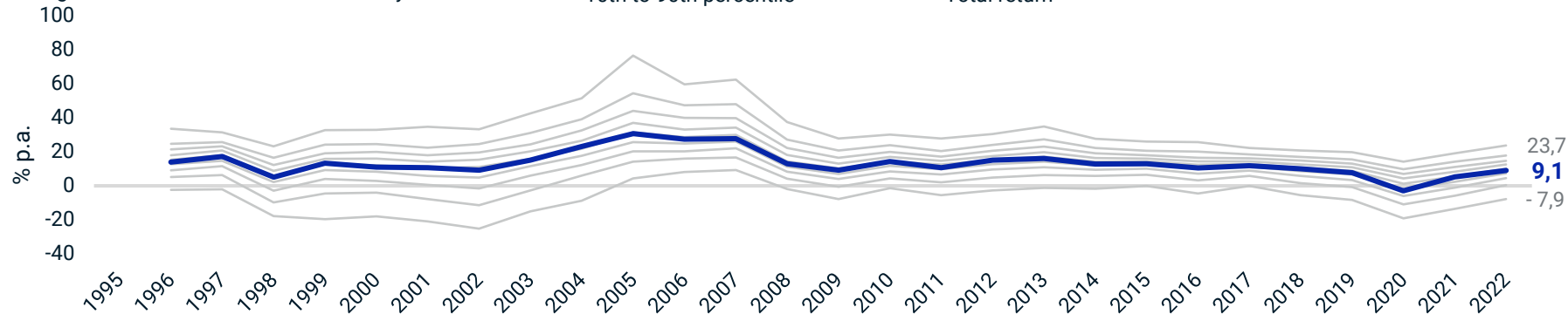


# Spread narrowing as the bottom of the range improves

Standing investment returns in local currency

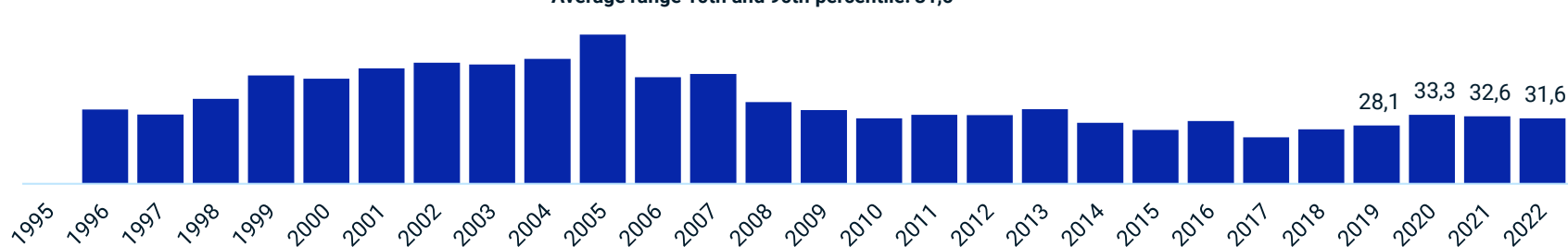
— 10th to 90th percentile

— Total return



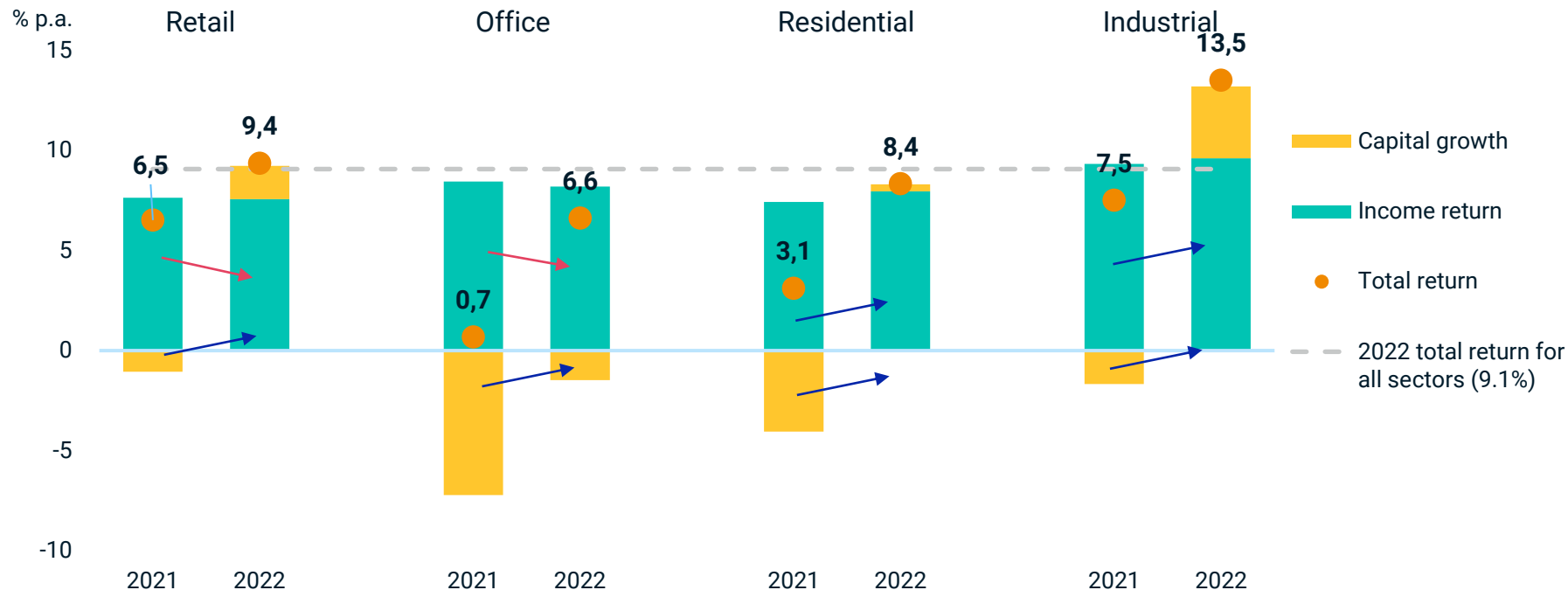
Range 10th to 90th percentile

Average range 10th and 90th percentile: 31,6

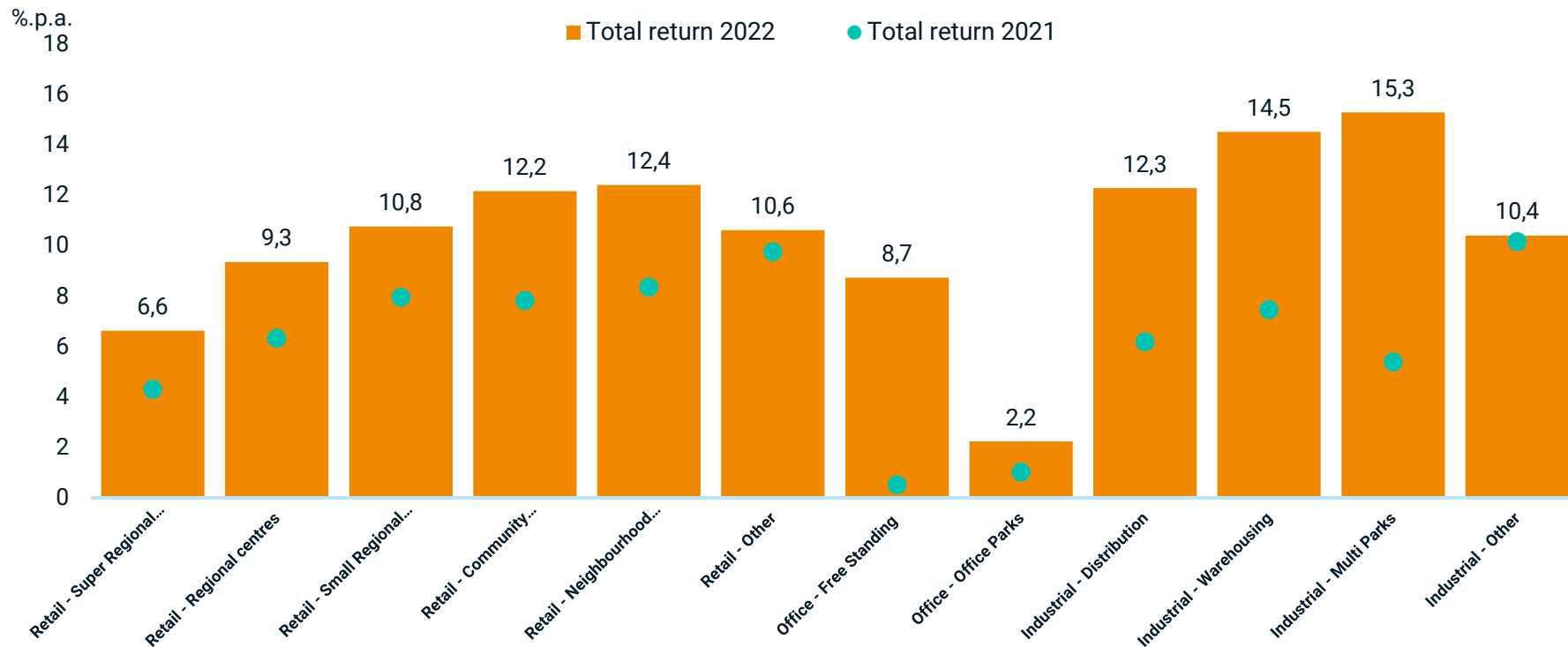


# Improvement in returns across all sectors

Standing investment returns in local currency

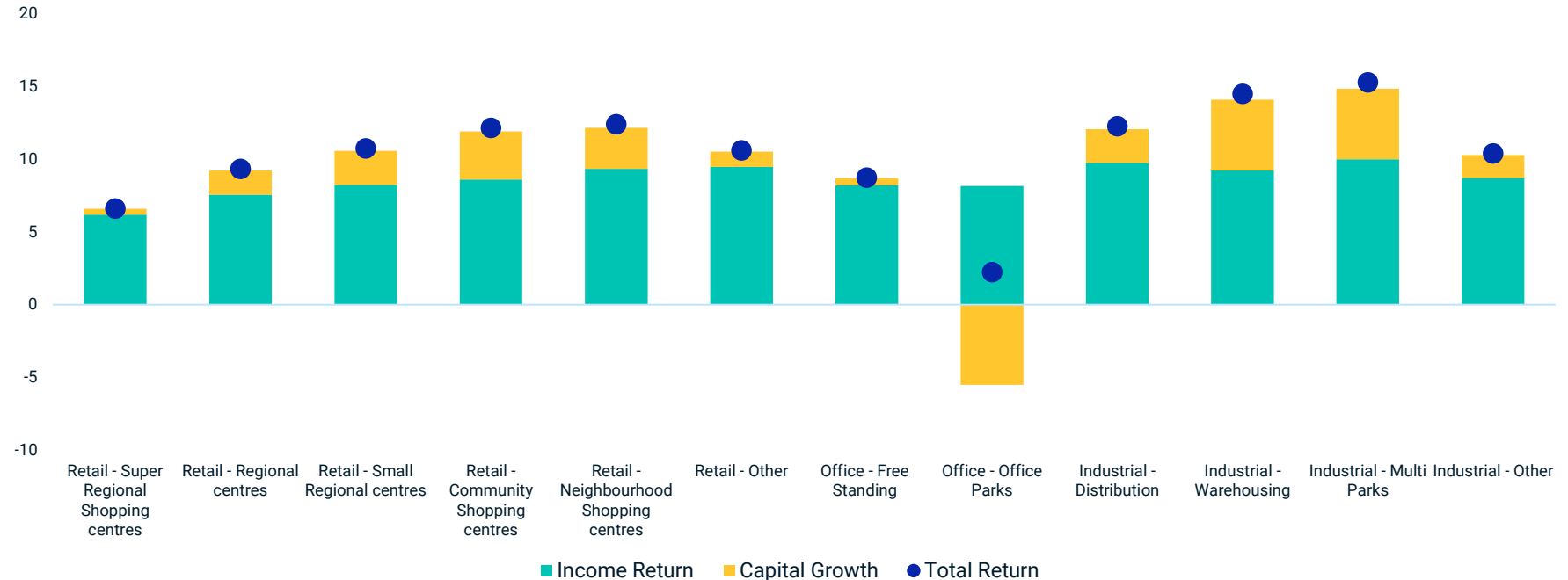


# Returns approved across market segments



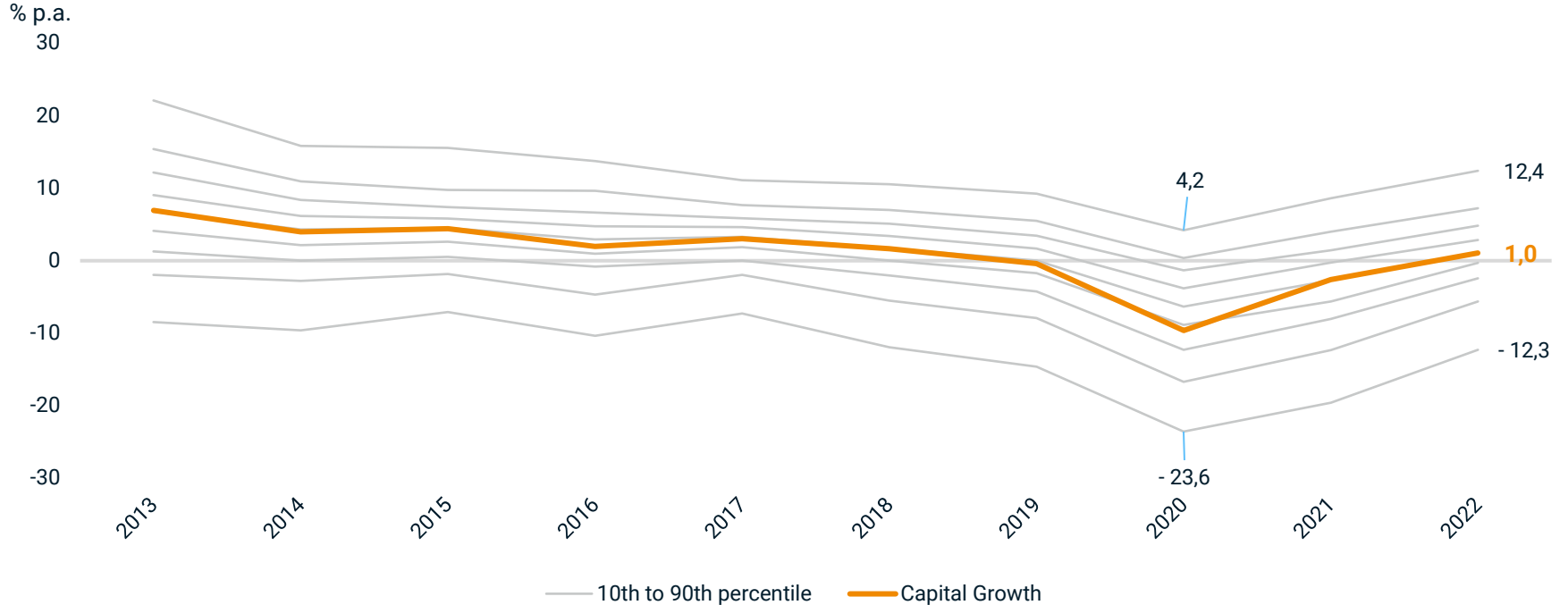
# Only Office Parks show devaluations

Total Return by market segment for 2022 split into Income Return and Capital Growth

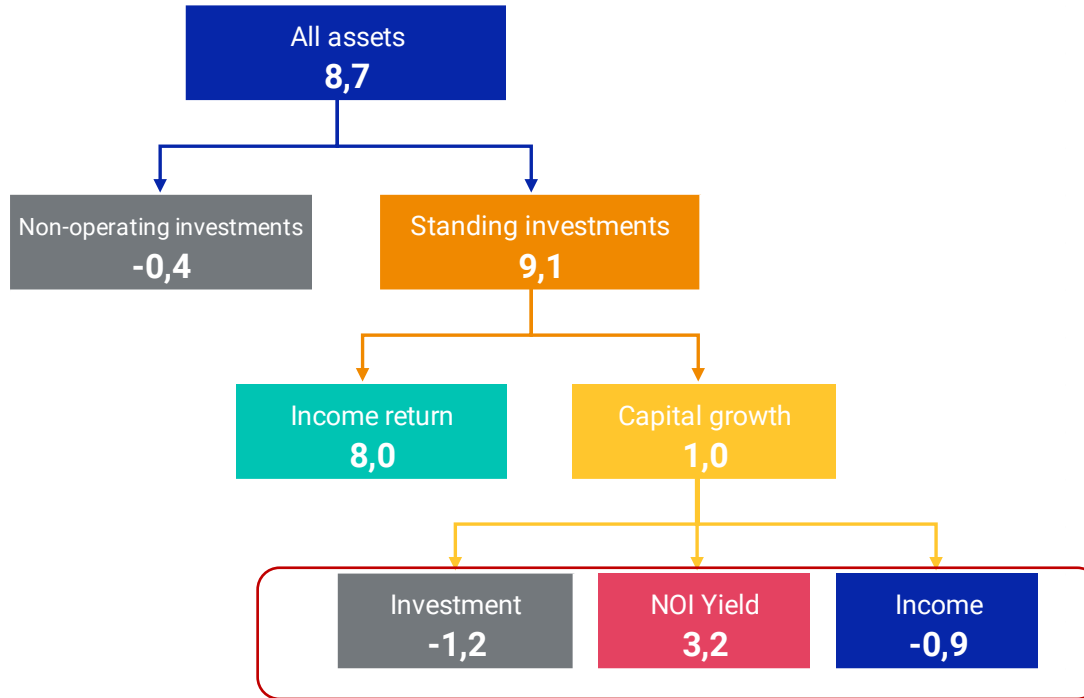


# All Property Capital Growth

## Standing investment



# Capital growth decomposition for 2022



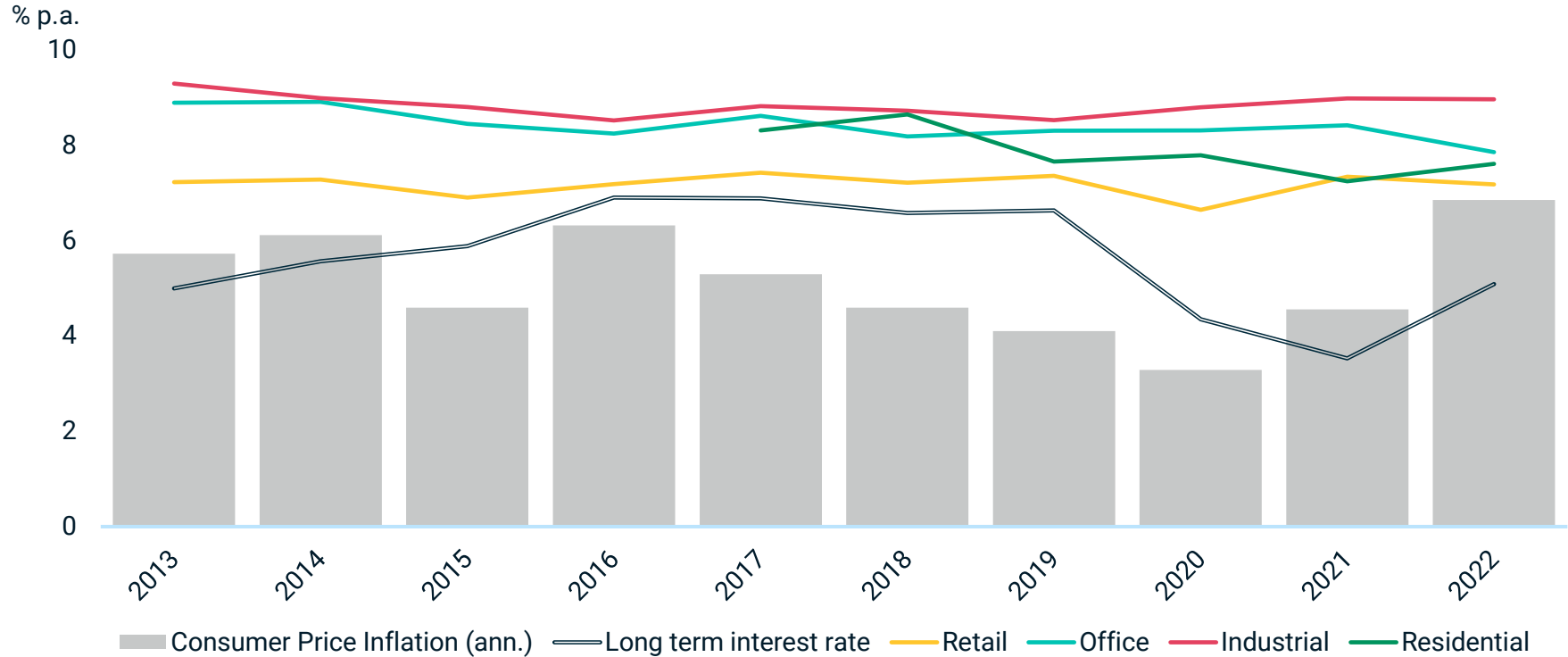
## Capital Growth Decomposition

Breakdown of capital into three elements:

- **Investment Impact** is the difference between asset-value growth and capital growth, equals the amount of capital expenditure invested in a hypothetical portfolio.
- **Net Operating Yield** shows how much the change in asset values was attributed to movements in the net operating income yield.
- **Income Impact** represents how much of the change in asset values came from growth in net income.

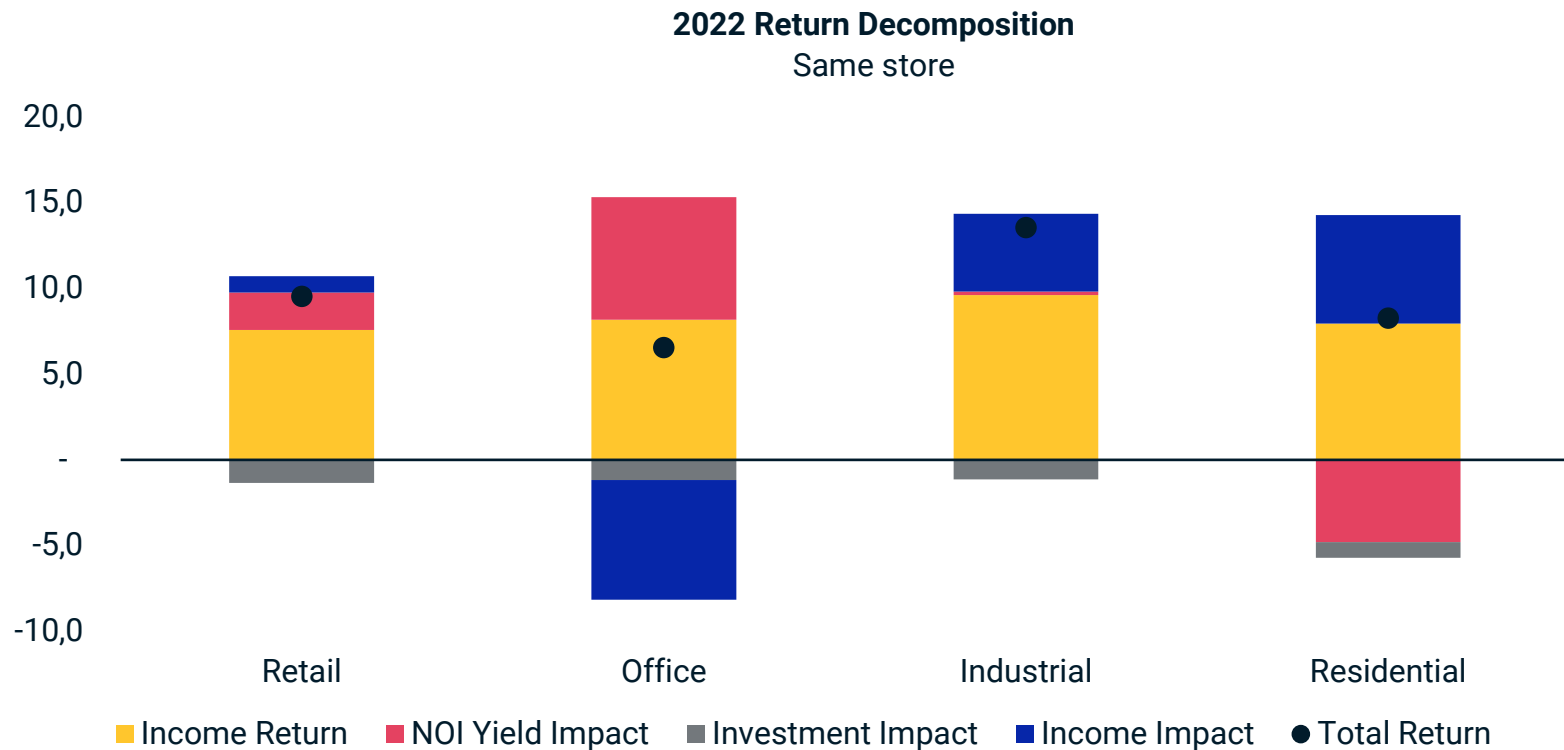


# Net operating income yield by sector compared to long term interest rates

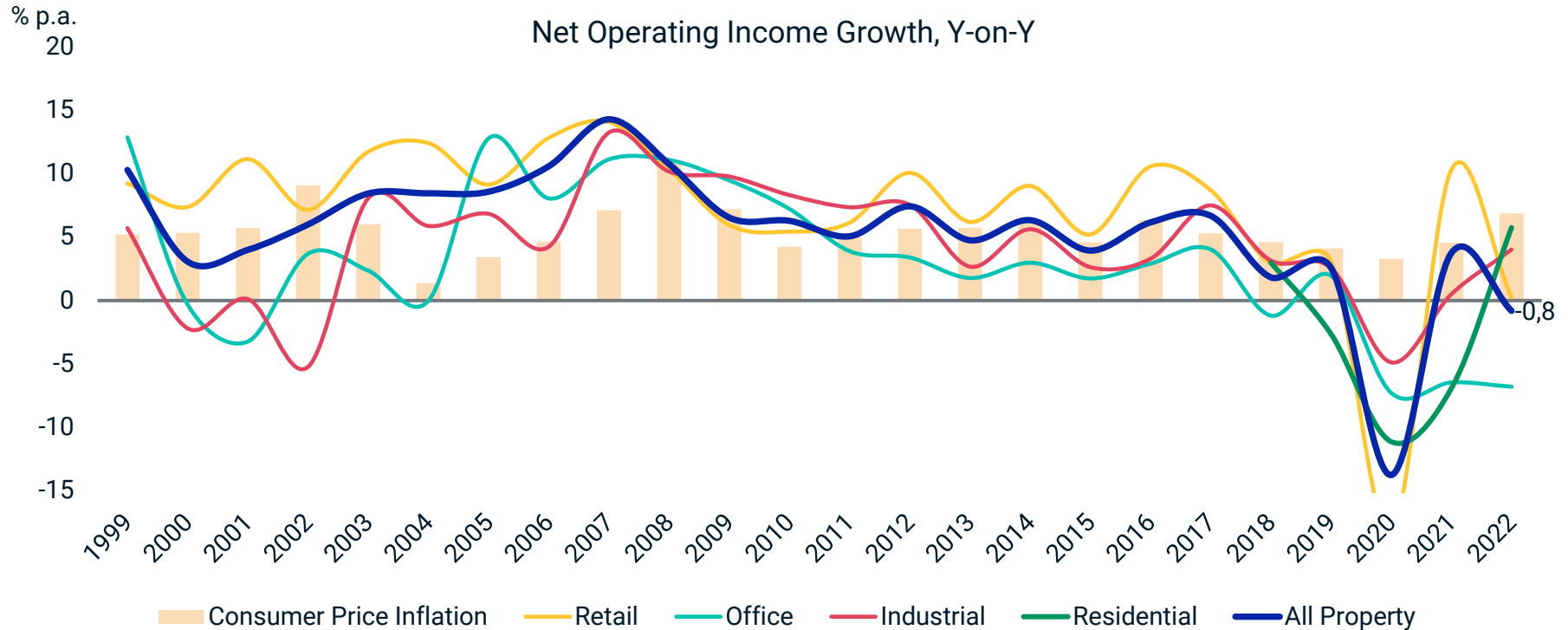


# Income impact varied between the sectors

office negative, industrial and residential positive



# All Property Net Income growth falling into negative territory



# All Property: Long term net income growth spread compared to CPI

All Property Net Income Growth (y-o-y)	Dec-96	Dec-97	Dec-98	Dec-99	Dec-00	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
10th percentile	-31,3	-24,4	-40,1	-37,2	-51,9	-70,7	-56,8	-47,2	-41,8	-29,8	-32,1	-19,0	-25,9	-25,5	-27,2	-27,2	-26,3	-27,7	-26,7	-29,3	-30,9	-19,5	-31,1	-28,7	-54,4	-39,3	-45,4
20th percentile	-3,3	-5,4	-13,4	-10,3	-20,3	-27,0	-22,7	-17,1	-15,5	-7,7	-11,1	-2,0	-6,6	-5,9	-7,7	-11,5	-8,0	-7,9	-7,6	-9,2	-10,8	-5,0	-12,2	-11,6	-31,0	-19,7	-20,1
30th percentile	4,8	2,2	-0,5	-1,4	-7,4	-8,4	-8,4	-3,0	-2,8	1,1	-1,6	5,4	1,1	1,8	0,3	-1,5	-0,1	-0,7	0,2	-0,2	-0,8	0,5	-3,7	-3,8	-20,8	-9,2	-10,5
40th percentile	7,9	6,6	5,2	4,6	0,9	1,8	0,9	4,7	2,9	6,2	4,4	9,1	6,2	6,2	5,0	3,4	4,9	3,3	4,9	4,1	3,8	4,8	1,6	0,9	-13,5	-0,5	-2,7
50th percentile	9,5	8,6	7,5	9,6	6,7	7,4	6,4	8,5	7,4	9,7	8,6	12,4	8,9	8,8	7,9	6,8	7,9	6,8	7,5	7,0	6,6	7,4	5,1	4,4	-7,2	4,9	2,6
60th percentile	11,1	10,4	10,9	12,6	9,8	9,8	9,7	11,5	10,5	13,8	11,4	15,7	11,3	11,3	11,0	9,7	10,9	8,7	9,4	8,7	8,4	9,0	7,5	7,4	-1,5	8,8	6,7
70th percentile	13,7	12,8	14,5	16,2	12,7	13,4	15,7	17,5	16,2	22,6	15,6	22,9	15,0	15,7	14,7	12,8	15,5	11,7	12,6	11,4	11,4	11,7	9,7	9,9	3,5	14,6	10,7
80th percentile	21,1	19,7	20,6	22,9	21,5	22,1	29,5	27,9	26,2	46,8	25,8	37,5	23,1	23,5	21,5	19,2	26,3	17,3	18,8	17,3	17,3	17,0	14,7	16,0	8,7	24,4	20,7
90th percentile	45,5	38,6	41,0	57,9	53,8	55,9	72,8	73,8	64,3	145,0	47,4	73,6	46,3	39,1	38,3	37,1	45,1	35,5	35,9	33,2	36,1	30,8	27,8	34,8	19,1	54,3	54,4
Consumer price inflation	7,3	8,6	7,0	5,2	5,3	5,7	9,1	6,0	1,4	3,4	4,6	7,1	11,0	7,2	4,2	5,0	5,7	5,7	6,1	4,6	6,3	5,3	4,6	4,1	3,3	4,6	6,9

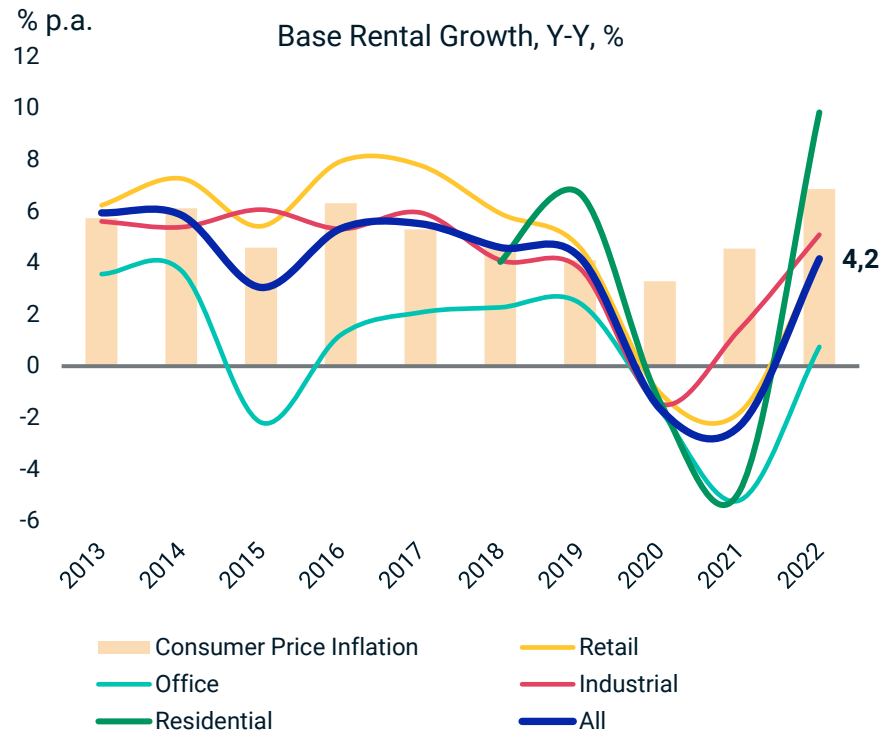
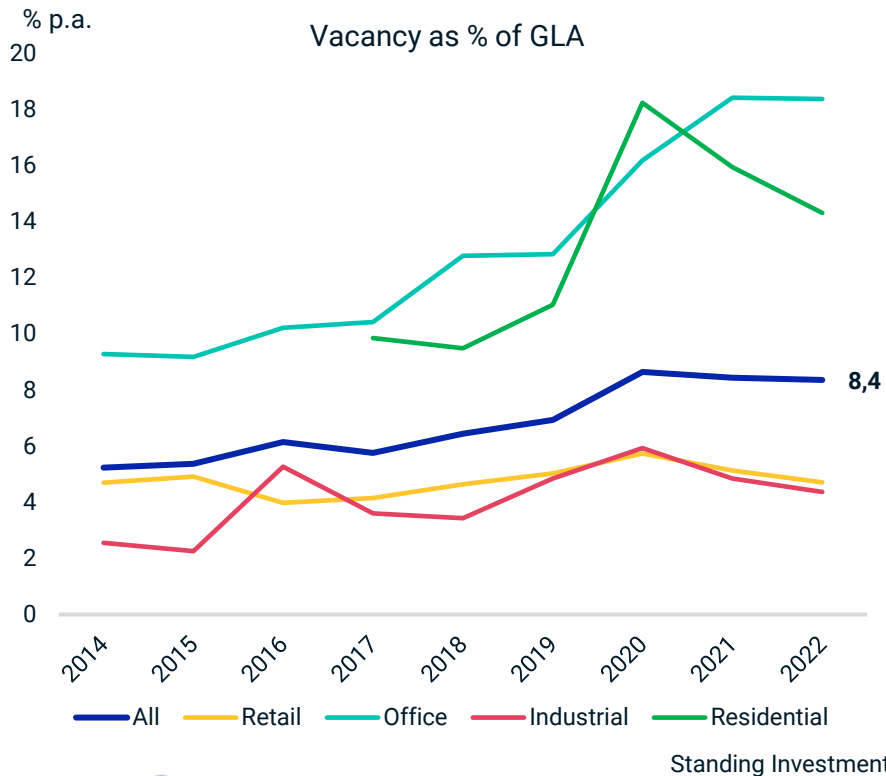
Same Store



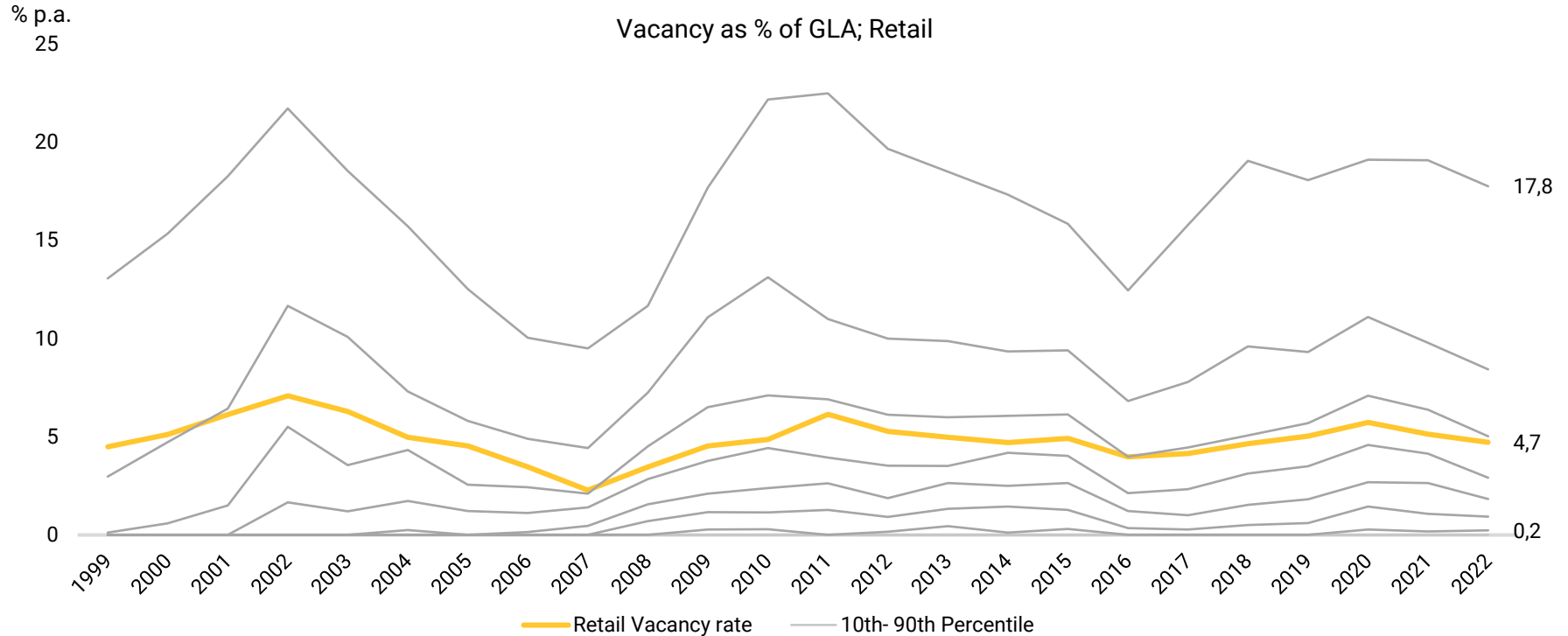
Source: MSCI Real Estate Global Intel

Information Classification: GENERAL

# Vacancy steady and rental growth has improved



# Retail: Long term vacancy spread narrowing 2022 but still very wide



# Retail: Long term rental growth spread compared to CPI

Base Rental  
Growth – All Retail

	Dec-99	Dec-00	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
10th percentile	-8,9	-10,5	-16,0	-10,7	-9,1	-8,9	-12,2	-1,1	0,9	-4,2	-4,8	-9,4	-6,1	-4,7	-3,6	-4,1	-6,5	0,2	-4,9	-8,7	-7,8	-13,7	-12,7	-9,5
20th percentile	-2,8	-1,2	-3,2	1,2	-1,7	1,5	-0,6	5,0	4,5	1,0	1,2	-3,4	-1,2	0,2	1,7	0,9	-0,2	2,6	1,2	-0,5	-0,4	-7,0	-6,6	-3,6
30th percentile	0,0	4,4	1,8	6,6	1,6	4,8	4,7	6,9	6,2	5,0	4,7	1,9	2,6	3,3	3,8	3,2	2,4	4,6	3,4	2,0	1,7	-2,8	-3,1	0,0
40th percentile	4,2	7,1	5,8	8,5	4,3	7,0	7,3	8,0	7,9	6,7	6,6	4,8	5,3	5,1	4,9	4,8	4,5	6,0	5,3	3,4	3,5	-1,0	-0,2	1,9
50th percentile	7,5	8,5	7,9	10,0	6,1	8,0	8,1	8,5	8,9	8,4	7,7	6,8	7,2	6,8	6,5	6,0	5,9	7,0	6,5	5,3	4,8	1,2	1,9	3,6
60th percentile	8,5	10,0	8,5	13,5	8,0	9,0	9,0	9,9	10,4	10,1	9,2	8,0	8,5	7,8	7,3	7,3	7,0	7,8	7,3	6,2	5,8	2,9	4,5	5,2
70th percentile	10,1	10,8	9,9	19,6	9,0	10,6	10,6	11,3	12,1	12,5	11,9	9,0	9,6	8,6	8,7	8,3	8,2	8,9	8,1	7,3	7,0	4,7	6,3	6,4
80th percentile	12,0	12,8	11,0	32,0	10,9	12,9	13,2	16,5	16,5	15,7	14,3	10,5	11,2	10,9	10,7	9,9	10,3	10,9	9,7	8,5	8,1	6,6	8,6	7,9
90th percentile	21,1	23,6	19,6	60,1	17,0	20,5	22,3	29,2	36,6	22,5	20,8	13,4	16,3	15,0	16,8	14,3	12,9	18,3	12,2	13,5	12,8	9,8	13,5	10,8
Consumer price inflation	5,2	5,3	5,7	9,1	6,0	1,4	3,4	4,6	7,1	11,0	7,2	4,2	5,0	5,7	5,7	6,1	4,6	6,3	5,3	4,6	4,1	3,3	4,6	6,9

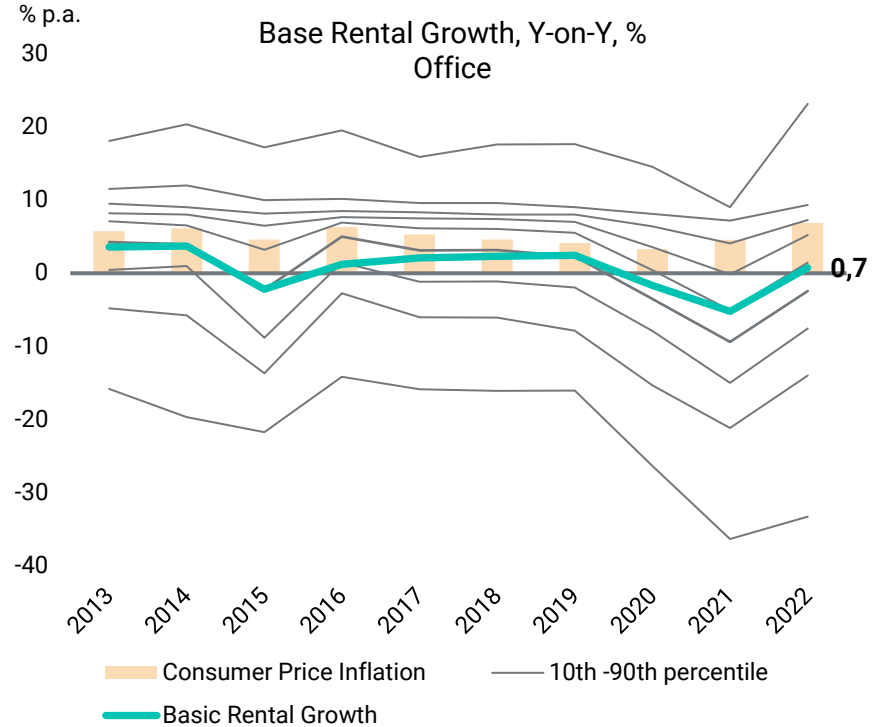
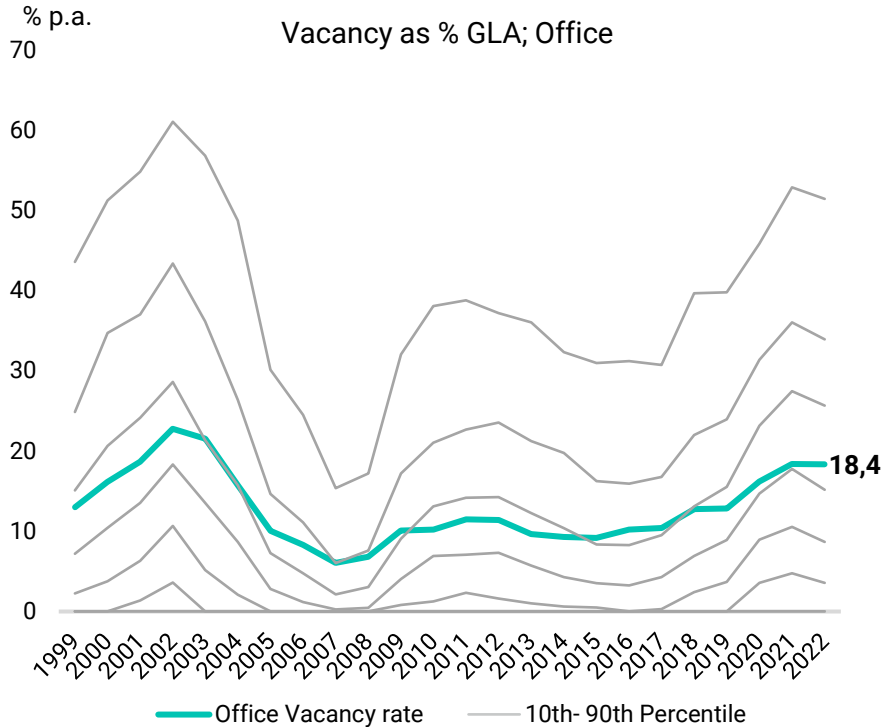
Same Store



Source: MSCI Real Estate Global Intel

Information Classification: GENERAL

# Office: Vacancy and rental growth spreads widening



Standing Investments

Same Store

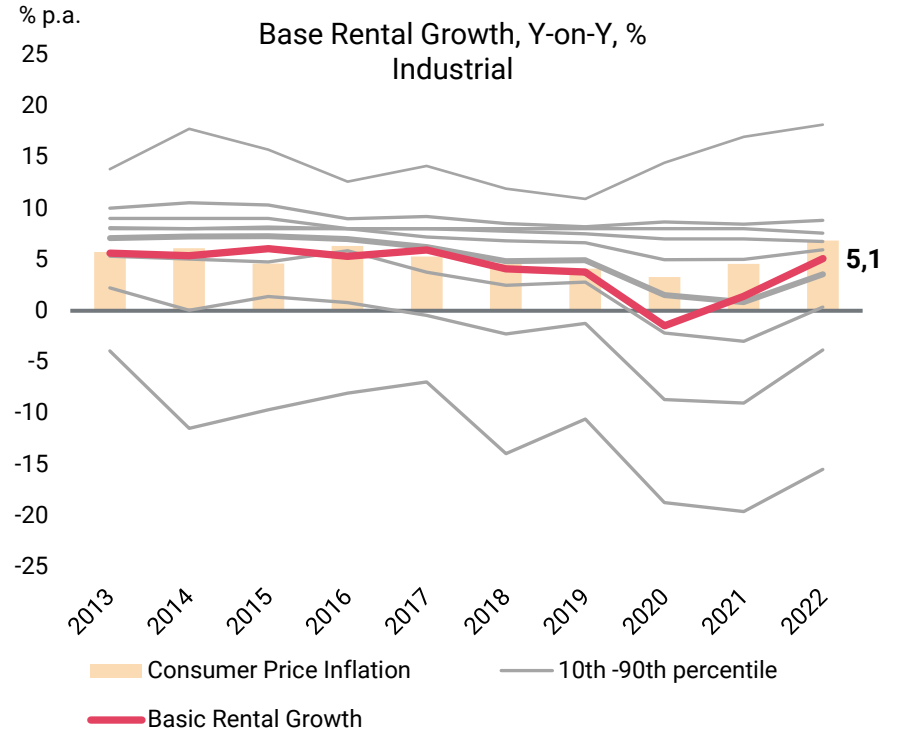
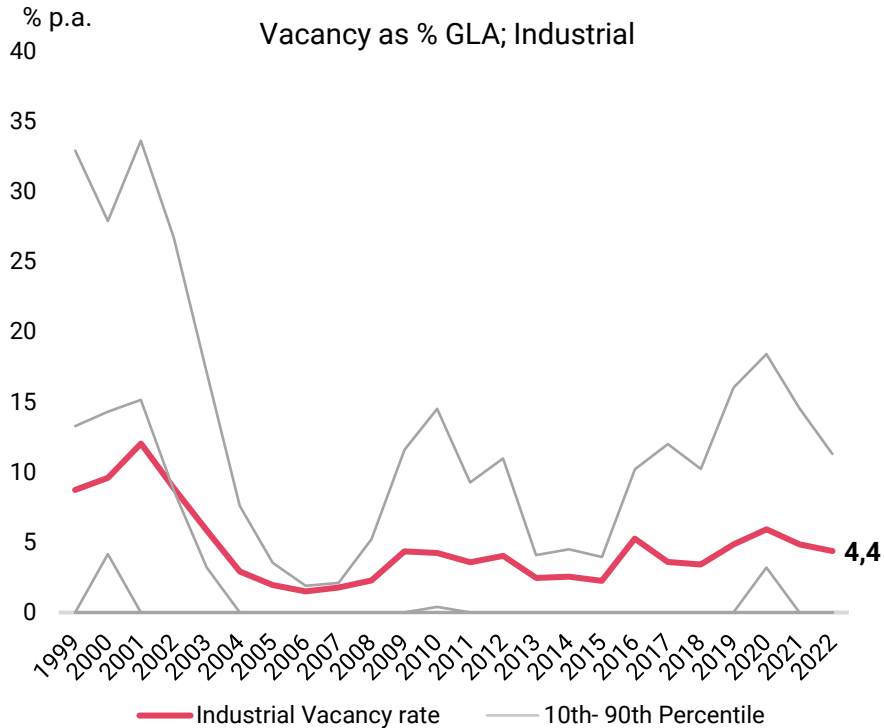


Source: MSCI Real Estate Global Intel

Information Classification: GENERAL



# Industrial: rental growth in lowest percentiles improving



Standing Investments

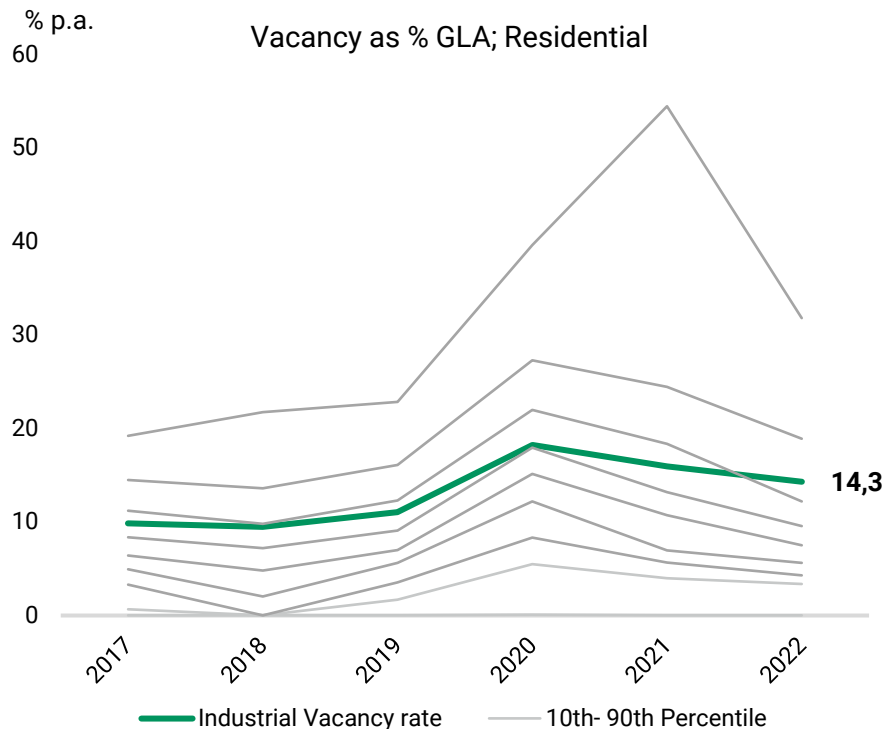
Same Store



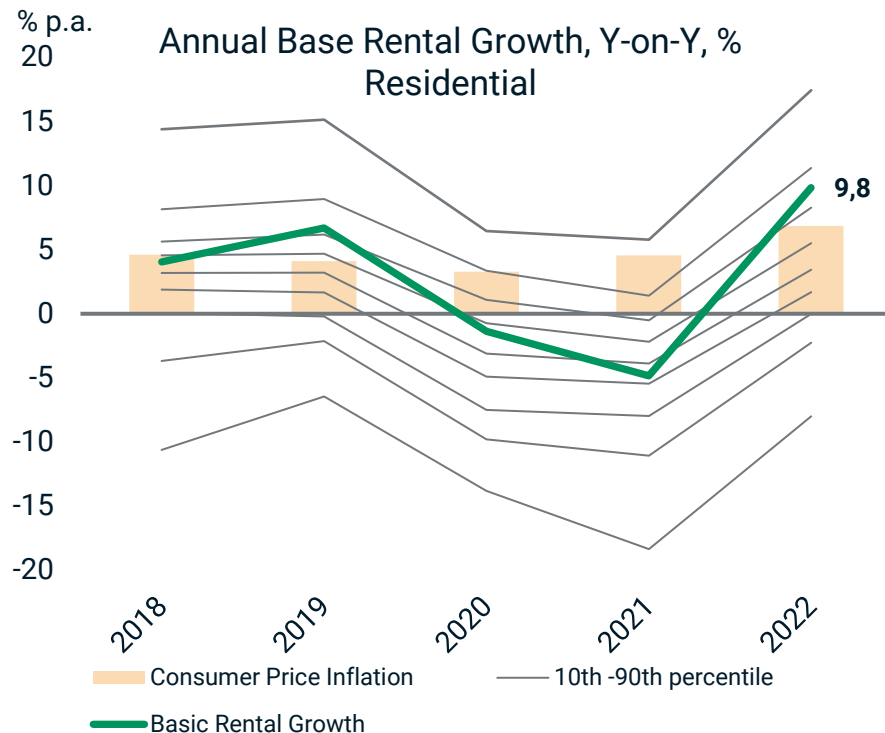
Source: MSCI Real Estate Global Intel

Information Classification: GENERAL

# Residential: highest vacancies coming down and lowest rentals improving

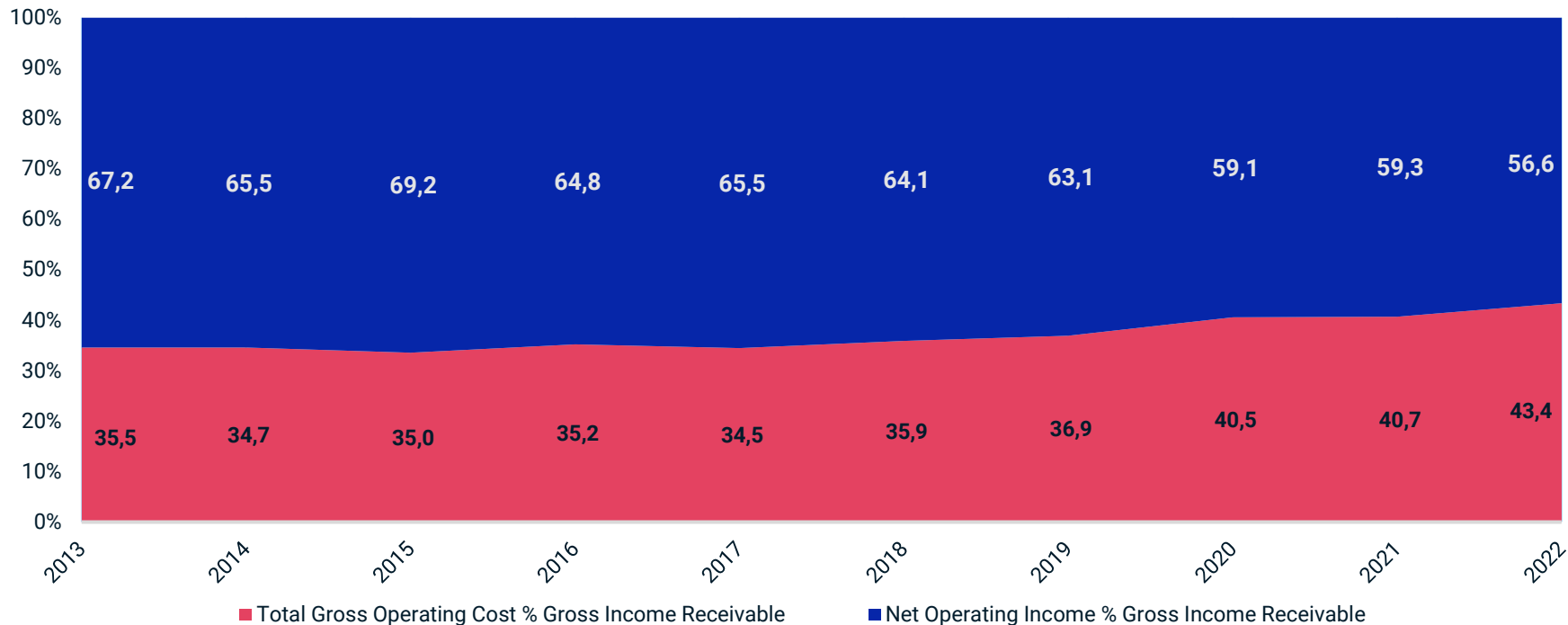


Standing Investments

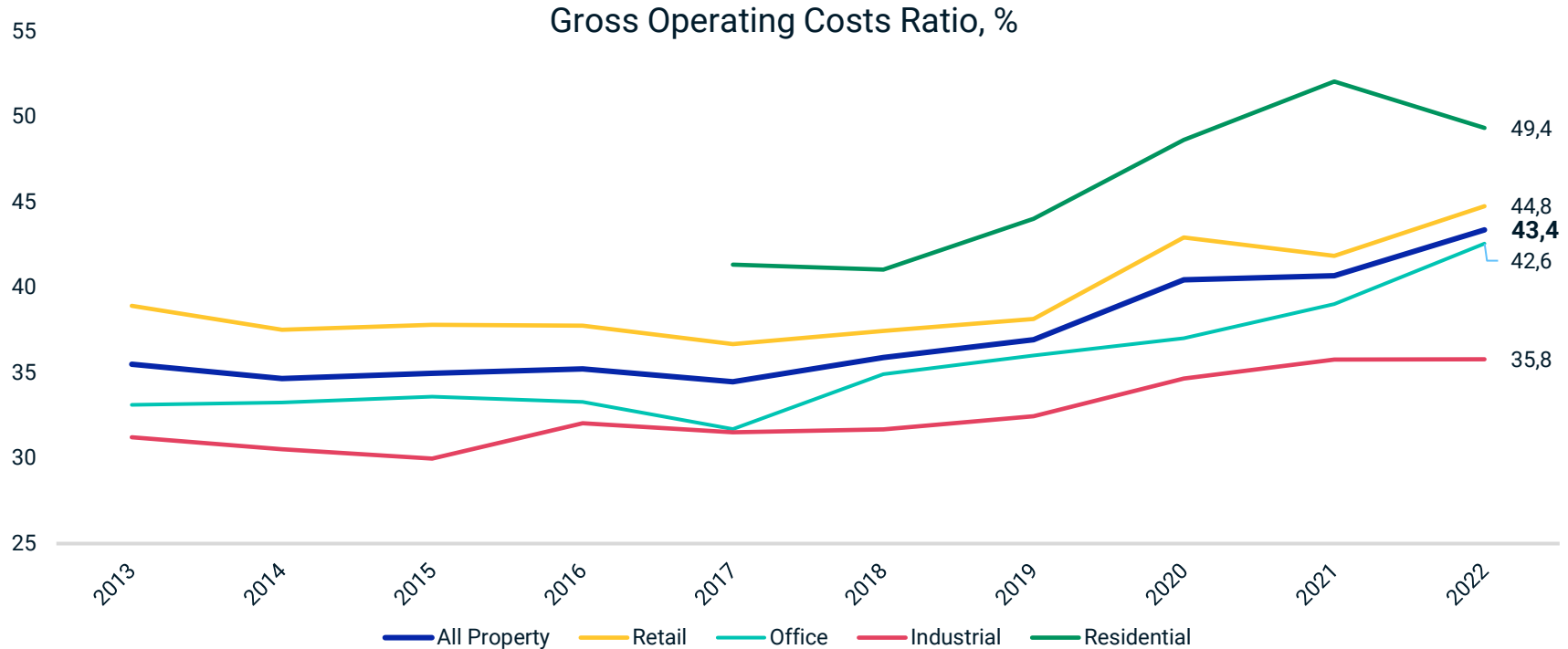


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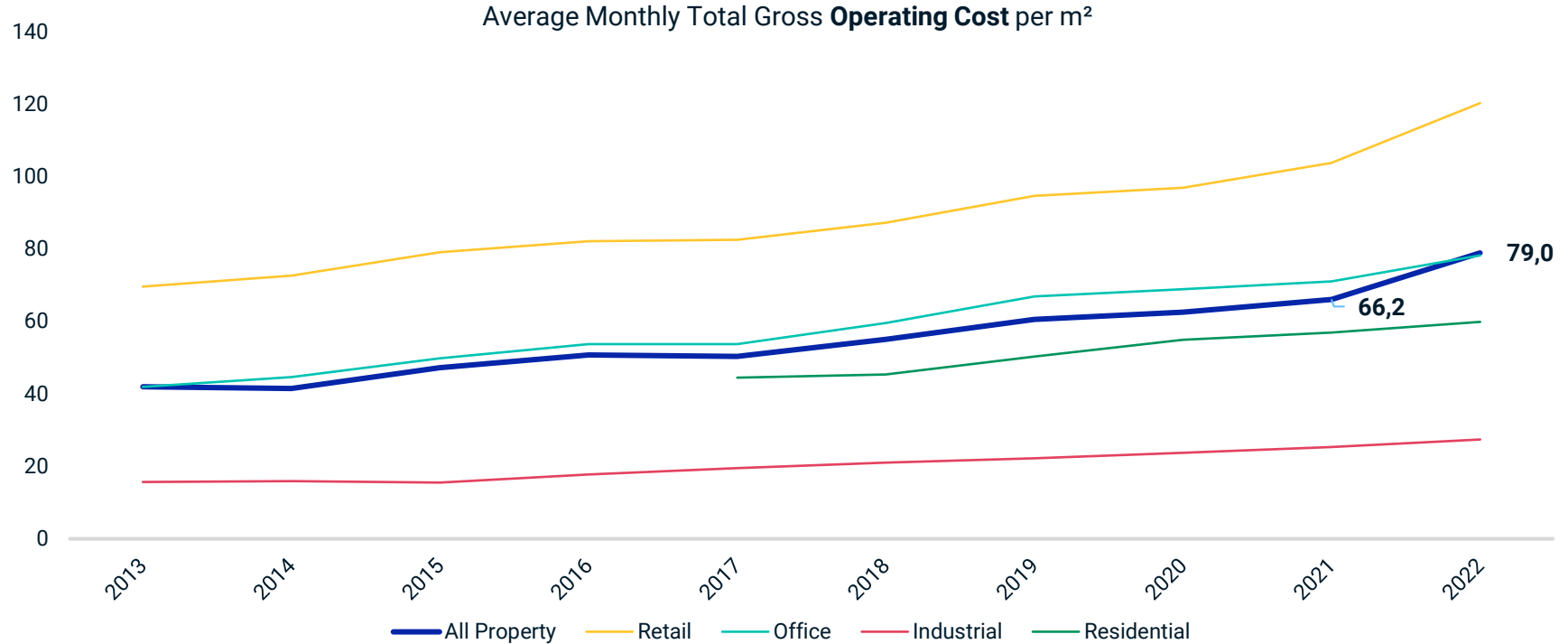
# Gross cost to gross income ratio leapt up to 43,4% in 2022



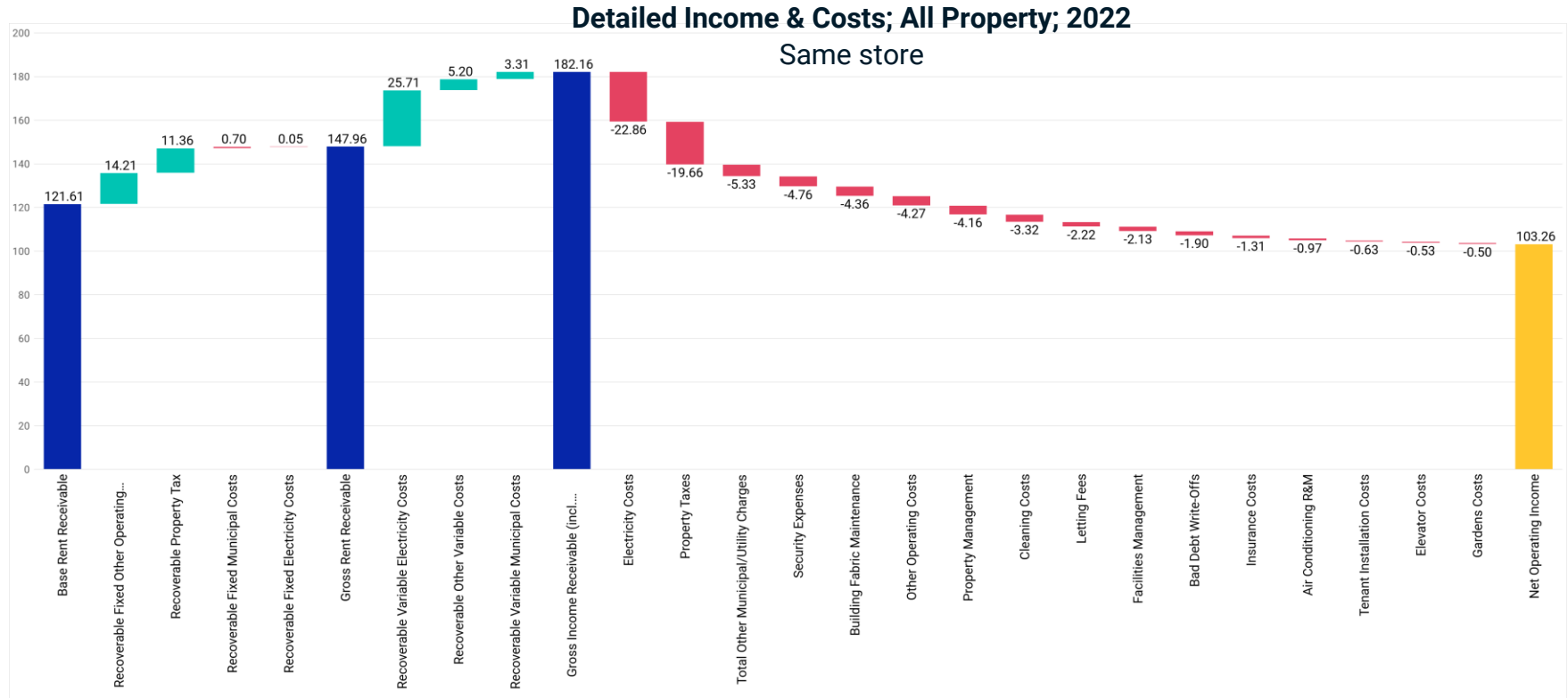
# Residential showing improvement, industrial also flat but retail and office severely affected



# Costs increasing rapidly, especially for retail



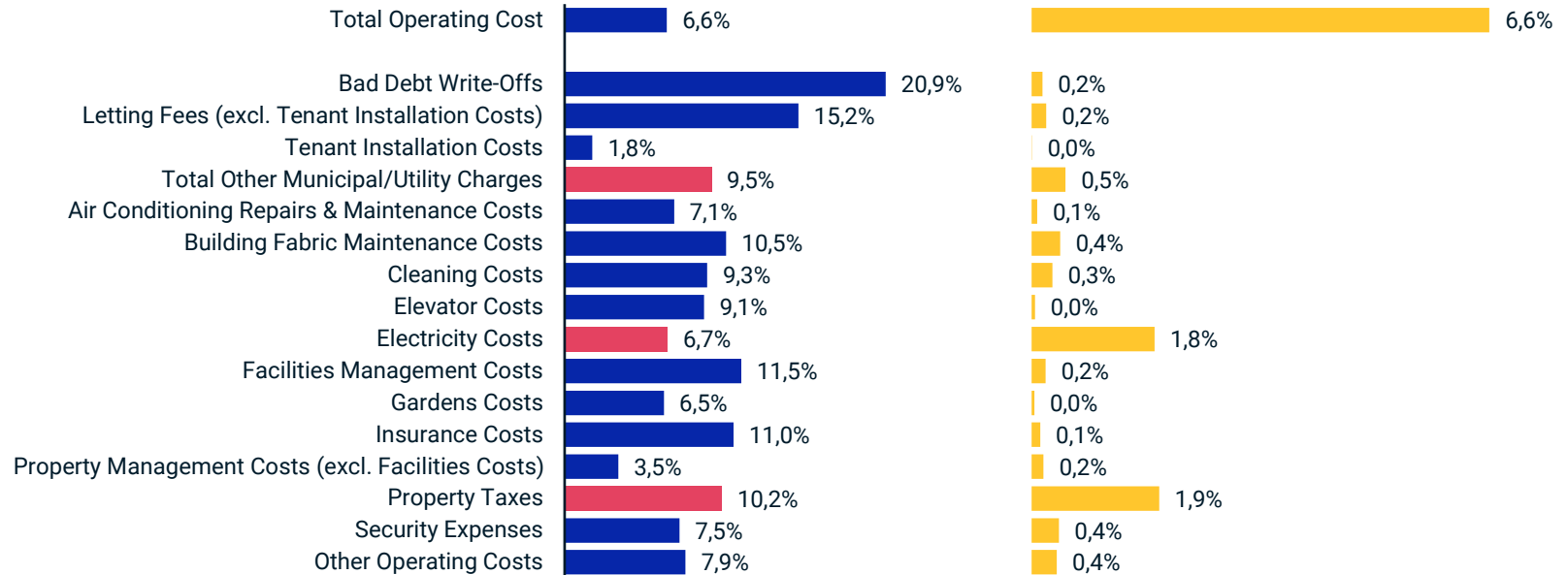
# All Property: Electricity and Rates still the largest cost items



# Electricity and Rates the largest contributors over 10 years. Bad Debts now the largest growing item

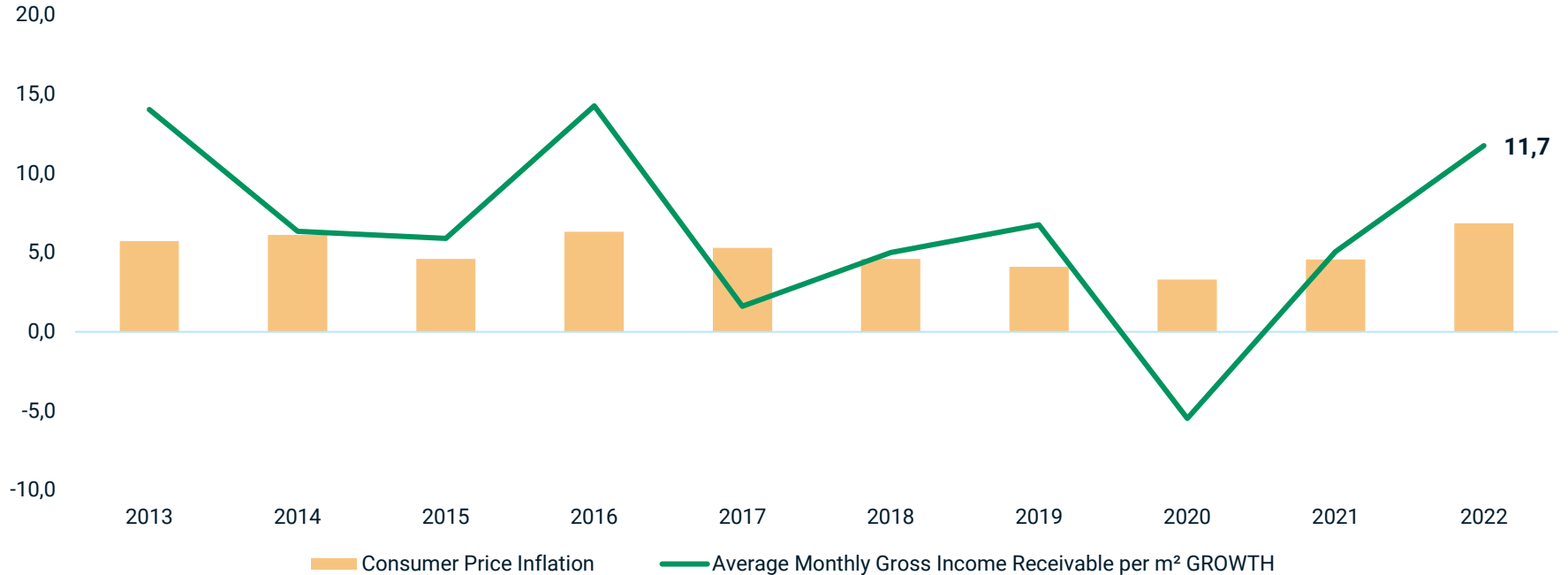
Cost Growth; 10 year CAGR

Weighted contribution to Total Ops Cost growth



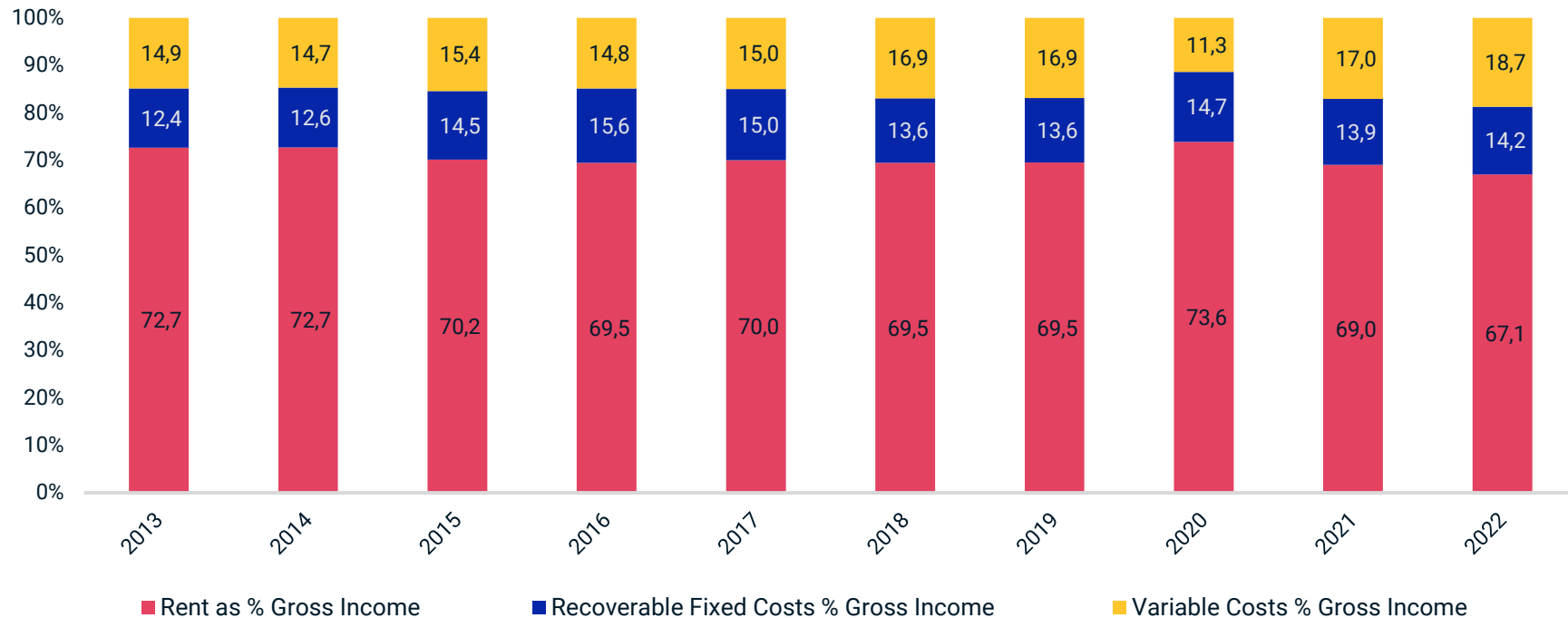
# Gross income receivable aka... Total cost of occupation for tenants

All Property: Gross Income Receivable Growth



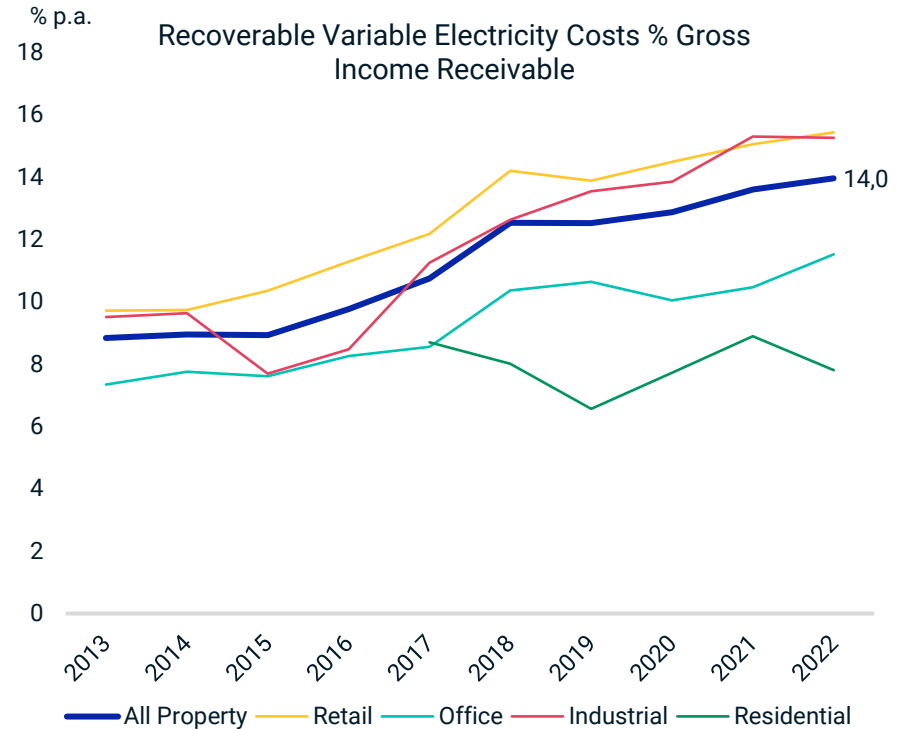
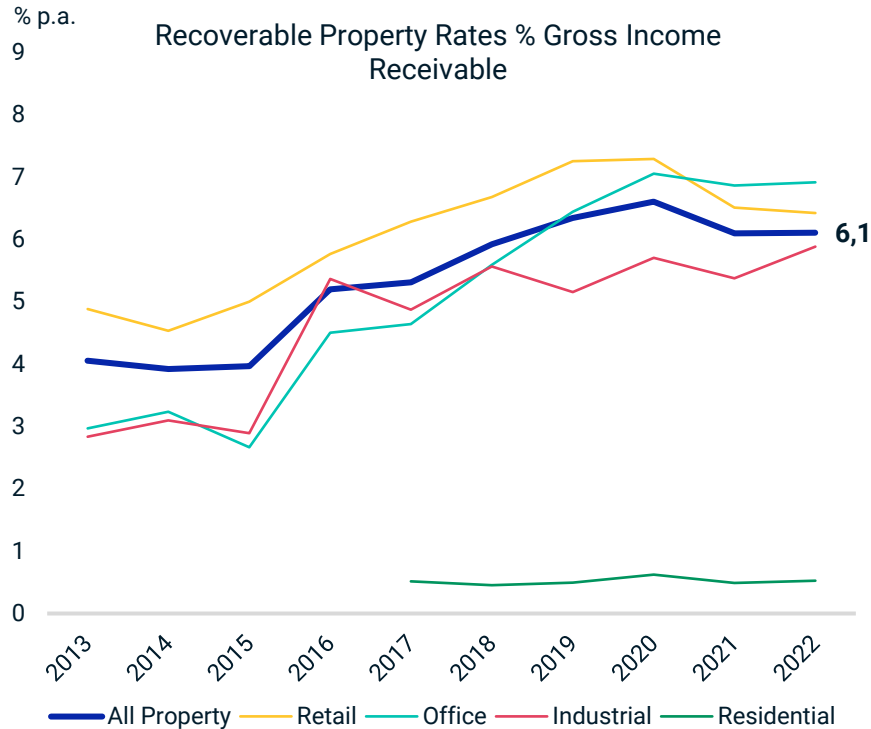


# Total cost of occupancy: variable recovery portion growing

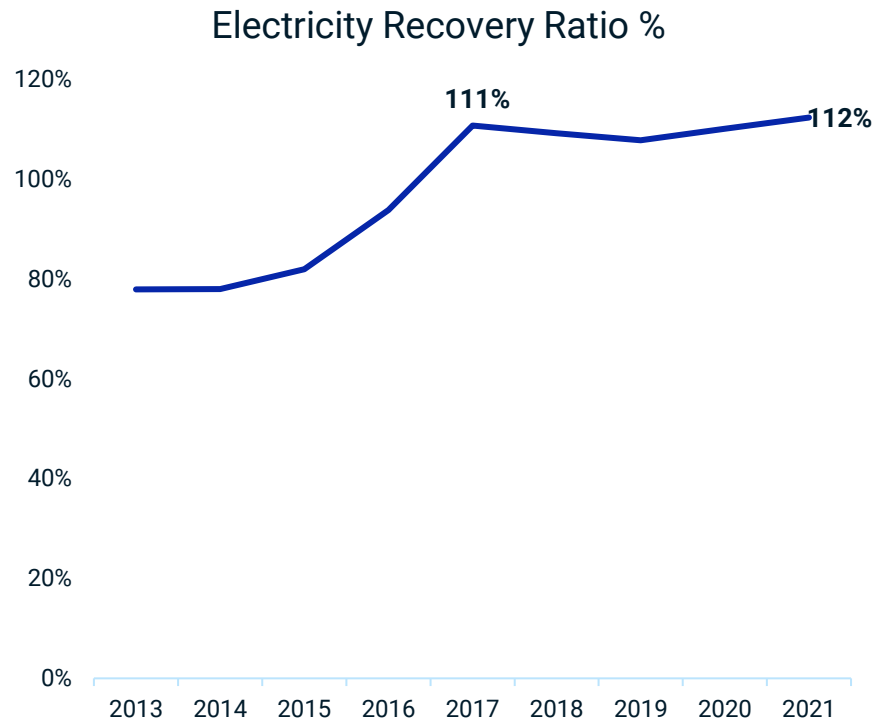
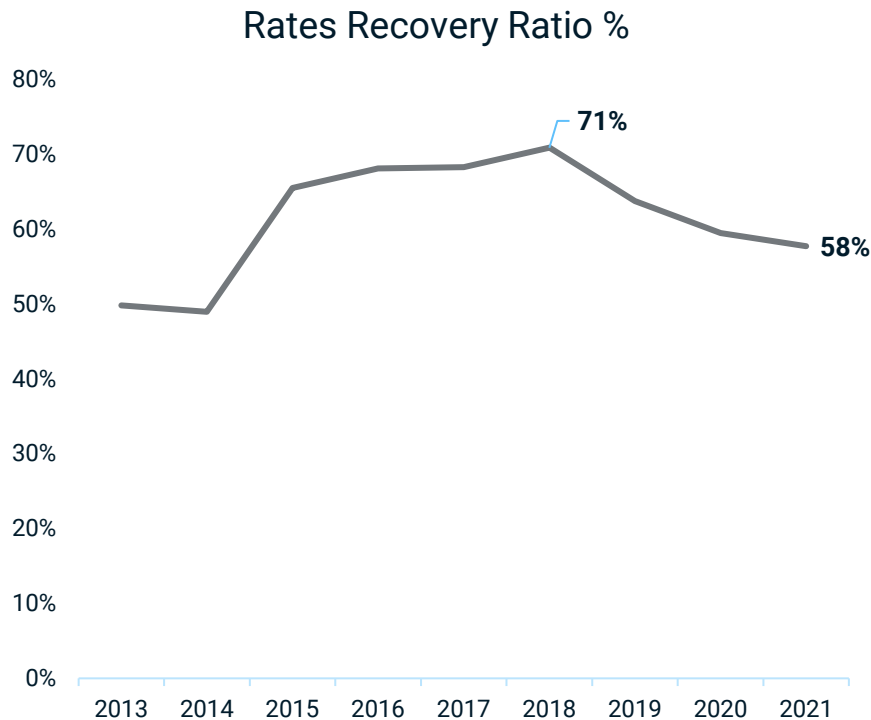


# Rates and electricity portion of gross income receivable:

## Rates steady but electricity is growing



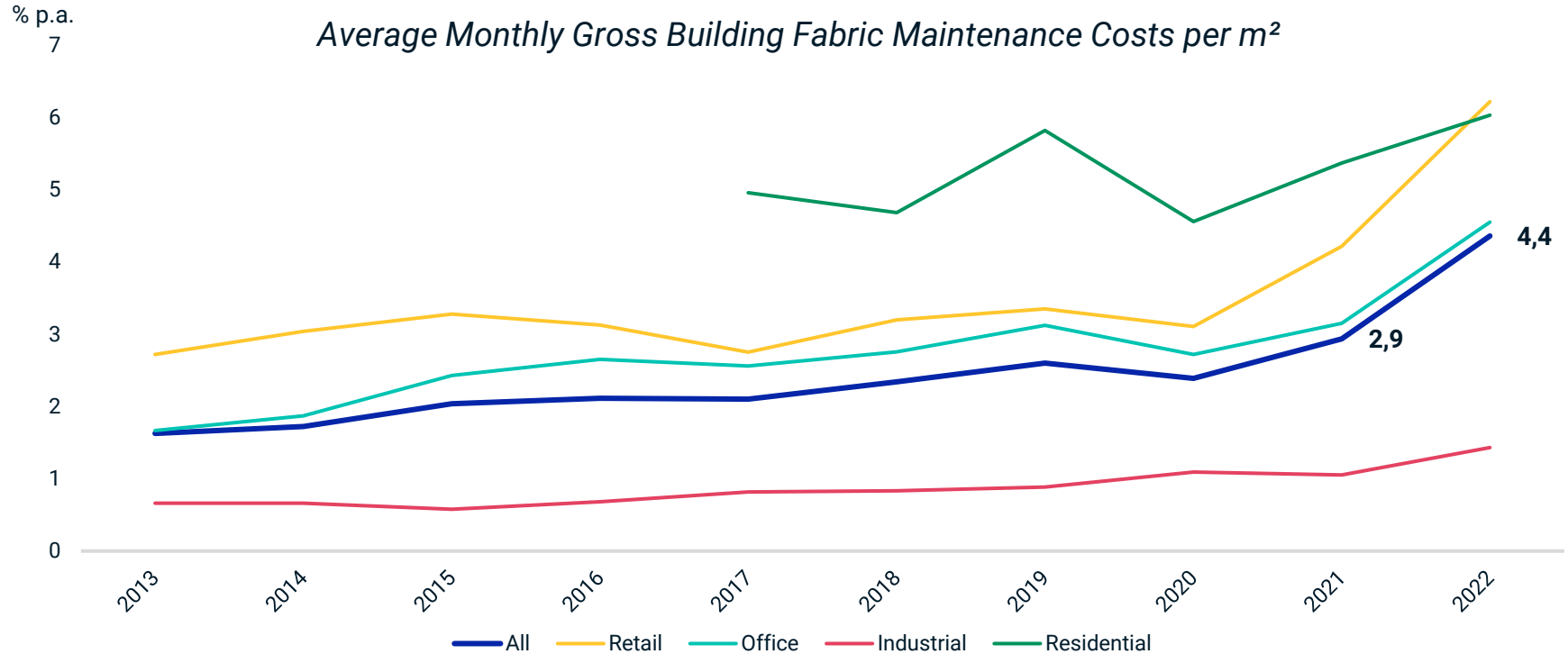
# Recovery ratios steady for electricity but coming down on rates: Owners absorbing the larger portion of rates



# Impact of loadshedding: Hourly distribution of loadshedding January – December 2022

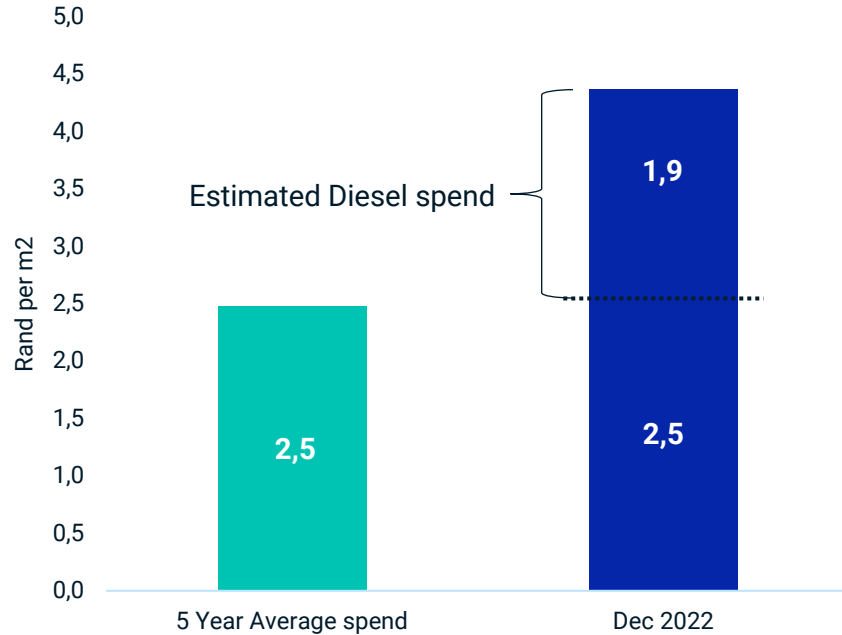


# Loadshedding and diesel spend – biggest impact in retail and offices

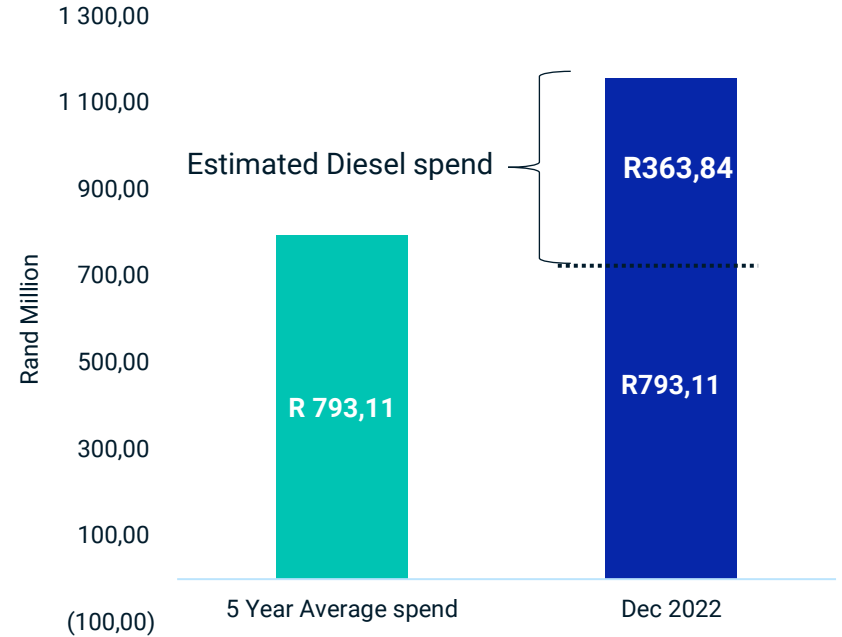


# All Property: Estimated diesel spend in 2022

All Property: Average Monthly Gross Building Fabric Maintenance Costs per m<sup>2</sup>



All Property: Annual Gross Building Fabric Maintenance Costs in RAND in the MSCI Universe



# Summary

**9,1 % Total Return in 2022.  
Highest return since 2018**

**Market values improved  
for all sectors except  
office.**

**Net operating income yield in South Africa contracted by 20pbs, unlike  
global markets where yields softened. Risk may already be priced in for  
South Africa**

**Net Income impaired by  
raising costs**

**Costs to the tenant increasing but rental  
portion diminishing. Increase in  
variable recoveries i.e. electricity**

**Thank you**

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