

MSCI South African Real Estate Biannual Index

RESULTS TO JUNE 2023

Eileen Andrew

12th October

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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


redefine
PROPERTIES


RESILIENT
REIT


SA CORPORATE
REAL ESTATE

 Sanlam


TRANSCEND
Residential Property Fund

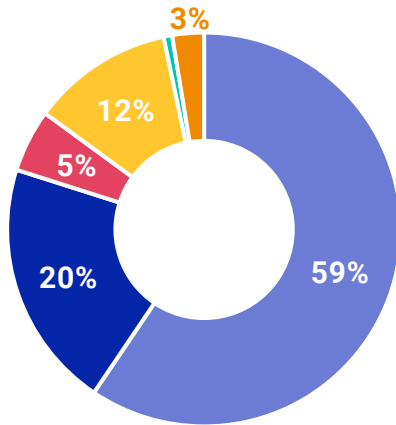
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MSCI South African Bi-Annual Index for June 2023

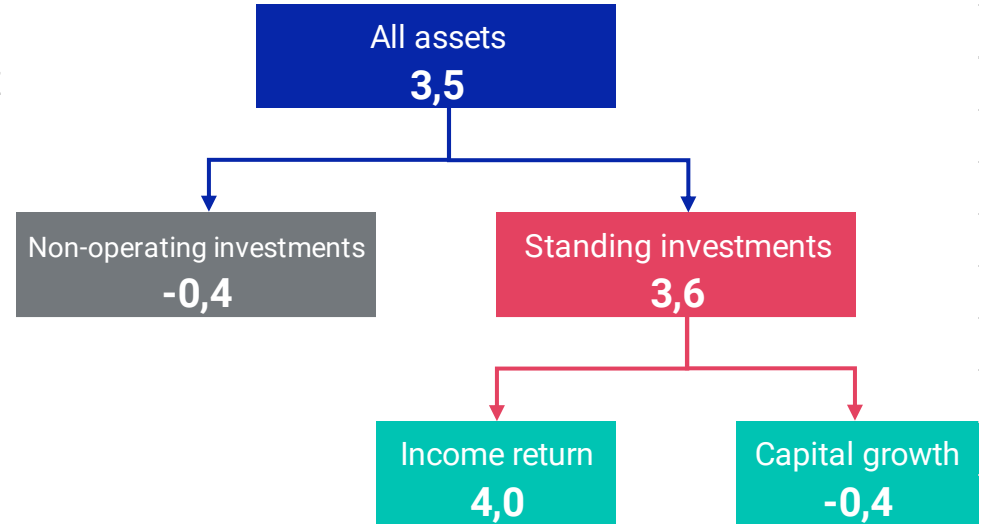


2008 INDEX INCEPTION DATE
25 NUMBER OF PORTFOLIOS
1 837 NUMBER OF ASSETS
367,4 UNIVERSE CAPITAL VALUE
58% MSCI COVERAGE



- Retail
- Office
- Residential
- Industrial
- Hotel
- Other

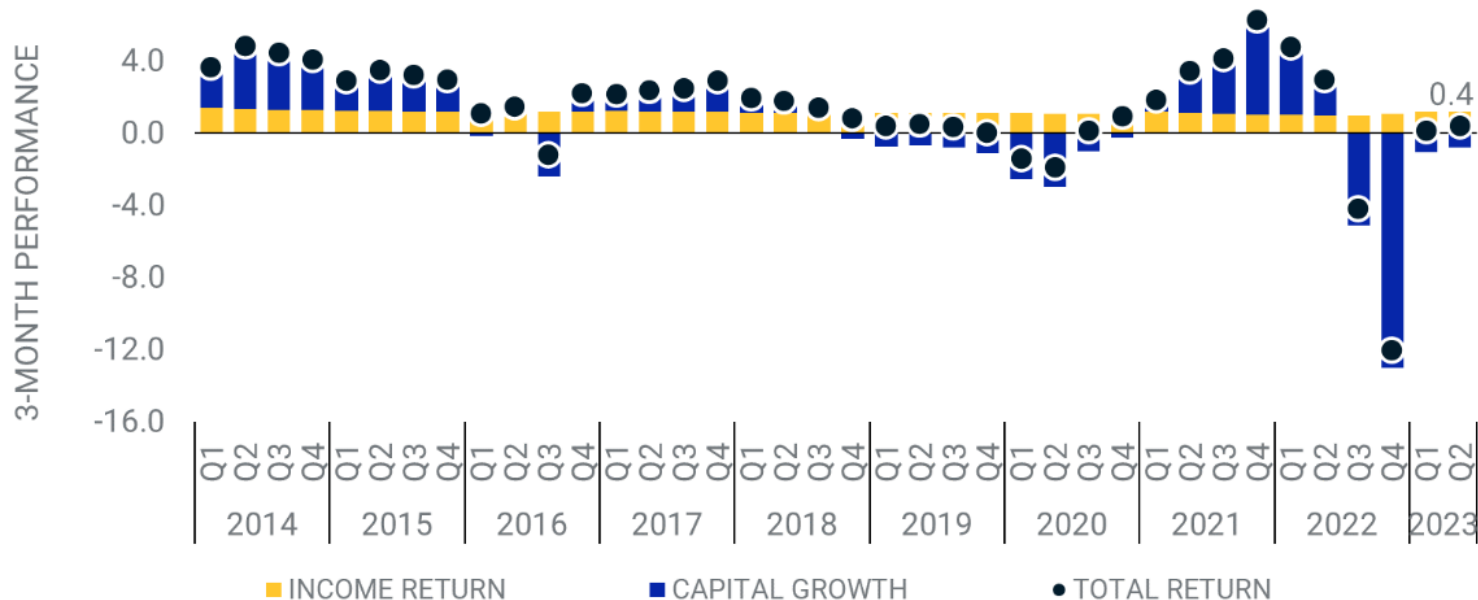
2023 BIANNUAL RETURNS (%)



UK returns have seen an improvement, but valuations are still negative

MSCI UK Quarterly Index March 2014 – June 2023

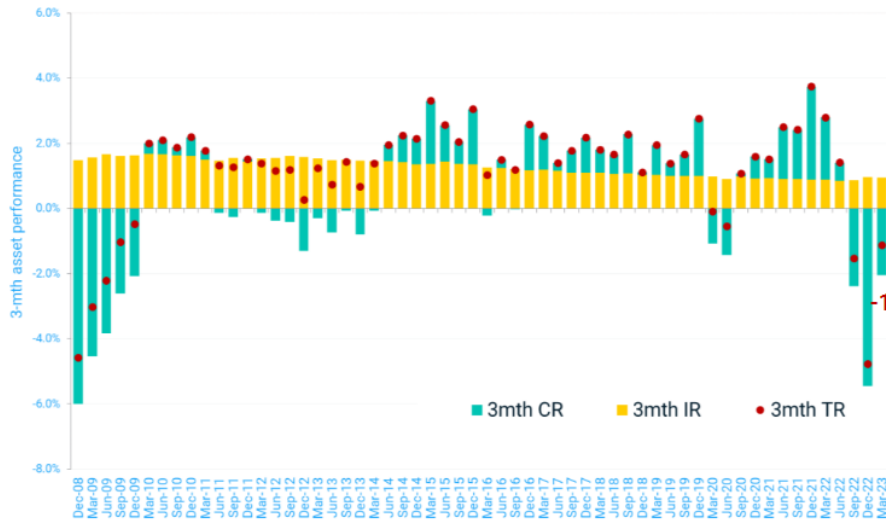
Quarterly returns split between income return and capital growth – Standing Investment



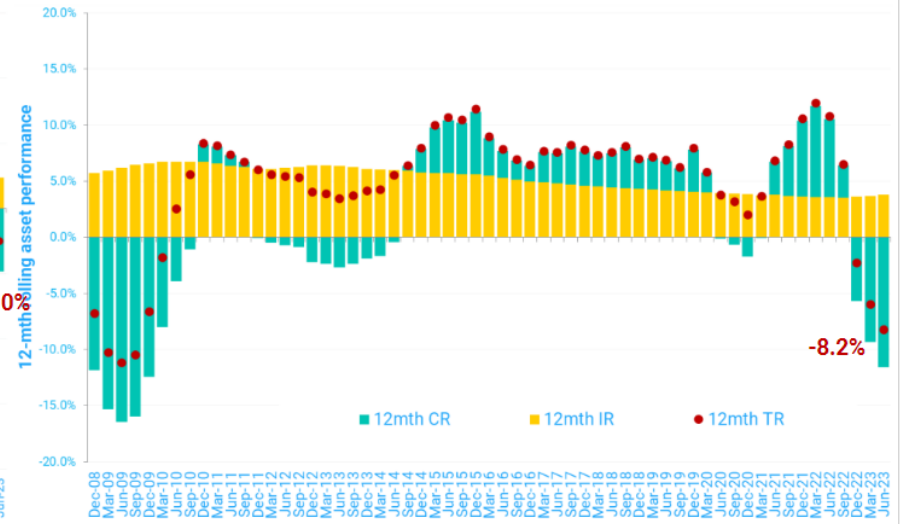
MSCI Pan-European index showed an improvement in 2023 but valuations are negative

Total return split by capital and income return %

Rolling 3 month and 12 month returns

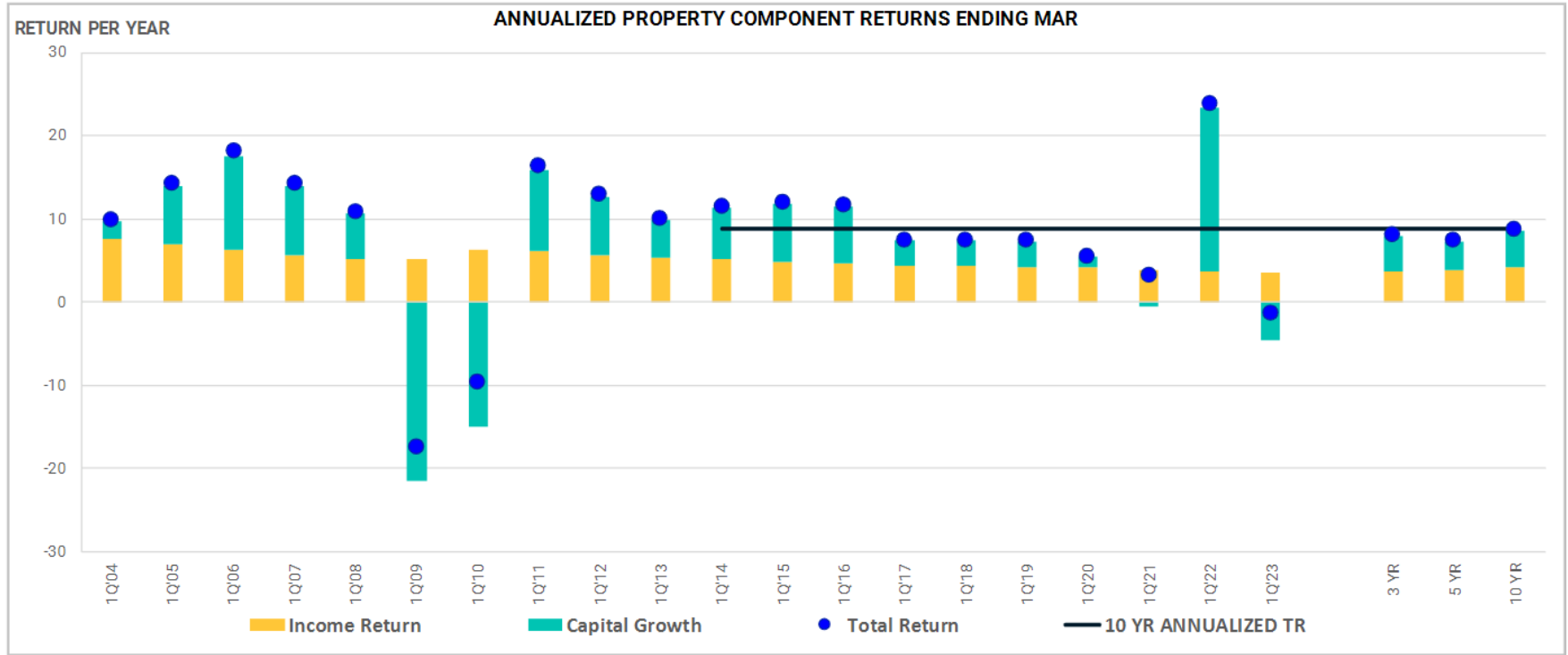


3-MONTH TOTAL RETURNS %



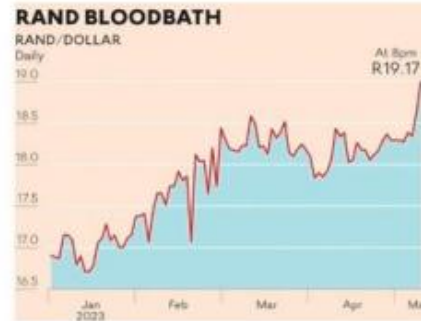
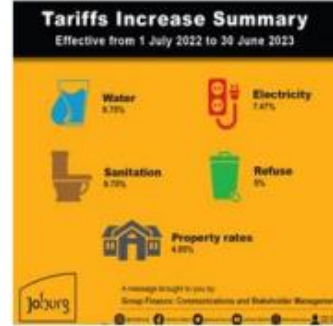
12-MONTH ROLLING TOTAL RETURNS %

US returns also shows an improvement in 2023 but valuations are negative



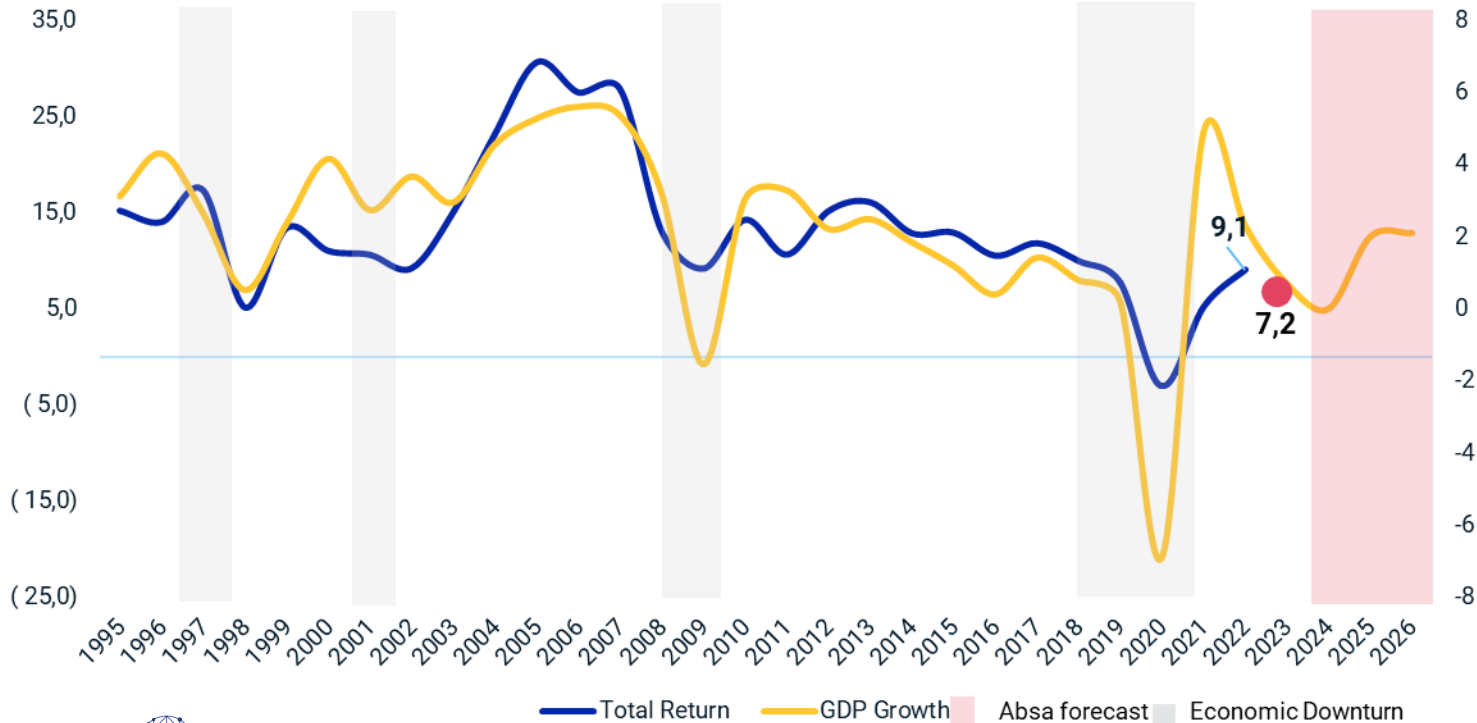
South Africa faces it's own set of challenges

Factors that have impeded the returns for the sector since lockdown



Total Return tracks GDP growth, 2023 is no different

Standing investments



Total return for 6 months to June 2023*

4,0



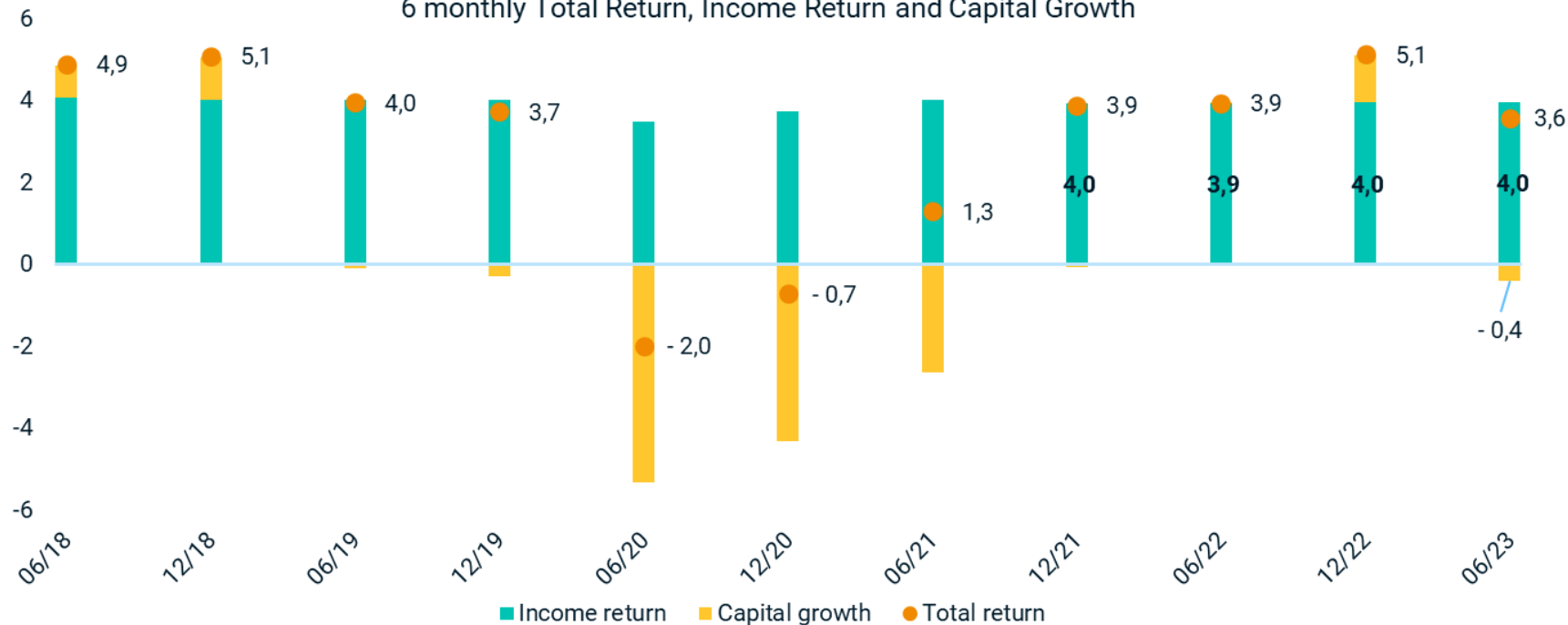
Source: MSCI South Africa Annual dataset; *MSCI South African Biannual dataset

Information Classification: GENERAL

Capital declined in June 2023 but income return remained constant underpinning the return

Standing investments

6 monthly Total Return, Income Return and Capital Growth



Industrial sector provided the best returns, offices at the bottom of the pile

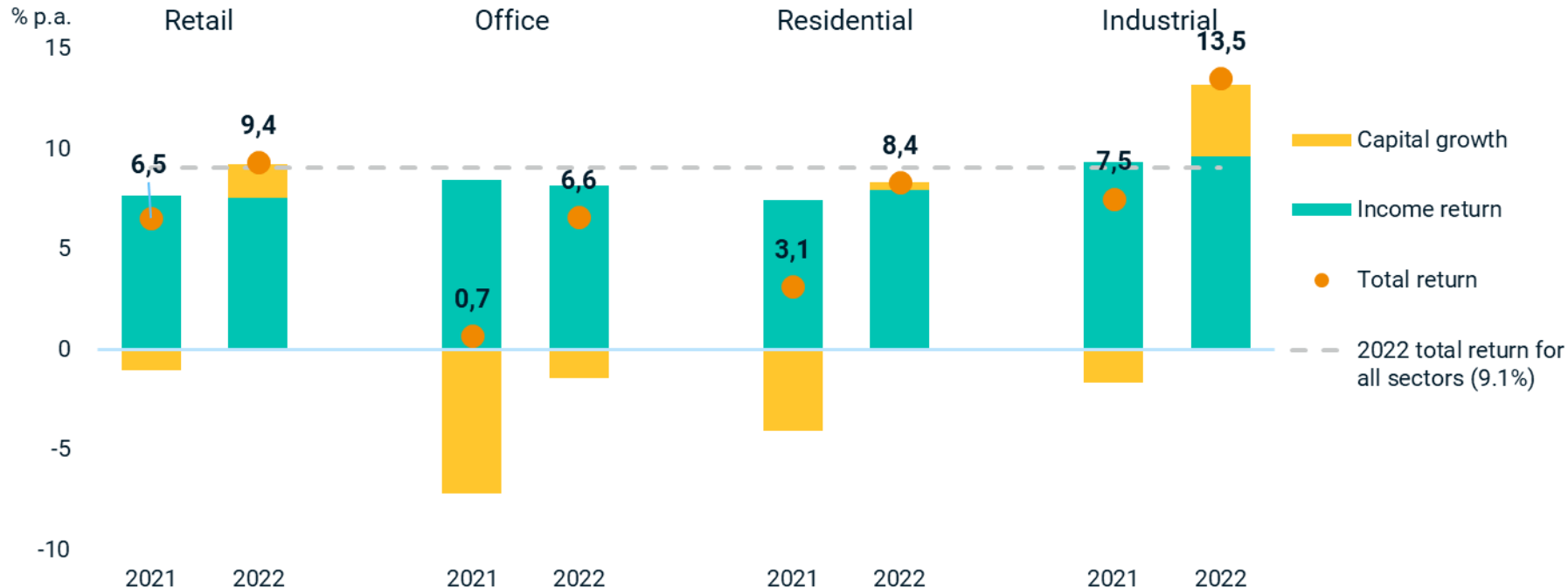
Standing investments

6 Monthly Total Return by Sector



2022 Annual returns by sector - positive capital growth

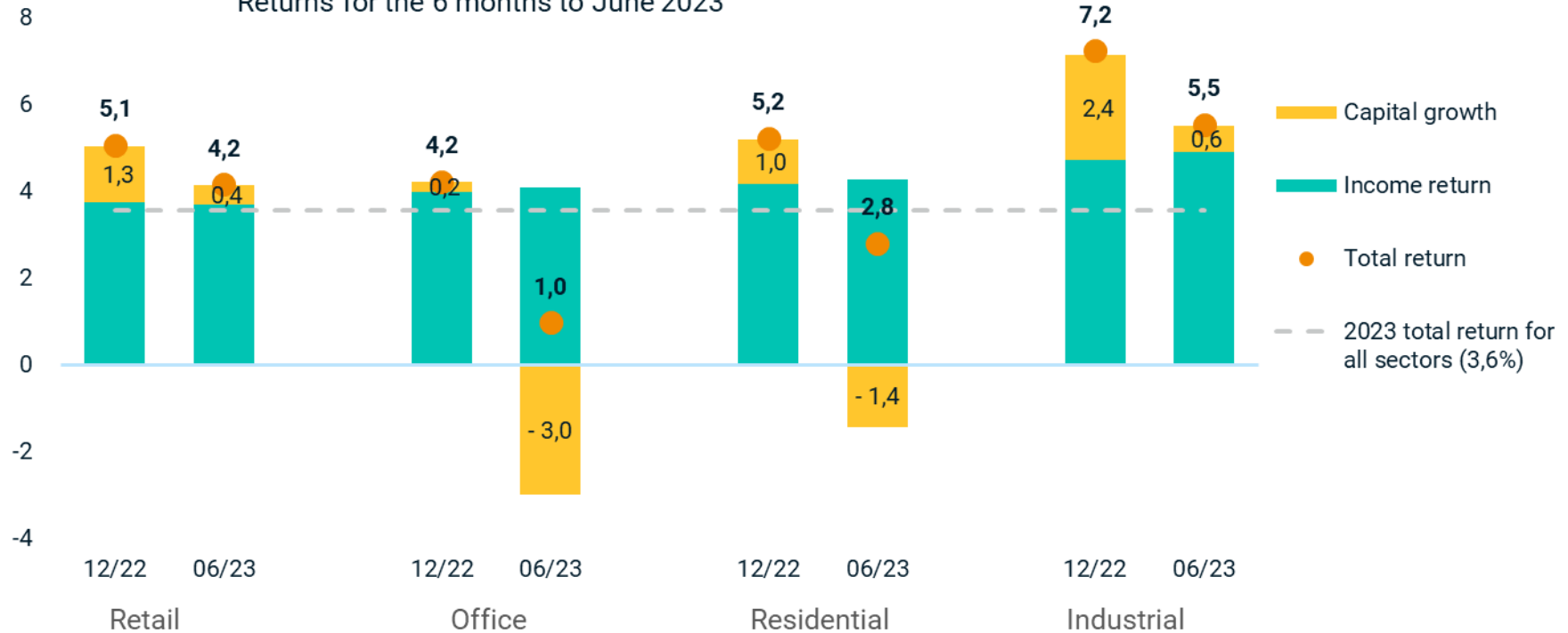
Standing investments



HY returns by sector – capital growth slowing across sectors

Standing investments

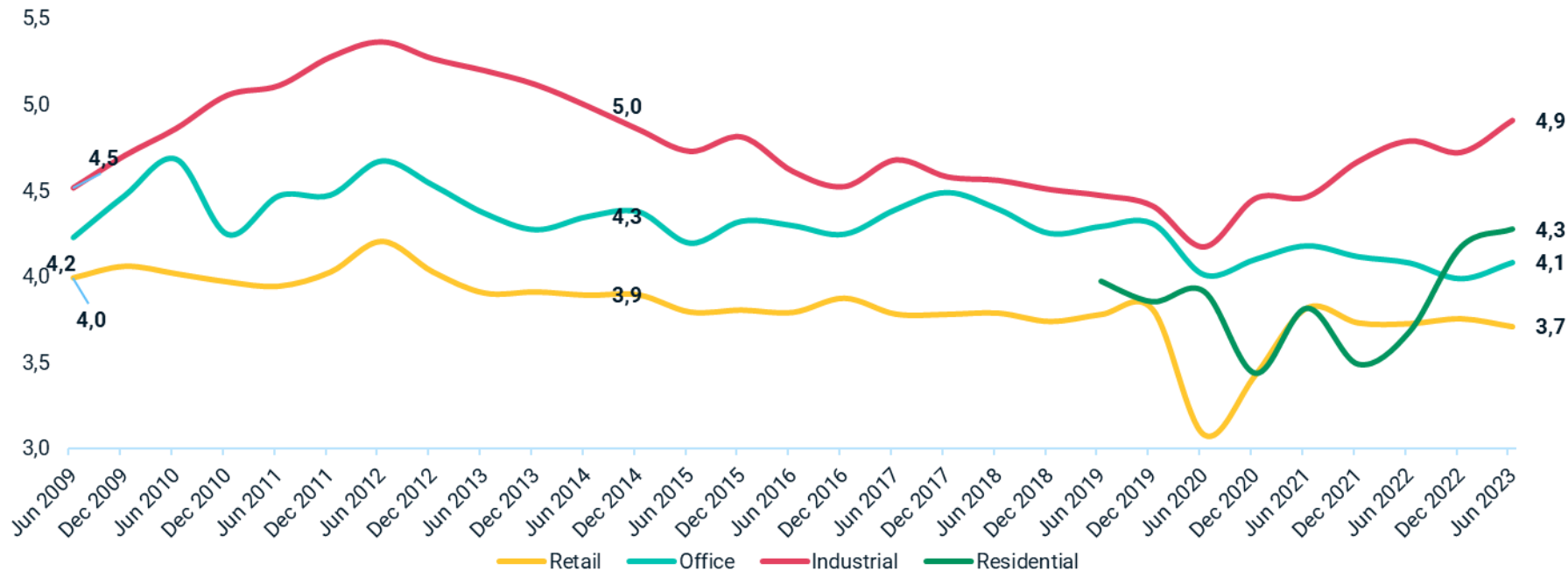
Returns for the 6 months to June 2023



Income Return has improved for industrial and residential but declined for retail and office over the last 6 years

Standing investments

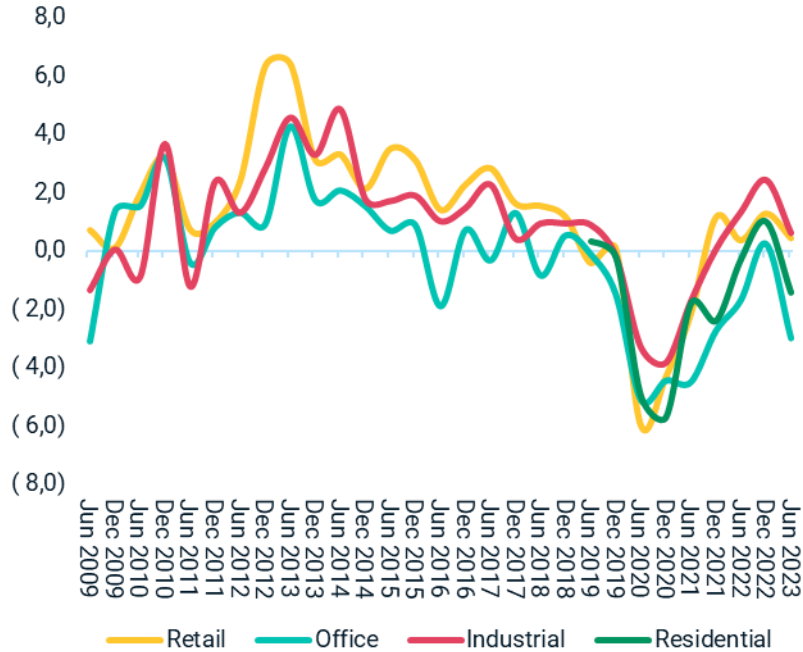
6 Monthly Income Return



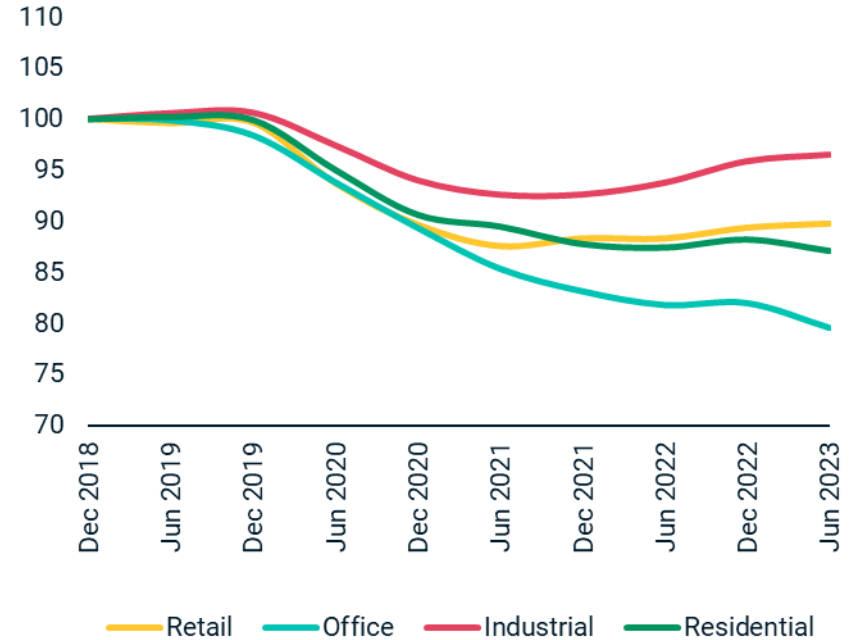
Capital values have declined over the last 5 years across all sectors

Standing investments

6 Monthly Capital Growth



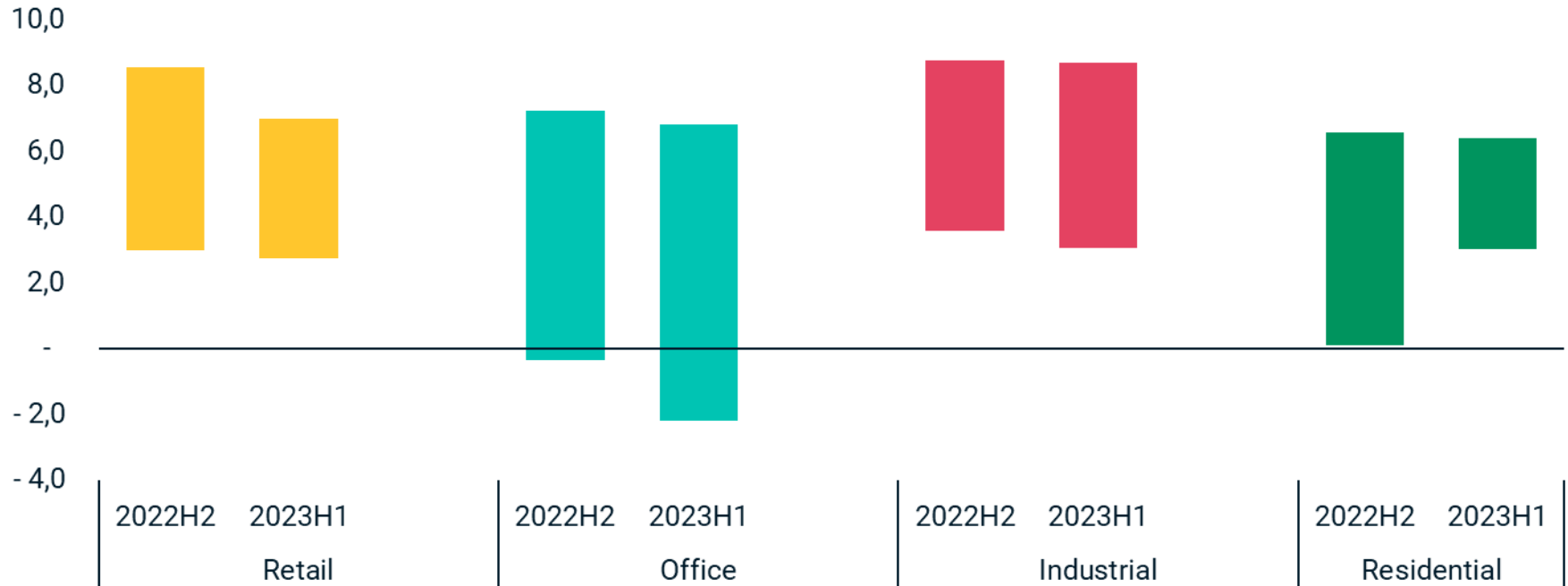
Capital Growth indexed from 2018



Spreads show that not all assets deliver the same returns

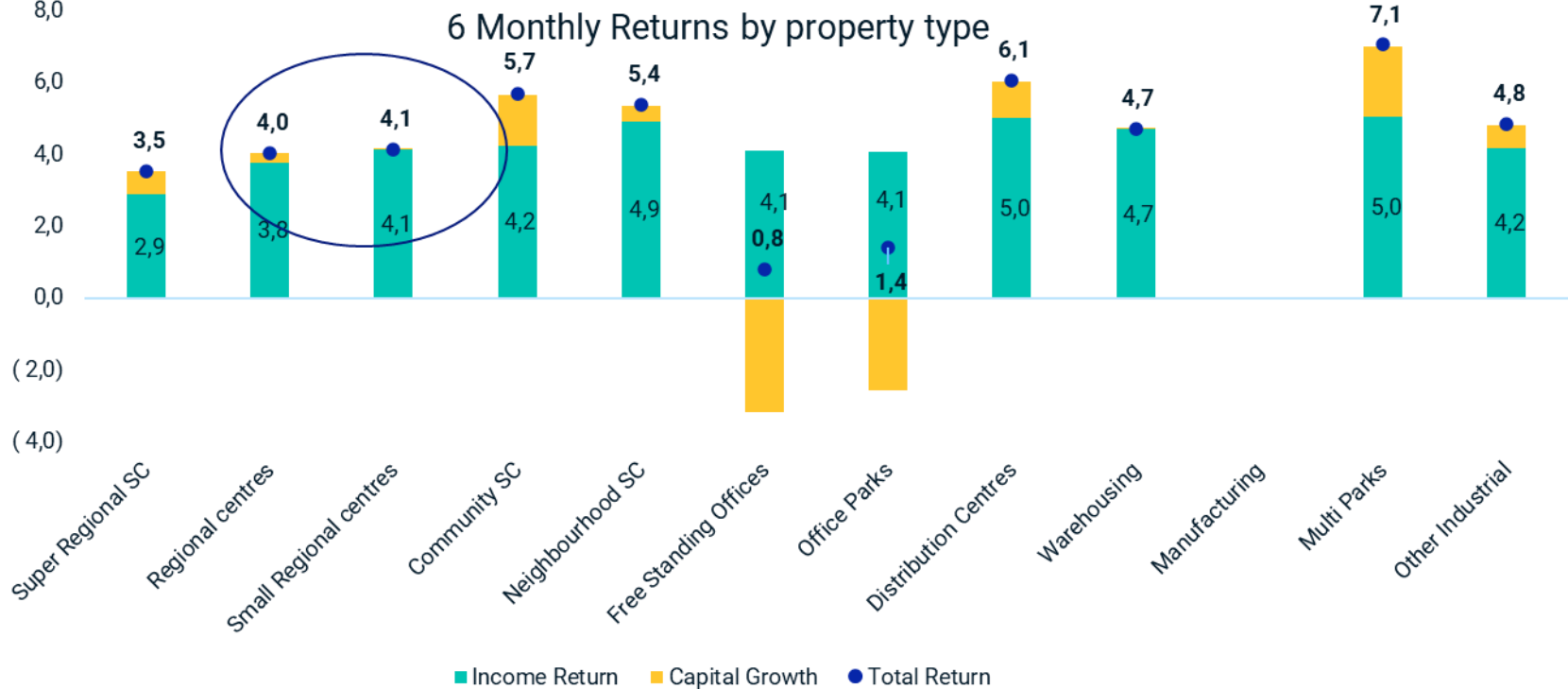
Standing investments

Range of Returns - 25th to 75th percentile



HY Returns by property type – mid-size retail lower capital growth, offices capital growth declined; all industrials showing growth

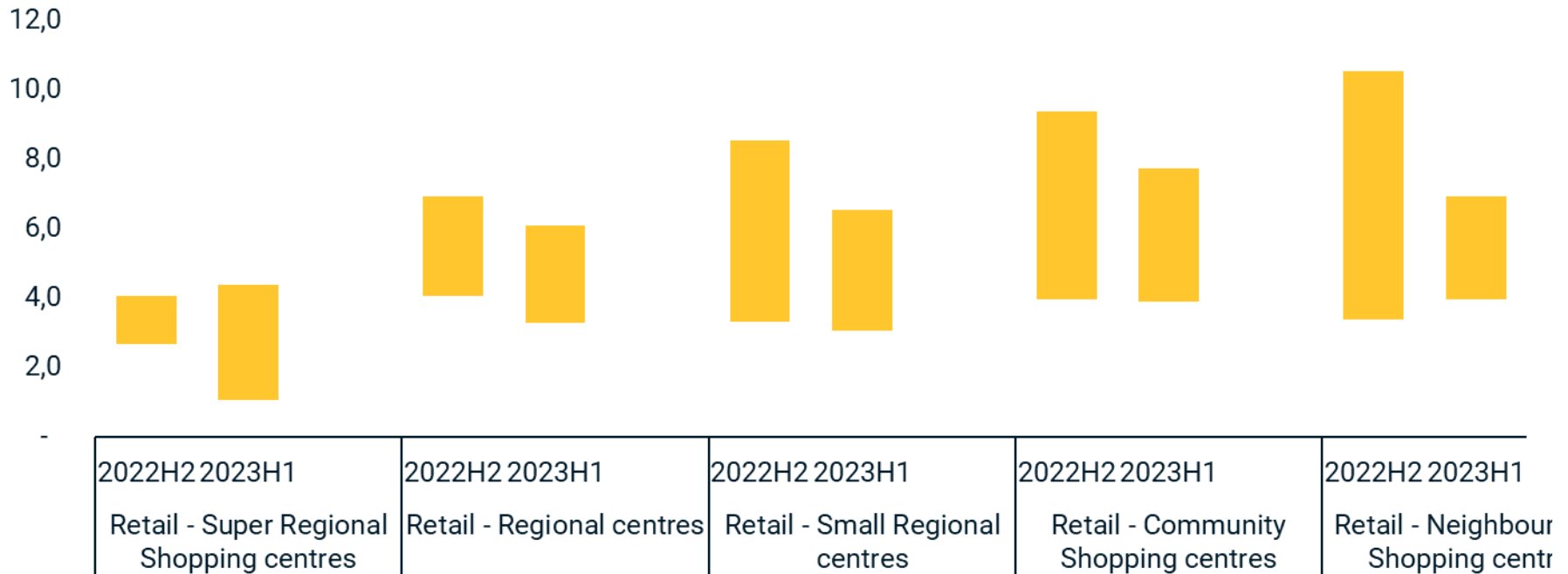
Standing investments



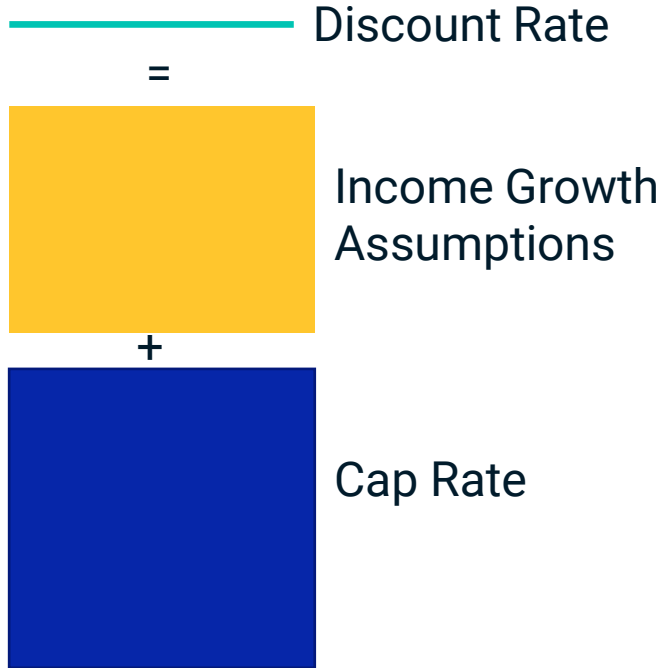
Spread of returns has widened in Super Regionals

Standing investments

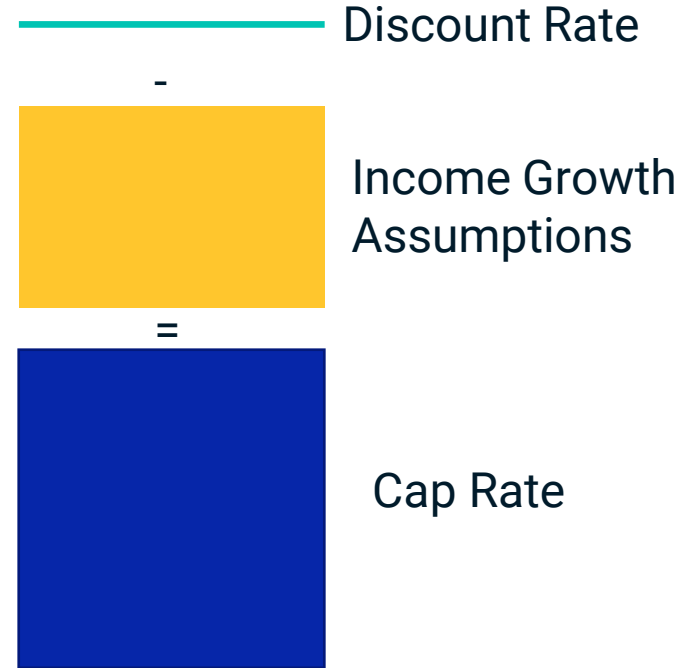
Range of Returns - 25th to 75th percentile



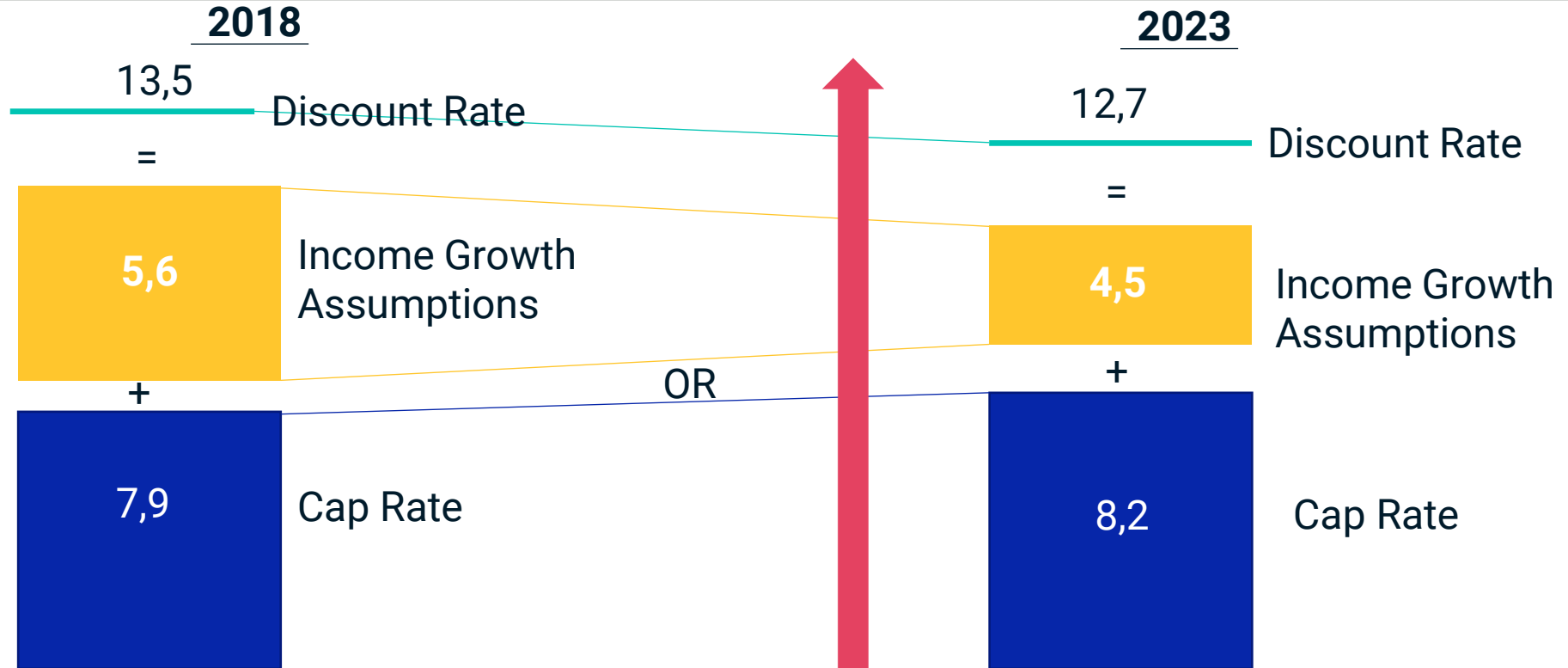
Simplistic Valuation Methodology



OR

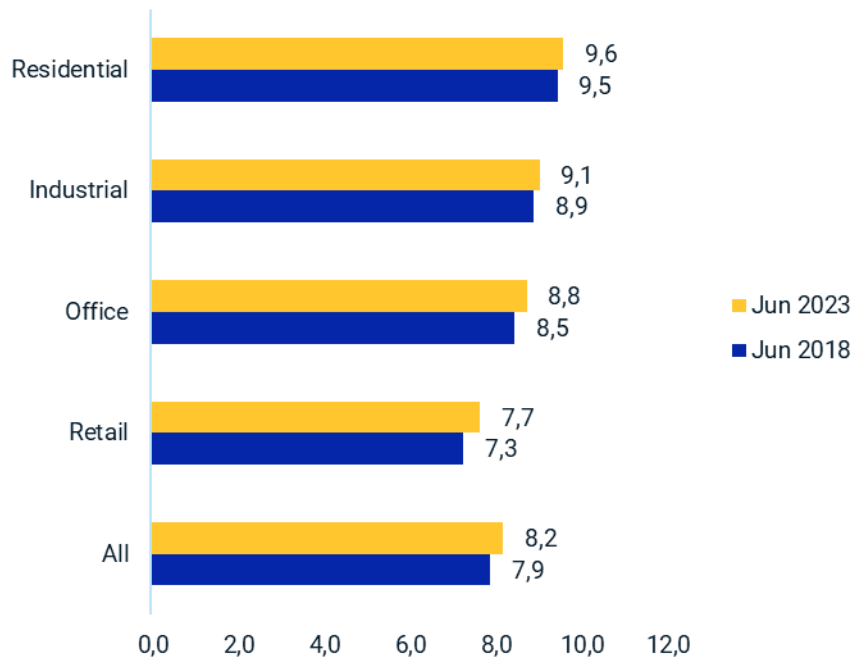


All Property valuations assumptions

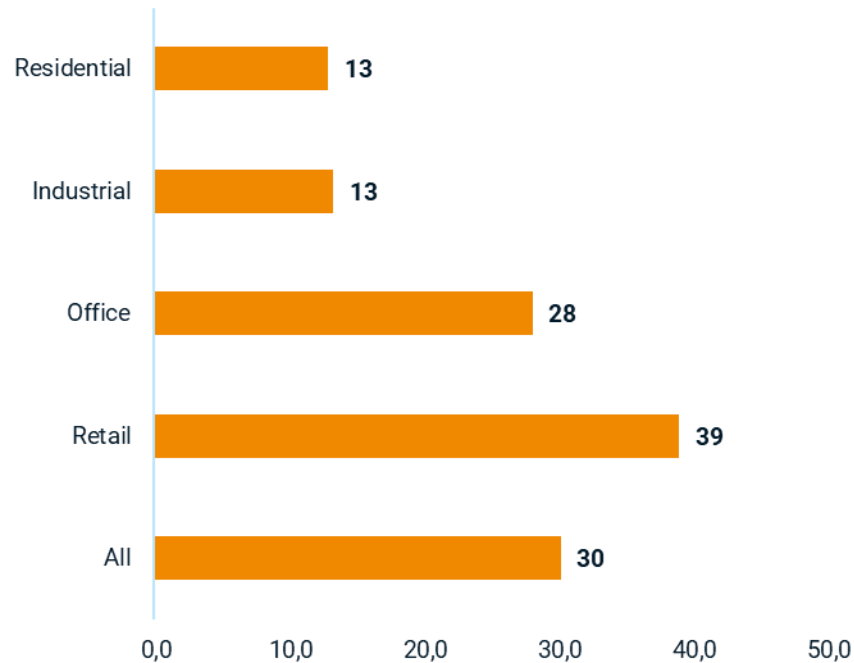


Capitalization rates show marginal movement

Cap Rates

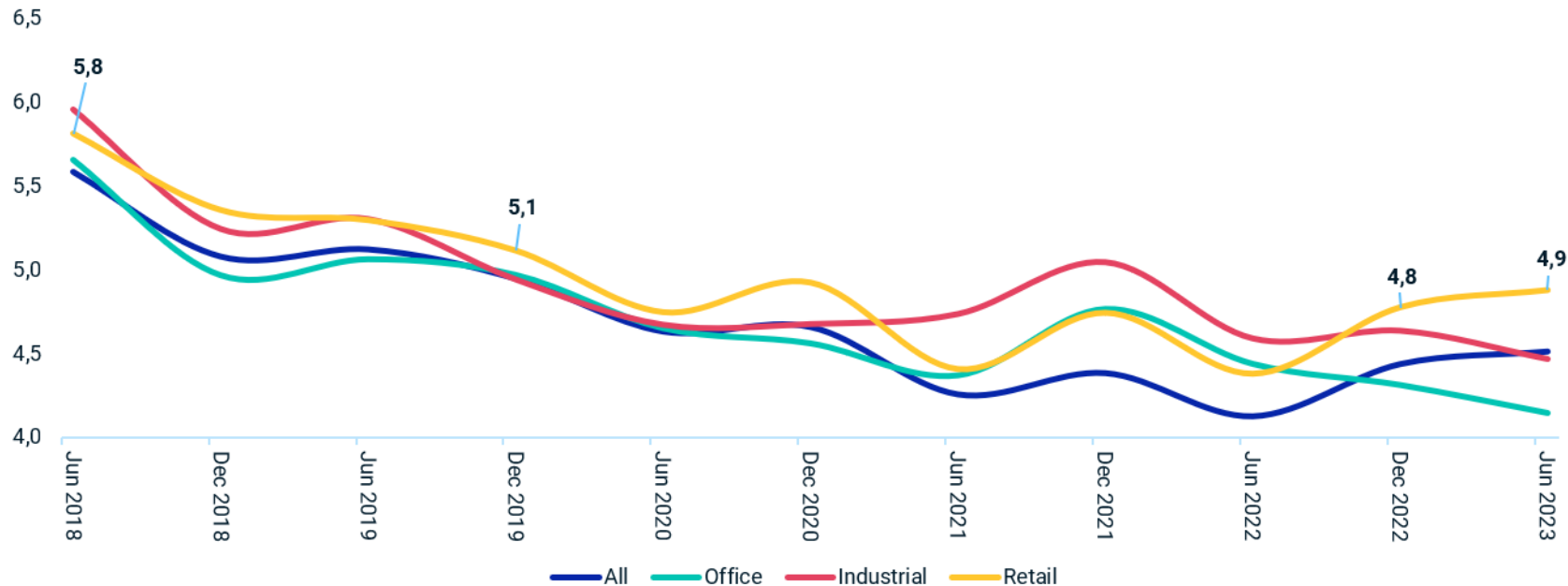


Change in Cap Rates from June 2018 to June 2023; BPS



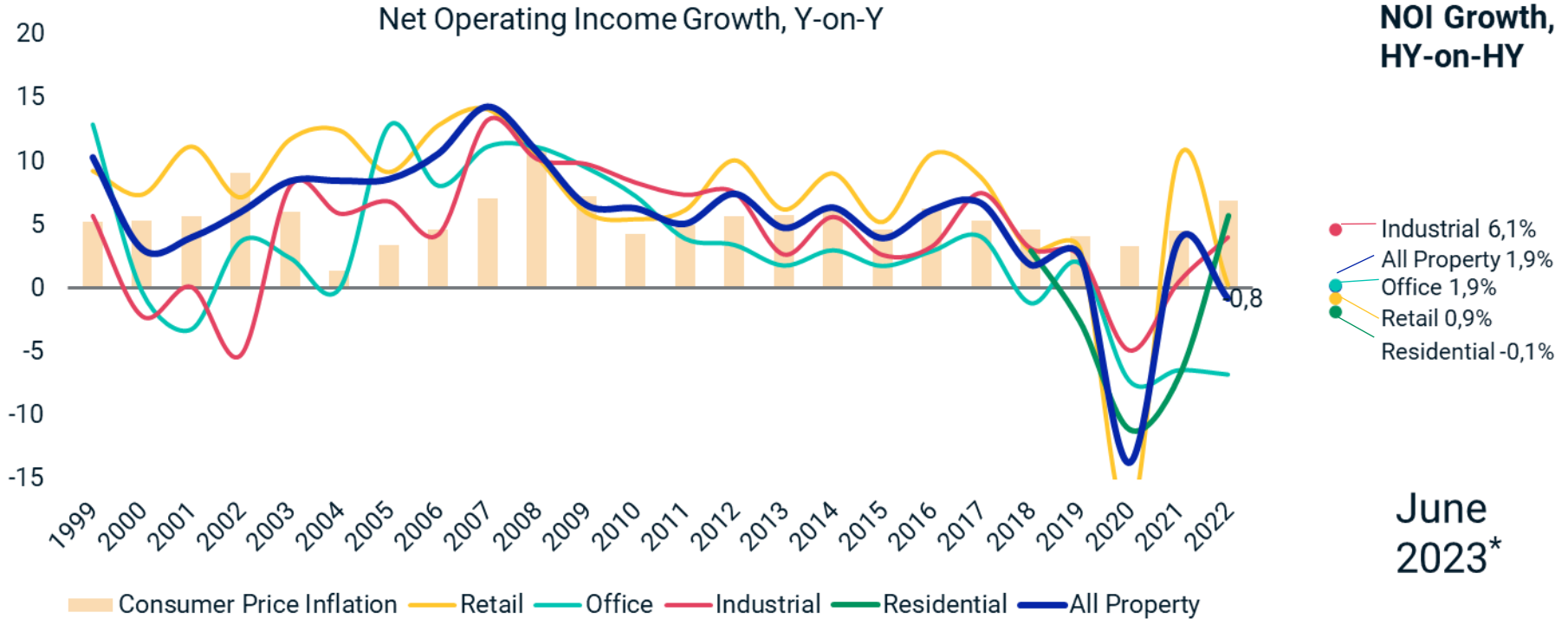
Valuer net income assumptions have declined overall but retail picked up in 2022/2023

Market Net Income Growth Assumptions



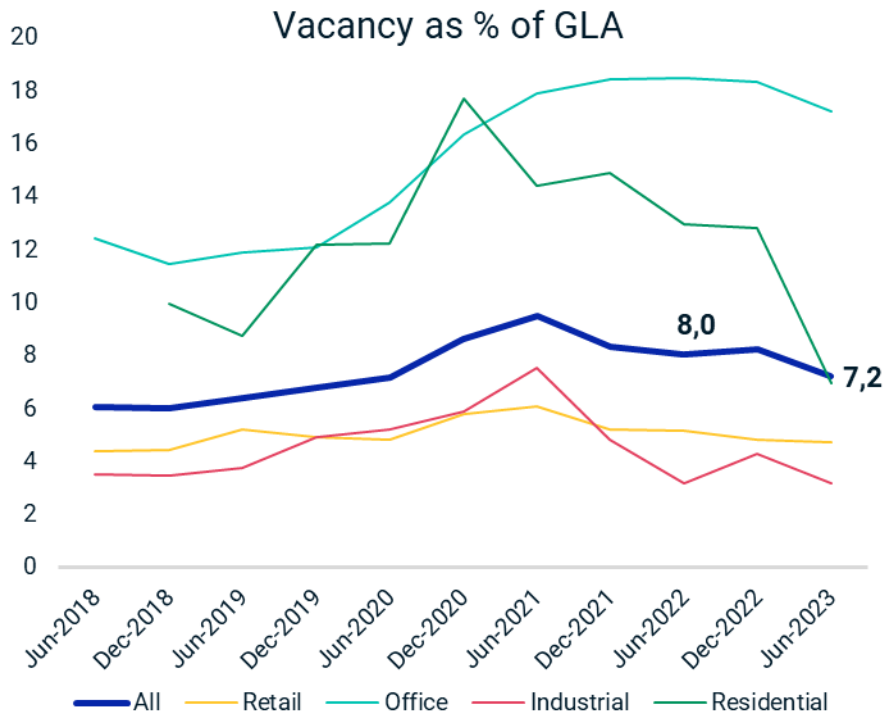
All Property Net Income improving – pulled up by industrial

Same Store

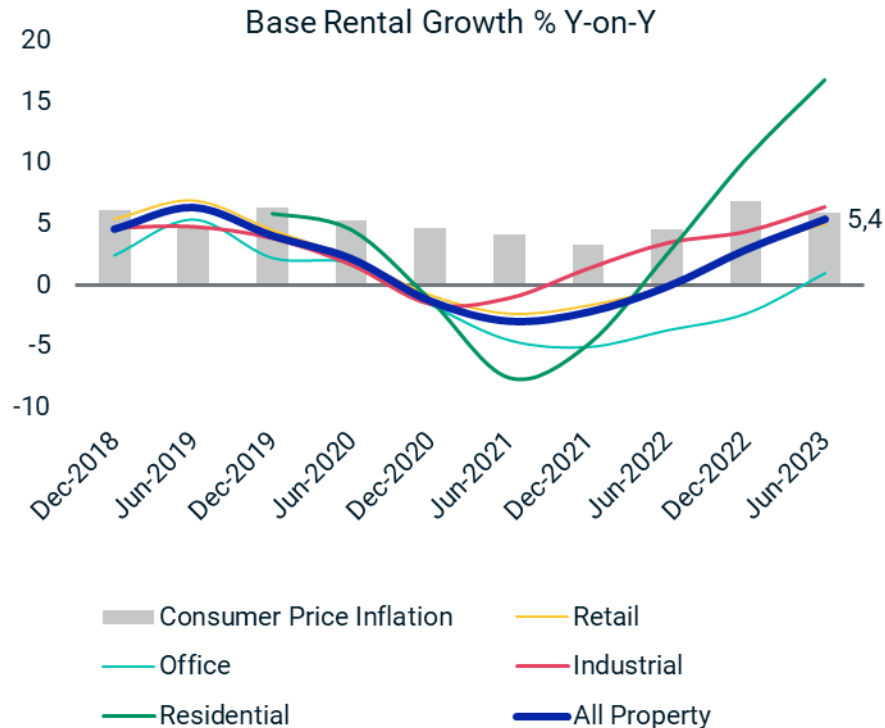


Vacancies have improved resulting in growing base rental income – but not in real terms

Standing investments



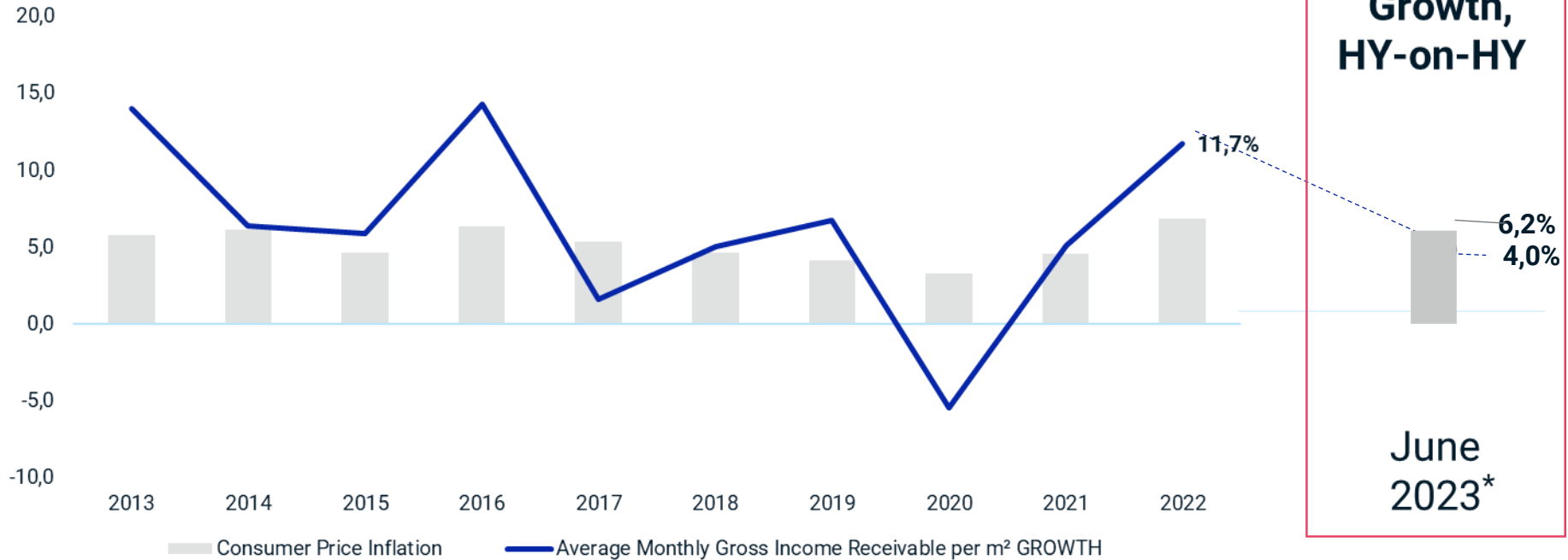
Same Store



Total cost of occupation for tenants has increased more slowly than inflation

Same Store

All Property: Gross Income Receivable Growth

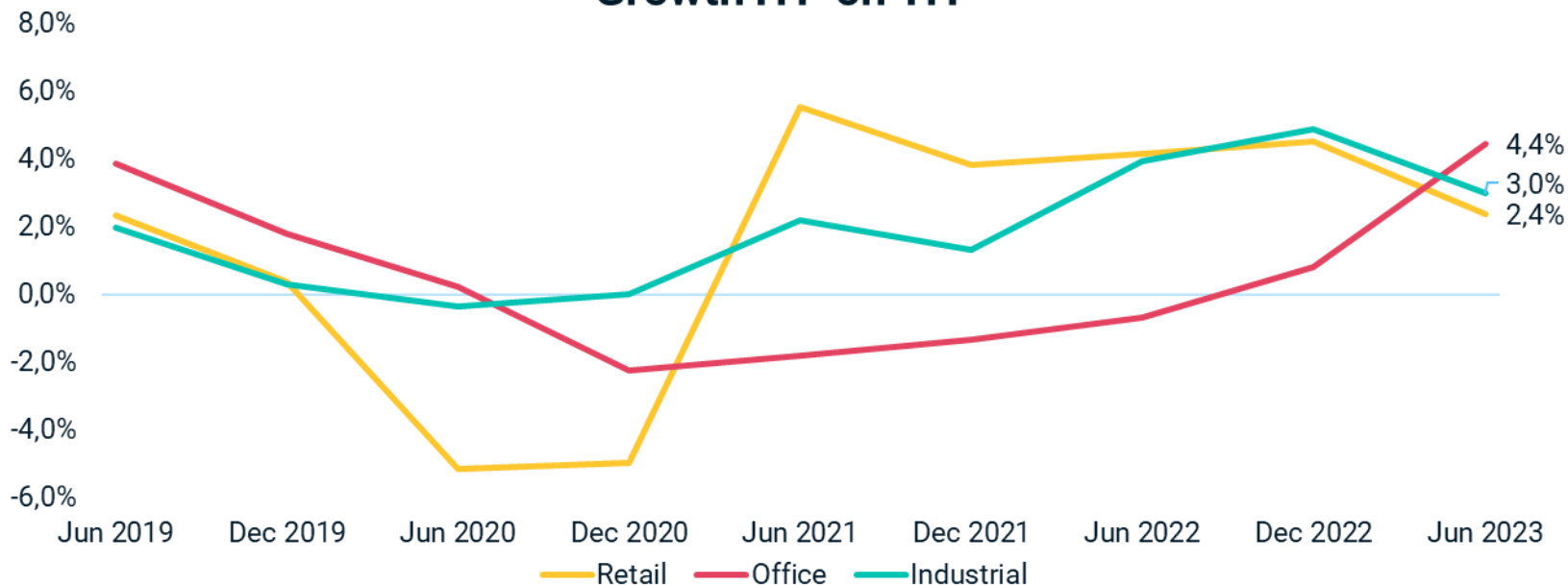


Same Store

Total cost of occupation by sector growth was below inflation in the 6 months

Same Store

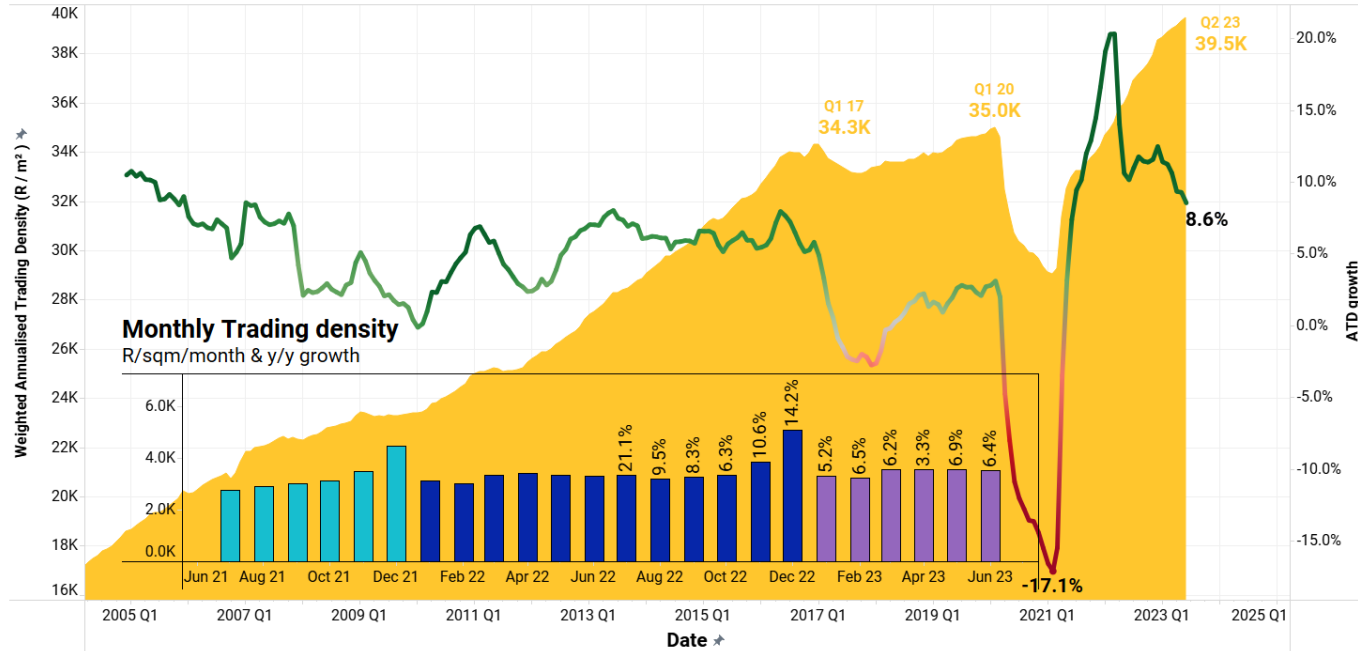
Total Gross Income Receivable per m² - Growth HY-on-HY



Annualised trading density growth slowed to 8.6% y/y but still higher than inflation

Annualised Trading Density Growth

Annualised sales/sqm growth; Current price terms; y/y



Source: MSCI Real Estate

Source: MSCI Retail Benchmarking



Adjusting for inflation shows spend is directed towards non-discretionary tenant categories

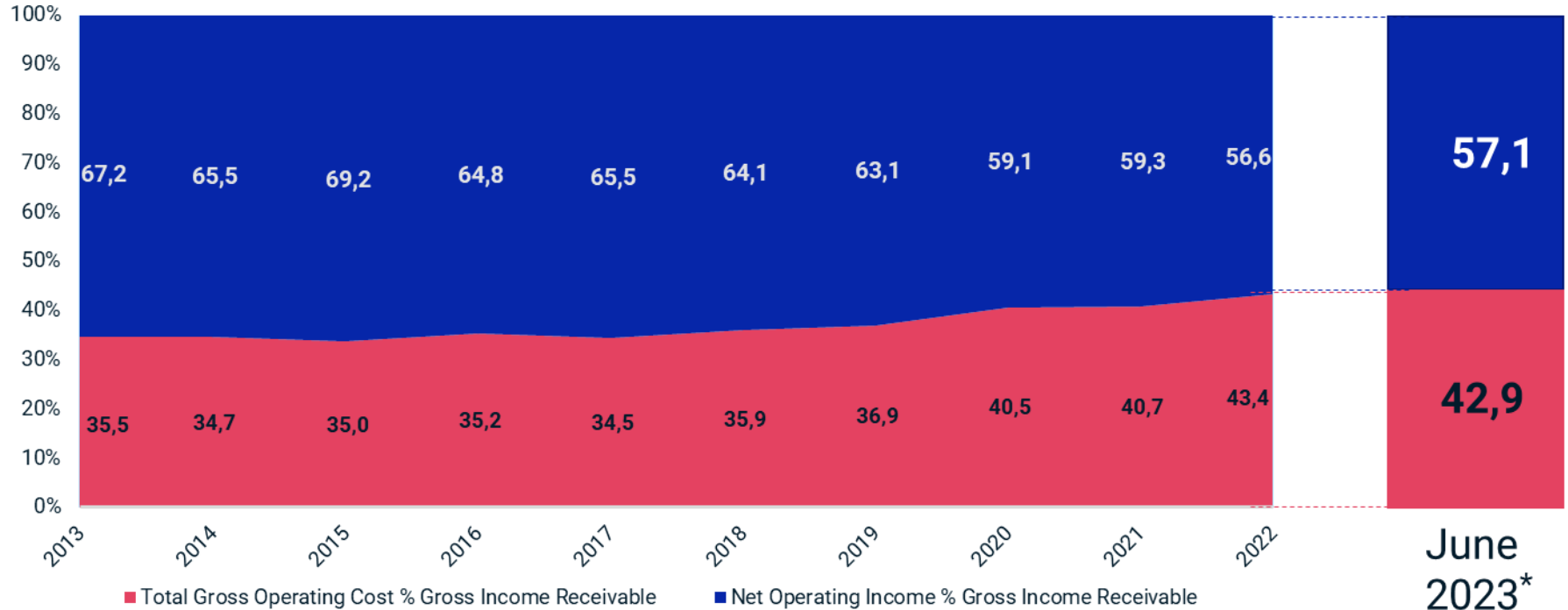
Inflation-adjusted Annualised Trading Density Growth

y/y growth to June 2023; sorted by contribution to overall sales

Merchandise Category	June 2023				
	Super Regional	Regional	Small Regional	Community	Neighbourhood
Food	7.5%	0.2%	-1.3%	-3.3%	15.9%
Department Stores	7.9%	-0.9%	4.7%	1.1%	11.8%
Apparel	4.2%	0.0%	-2.6%	-4.0%	-1.3%
Food Service	24.5%	16.4%	9.6%	19.6%	-0.4%
Health and Beauty	1.2%	-3.8%	-5.5%	-7.6%	-1.8%
Electronics	6.0%	-1.0%	-2.2%	10.8%	34.3%
Homeware, Furniture & Interior	-8.9%	-9.8%	-13.2%	15.7%	-0.1%
Speciality	5.7%	7.1%	-1.4%	-14.4%	7.7%
Sportswear and Outdoor	6.7%	2.7%	-1.1%	9.0%	
Books/Cards/Stationery	17.8%	9.9%	18.9%	6.7%	-4.0%
Eyewear & Optometrists	6.8%	6.5%	-4.5%	-9.0%	19.8%
Accessories, Jewellery & Watches	1.2%	9.7%	3.2%	3.8%	18.9%
Entertainment	31.3%	18.0%	35.5%		
Services	9.6%	7.7%	0.3%	6.7%	-1.5%
Luggage	36.5%	20.4%	-1.8%		
Motor Related	14.2%	17.7%	-0.1%	46.3%	

Costs as % of Total Gross Income has remained stable

Same Store



Same Store

Source: MSCI South Africa Annual dataset; *MSCI South African Biannual dataset

Information Classification: GENERAL

By Sector, costs as % of total gross income has were flat

Same Store

Gross Operating Costs Ratio, %

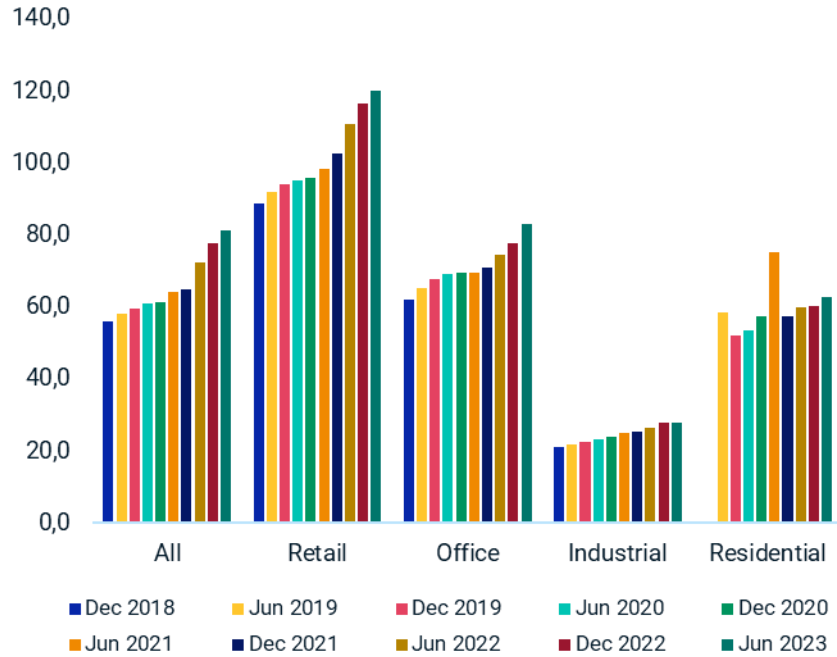


June
2023*

Operating costs are growing more slowly than before for retail and industrial, not for offices

Same Store

Total Gross Operating Cost per m²



Total Gross Operating Cost per m² - Growth HY-on-HY

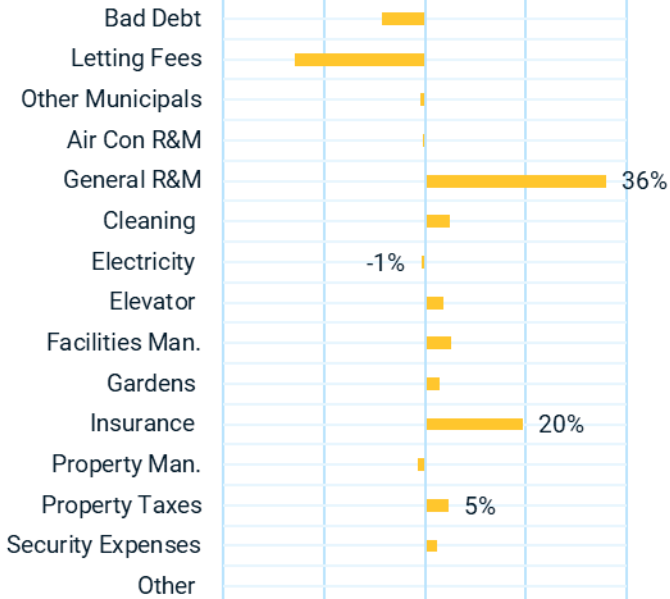


Retail: Costs grew by 3,2% - Rates and R&M (incl. diesel)

Same Store

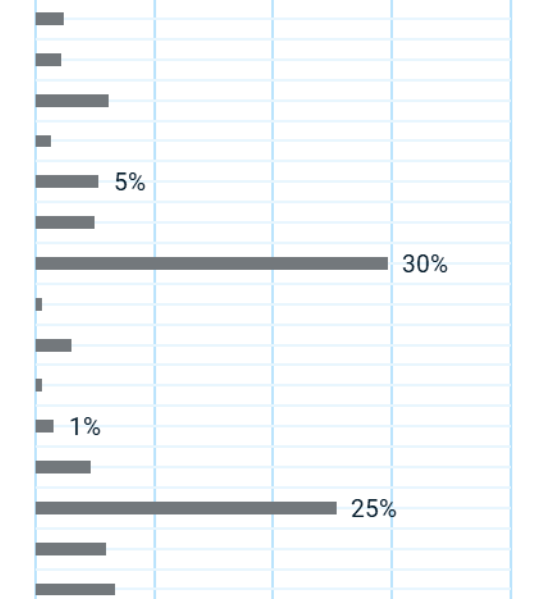
Retail: Absolute Growth by Cost Category

-40,0% -20,0% 0,0% 20,0% 40,0%



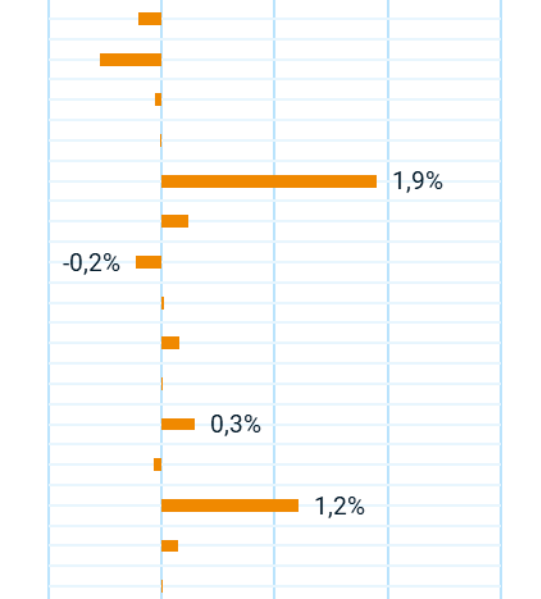
Retail: Weighting per Cost

0,0% 10,0% 20,0% 30,0% 40,0%



Retail: Weighted Growth Per Cost

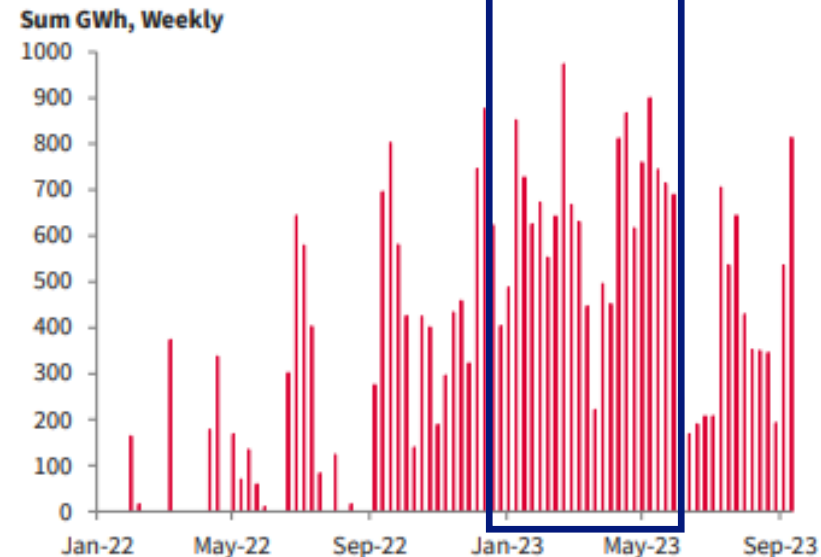
-1,0% 0,0% 1,0% 2,0% 3,0%



Loadshedding may be why we are spending less on electricity but more on diesel – not seeing the impact of solar solutions yet

FIGURE 9

Load shedding intensity

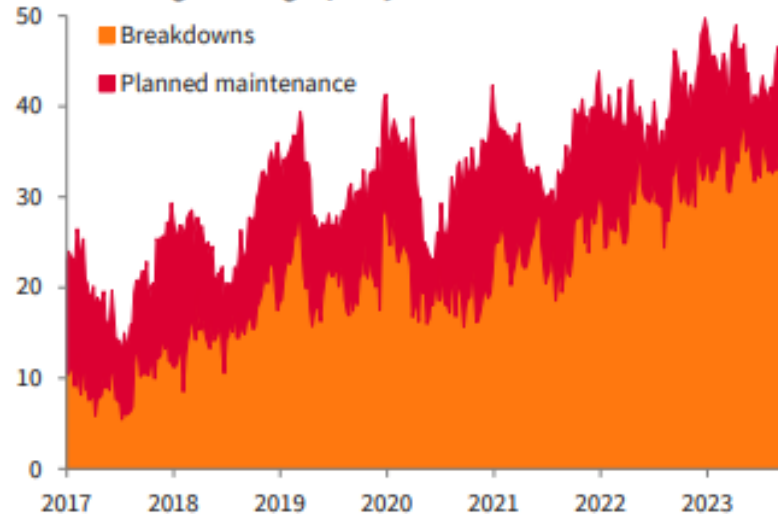


Source: Eskom, Absa Research

FIGURE 10

Maintenance vs breakdowns

% of installed generating capacity



Source: Eskom, Absa Research

Summary

**3,6% Total Return for the
6-months to June 2023**

**Capital growth movement
is negative
Income Return remained
constant**

**Cap rates saw marginal upward movements over the last 5 years, reduced
capital values are a factor of reduced market income assumptions**

**Net Income increased but
still way below inflation**

Costs are have been well maintained!

Discussion

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