

# MSCI South Africa Annual Property Index 2023

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MSCI



# An Introduction to MSCI Real Assets: *Evolving to serve investors in Real Assets*

**2012**

Acquire IPD (est. 1980) - a leading provider of real estate investment tools  
Integrating private real estate assets into MSCI core offer

**2019**

Acquire environmental fintech and data analytics firm **Carbon Delta**  
Strengthening our climate risk capabilities

**2020**

Strategic relationship with the **Burgiss Group**  
Expanding our innovation and product development in Private Assets

**2021**

Acquire leading data and analytics provider **Real Capital Analytics (RCA)**  
Expanding our real estate market data and analytics solution

RCA had recently acquired **Datscha**, supporting growth in the Nordics, and **Property Data**, enhancing UK transaction data

Relationship with data technology firm **Income Analytics**  
Expanding our tenant risk offer

**2022**

MSCI Real Estate becomes **MSCI Real Assets**  
Demonstrating our offer across commercial real estate and infrastructure assets

Partnership with ESG and Climate advisory and software firm **Evora Global**  
Expanding our ESG and climate solutions

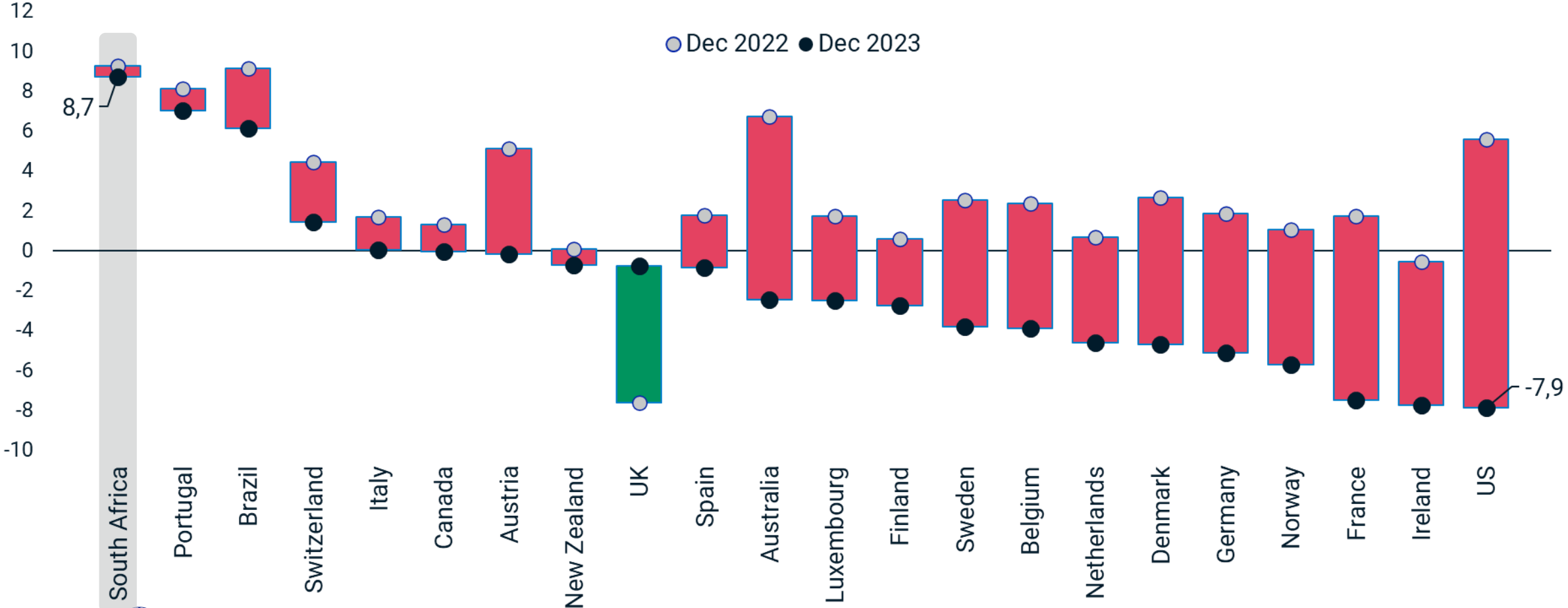
**2023**

MSCI acquires **Burgiss Group** to shed light on private capital

# Global perspective: South Africa, the best performing country in 2023 as returns slip across the globe

## Total return by Country in 2023

Standing 12-month investment returns in local currency



Source: MSCI Real Estate Global Intel

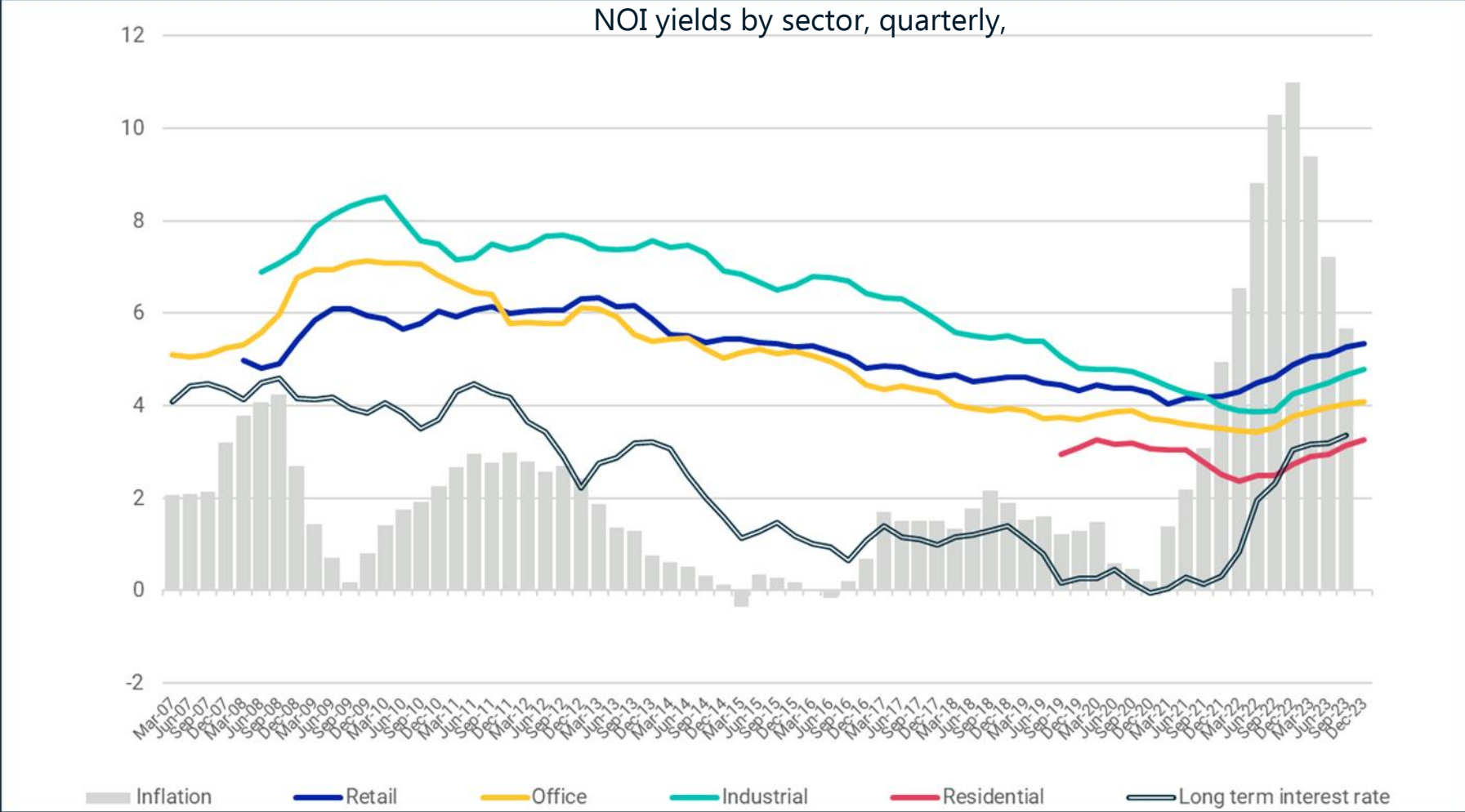
Information Classification: GENERAL

# Global: Corresponding yield increase

## Pepfi Balanced Performance

Standing investment

NOI yields by sector, quarterly,



12 months PEPFI balanced performance

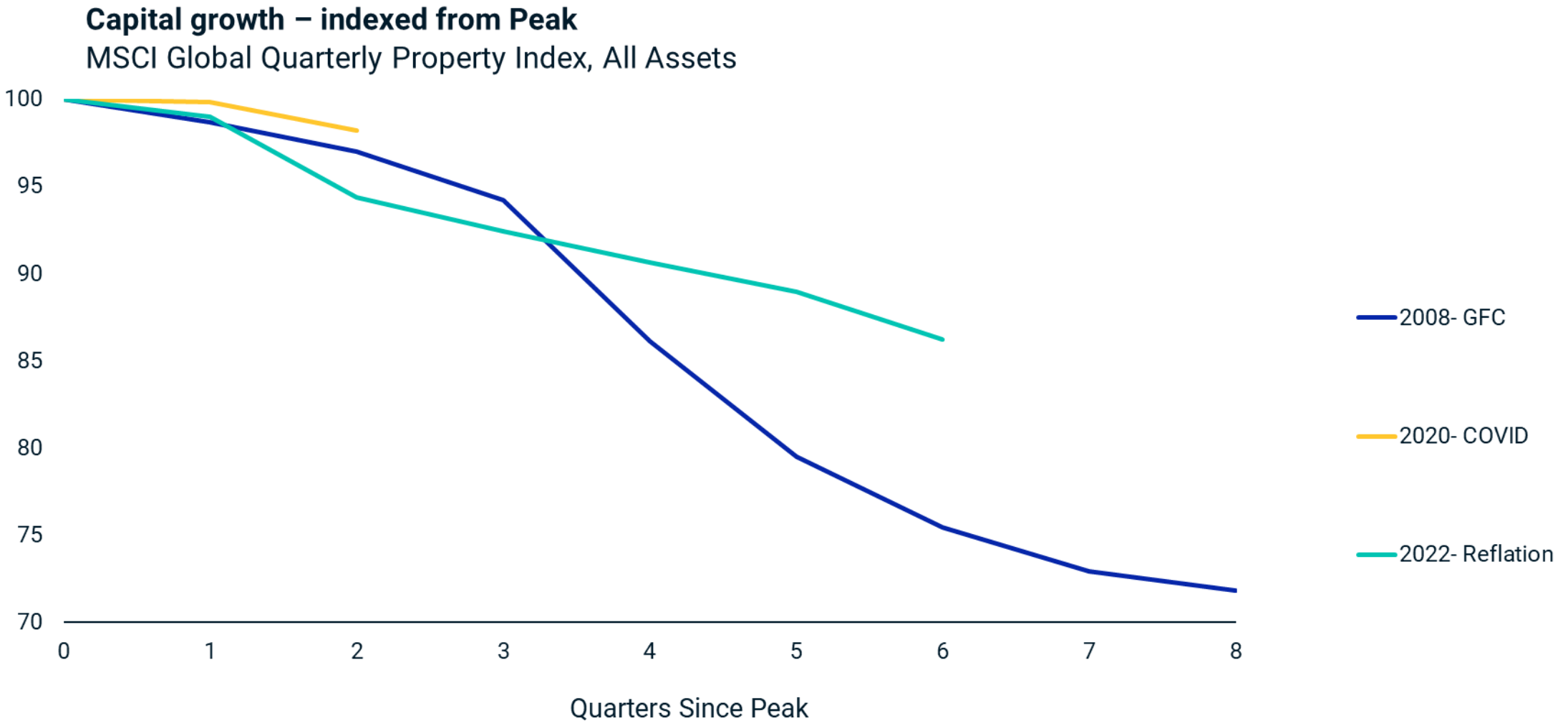


Source: MSCI Real Estate Global Intel

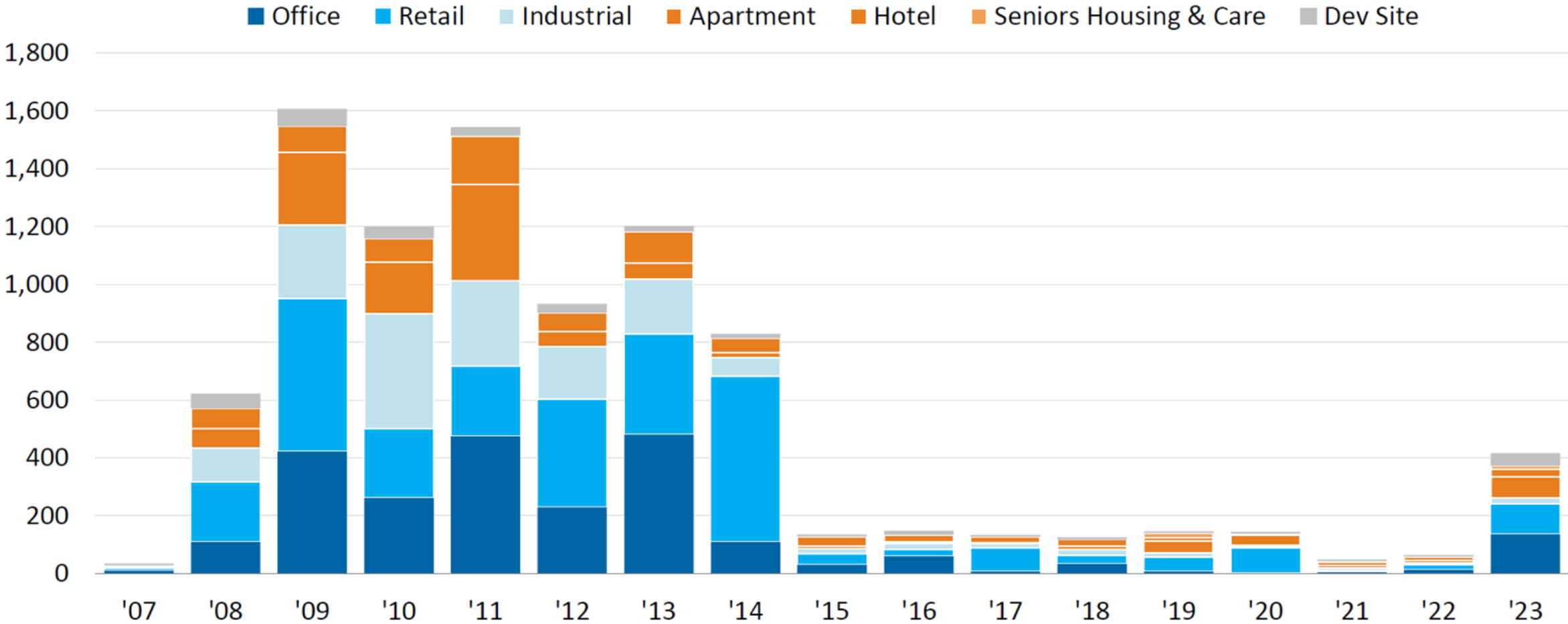
Information Classification: GENERAL

Source: MSCI Index Intel, OECD

# Current downturn shallower than GFC but longer and sharper than that experienced during COVID



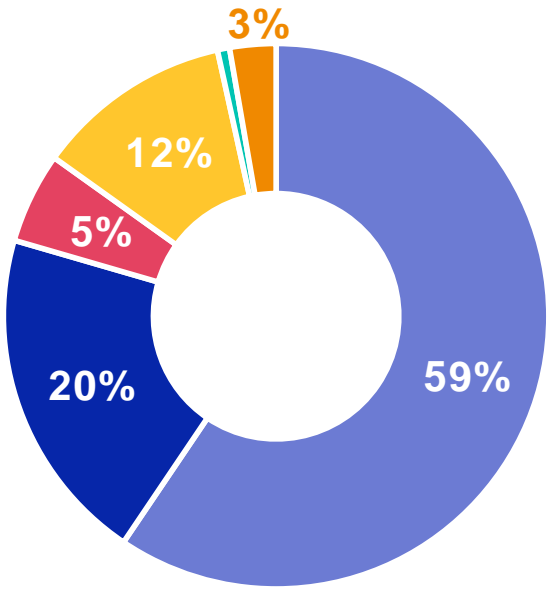
# Europe: Distress creates opportunities



# South African Real Estate Index for December 2023

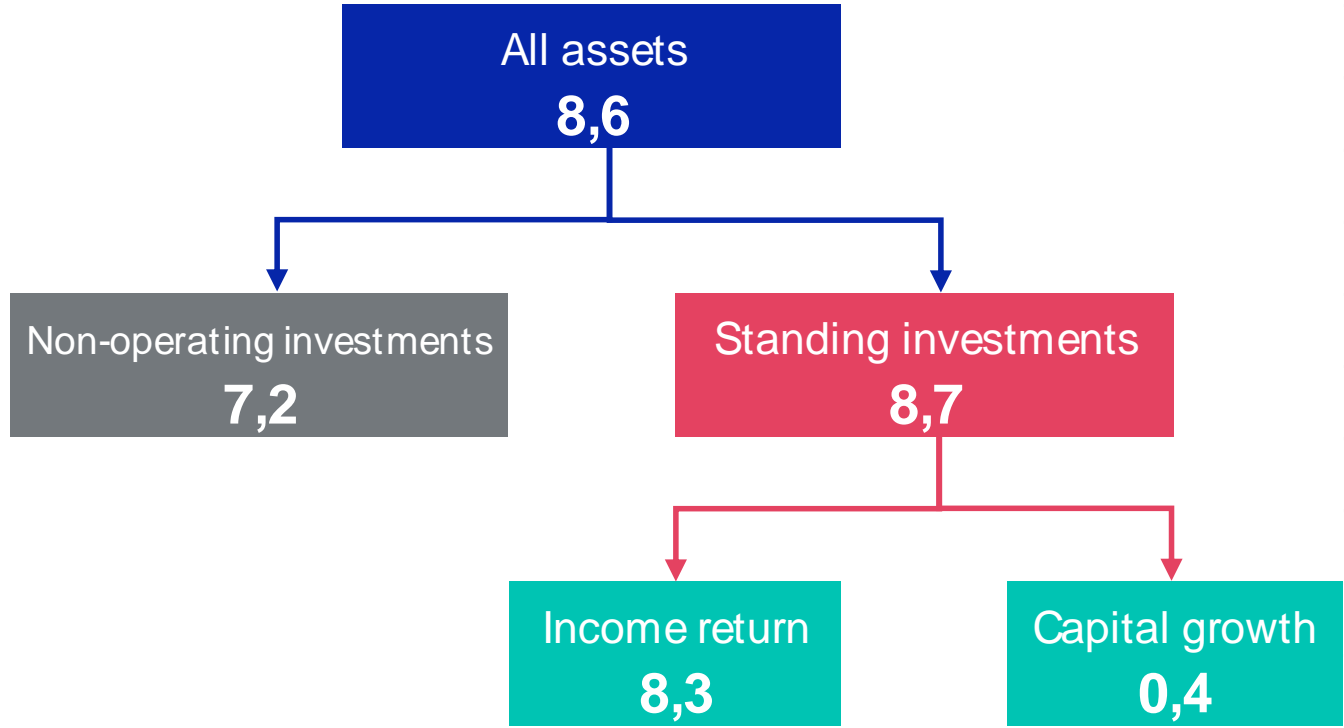


**1995** INDEX INCEPTION DATE  
**25** NUMBER OF PORTFOLIOS  
**1 792** NUMBER OF ASSETS  
**368,2** UNIVERSE CAPITAL VALUE  
**58%** MSCI COVERAGE



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

## 2023 RETURNS (%)



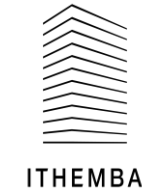
Source: MSCI

Information Classification: GENERAL



# MSCI Real Estate South African Universe Contributors

Unlevered, directly held real estate



\* Included to the previous or subsequent periods so comply with MSCI methodology

Information Classification: GENERAL

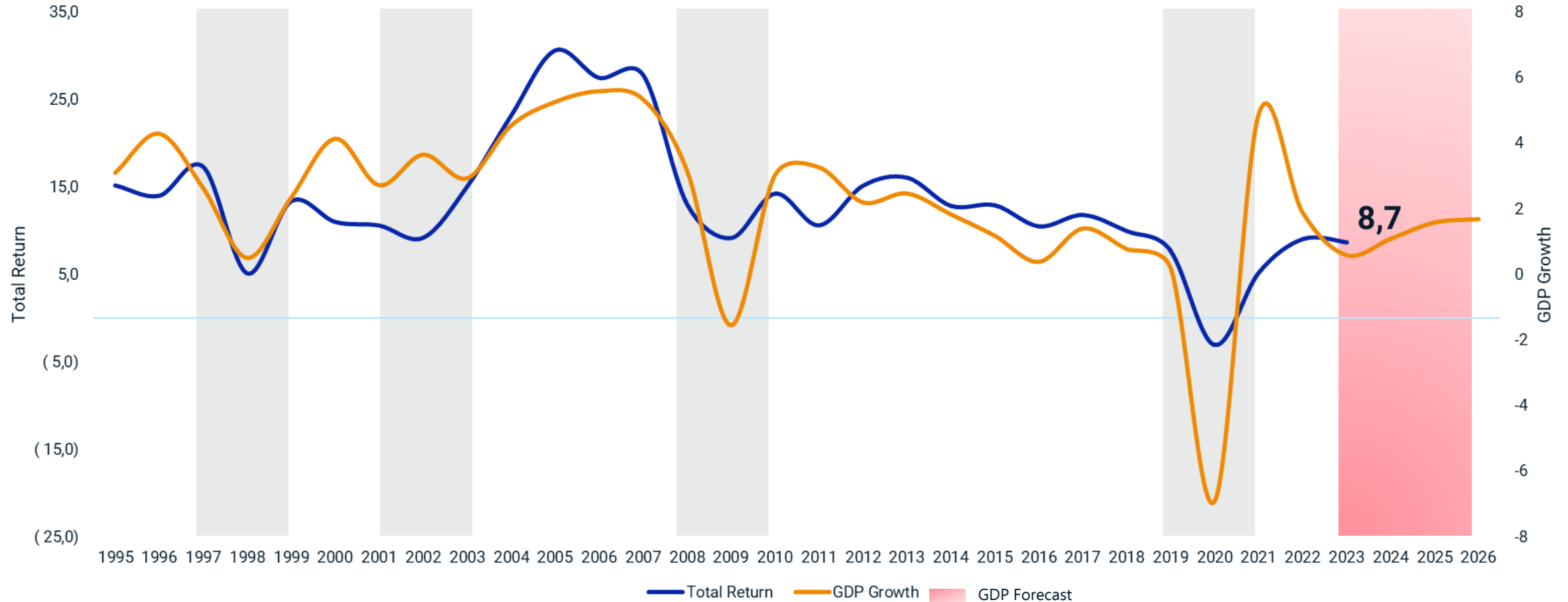




# Property Returns follow GDP growth

Standing investment

South African economic growth and direct property total return

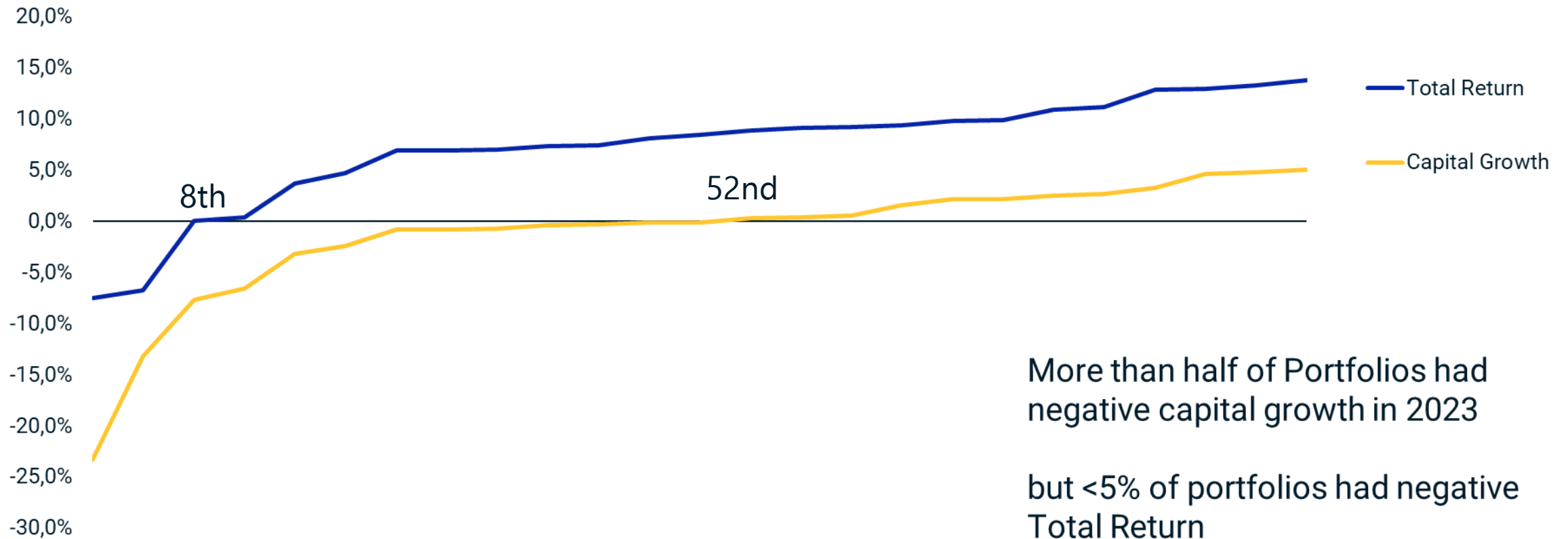


# Wide Range of Portfolio Direct RE Returns

~-7.5% to +15% range from 5th-95th percentiles

## Range of 2023 Portfolio-level Total Return and Capital Growth

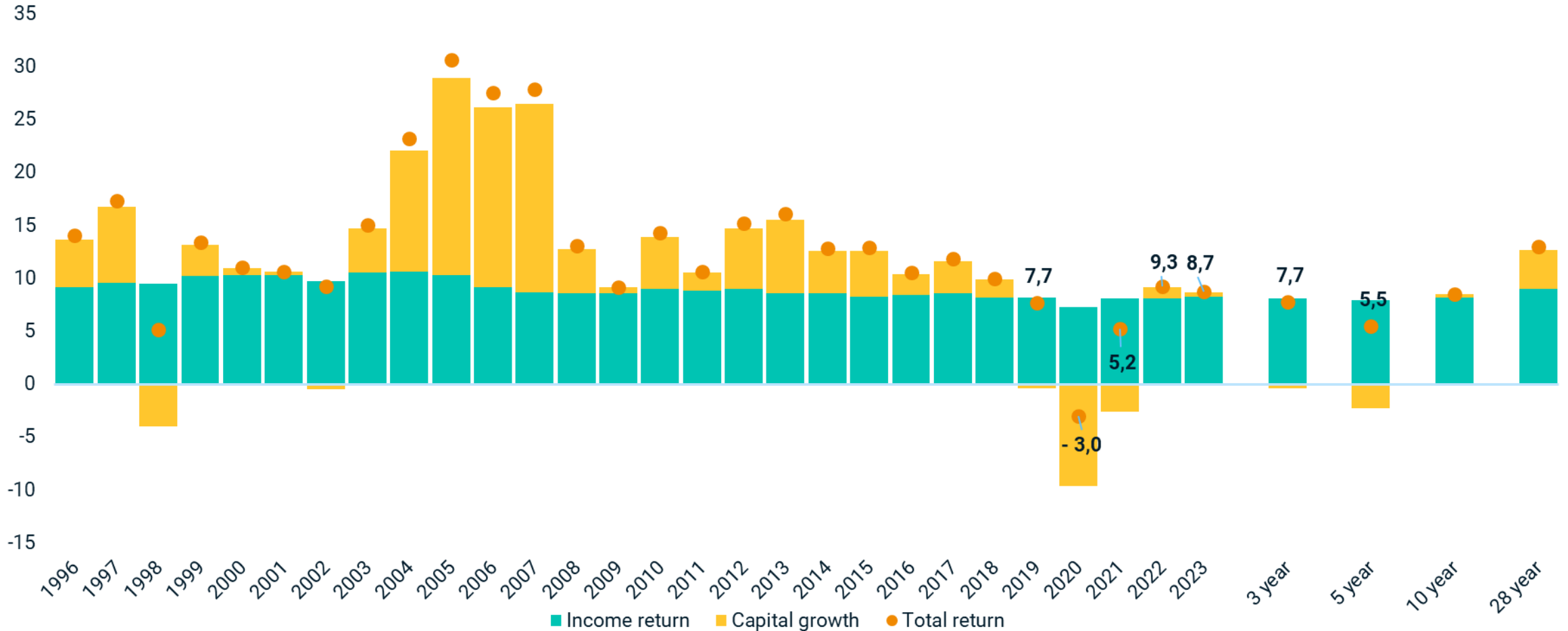
All Property; All Assets; 5<sup>th</sup> to 95<sup>th</sup> percentiles



# return: income return consistent, capital growth slowing

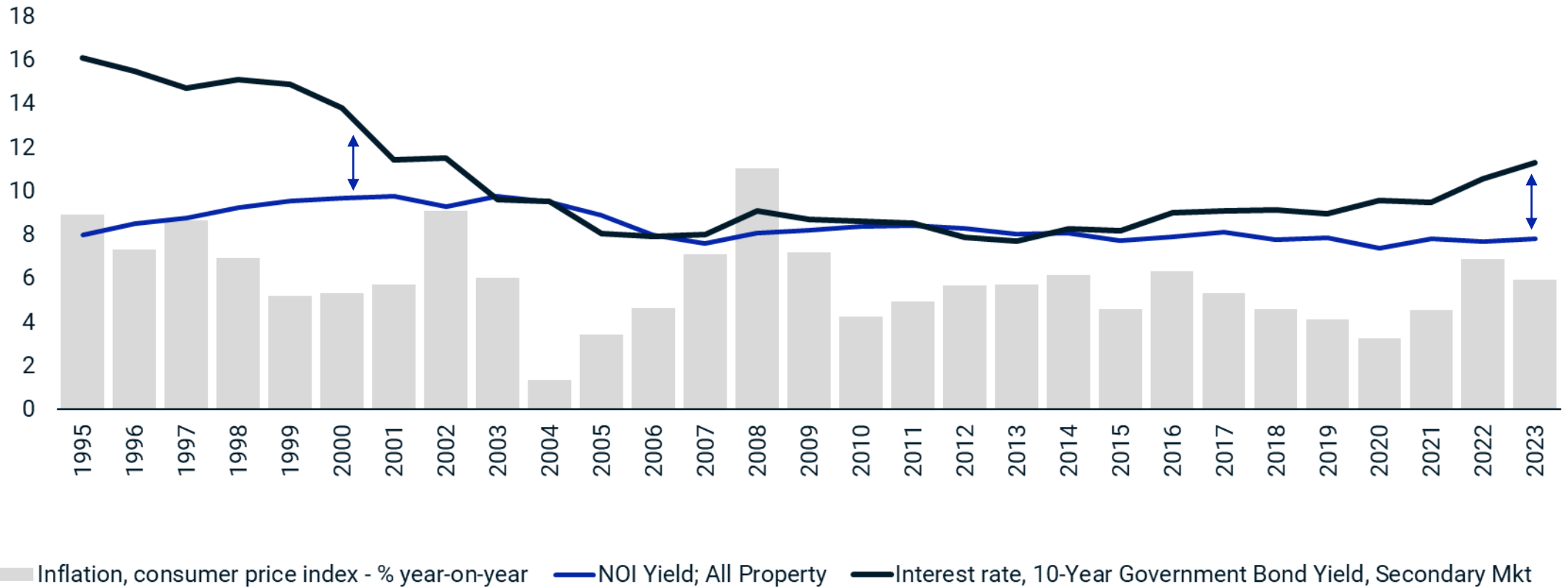
Standard deviation

% p.a.



# Property NOI Yield has diverted from Long Term bond yield

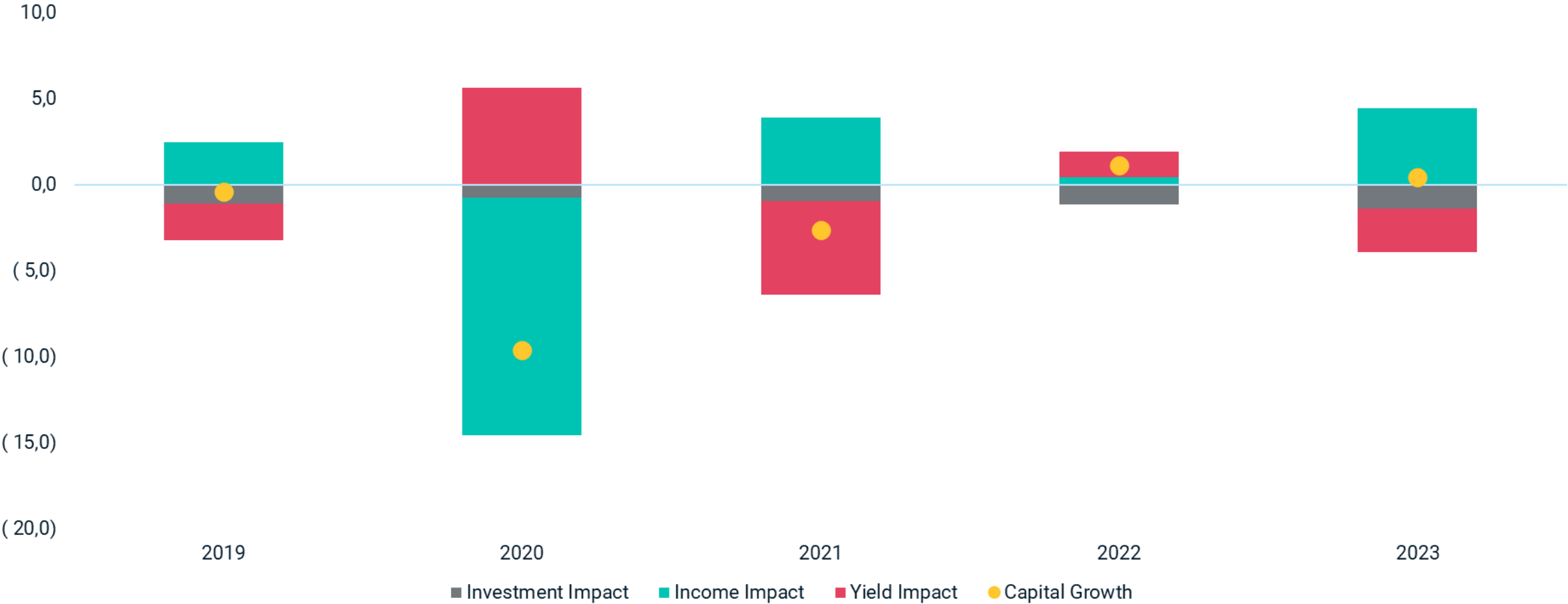
**NOI yield vs Long Term Bond Yield & Inflation**  
Annual, standing investments



# Capital growth underpinned by income growth but held back by negative sentiment (yield impact)

Standing investment

Capital Growth Decomposition



# Widening investment impact means that the capex spent is non-yield enhancing

Standing investment

Investment Impact

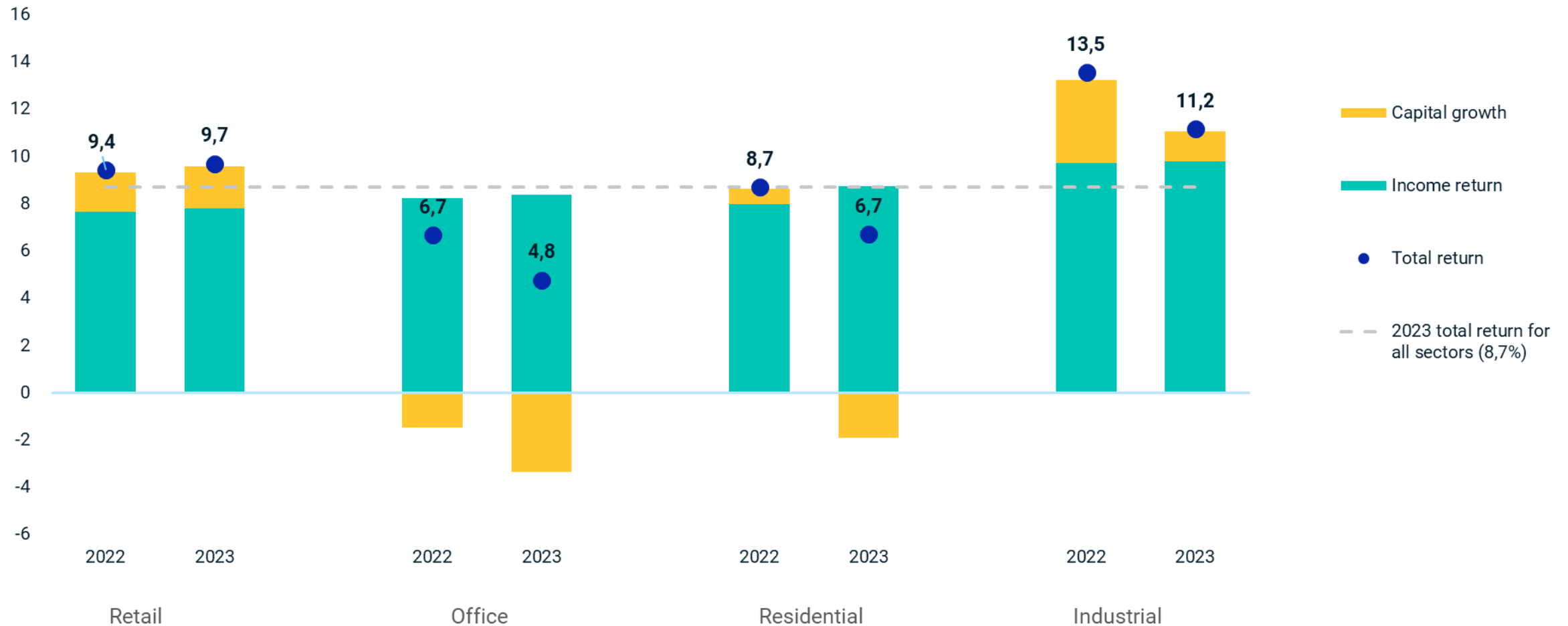


Source: MSCI Real Estate Global Intel

Information Classification: GENERAL

# Industrial sector is still delivering the highest returns, followed by retail which is the only sector showing an improvement

Standing investment



# Income impact varied between the sectors

office negative, industrial and residential positive

Standing investment

Capital Growth Decomposition by Sector

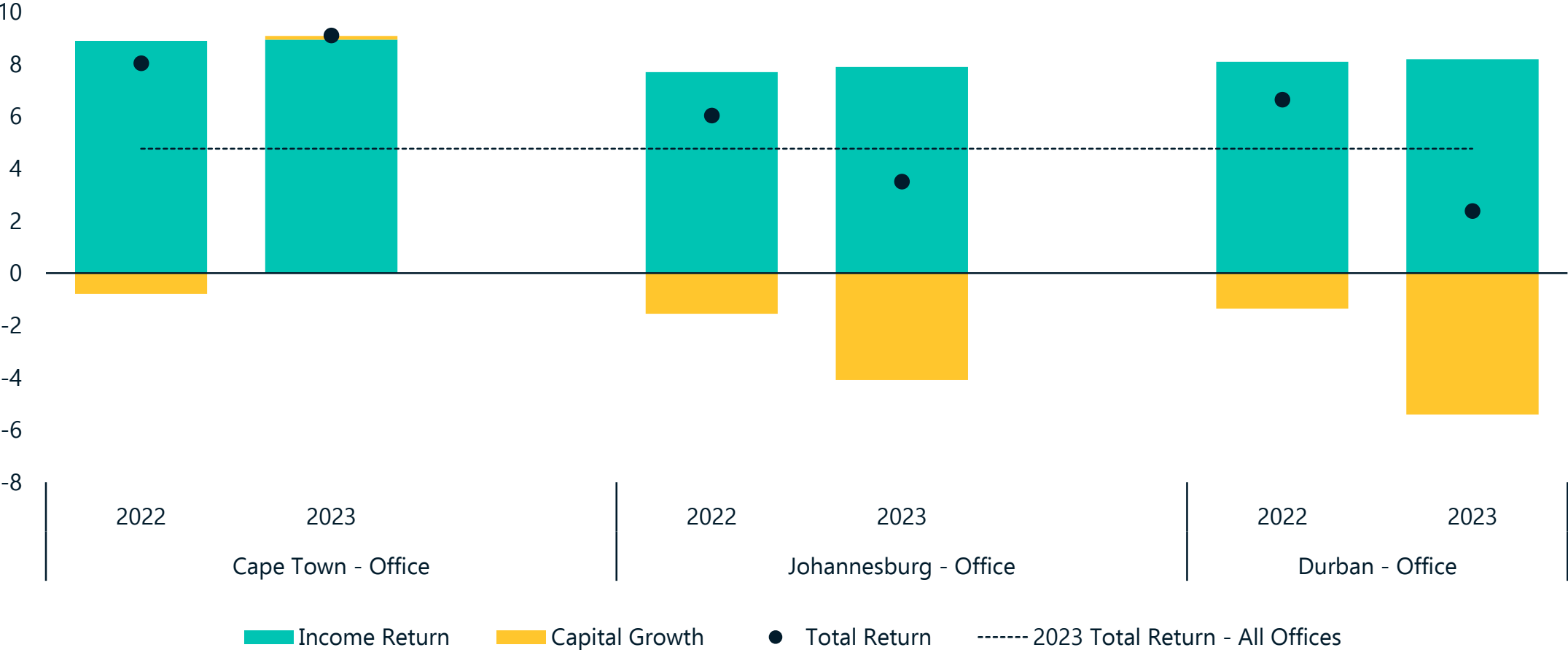




# Cape Town Offices held value while Johannesburg and Durban went further negative

## Total return office by city

Standing investment returns in local currency

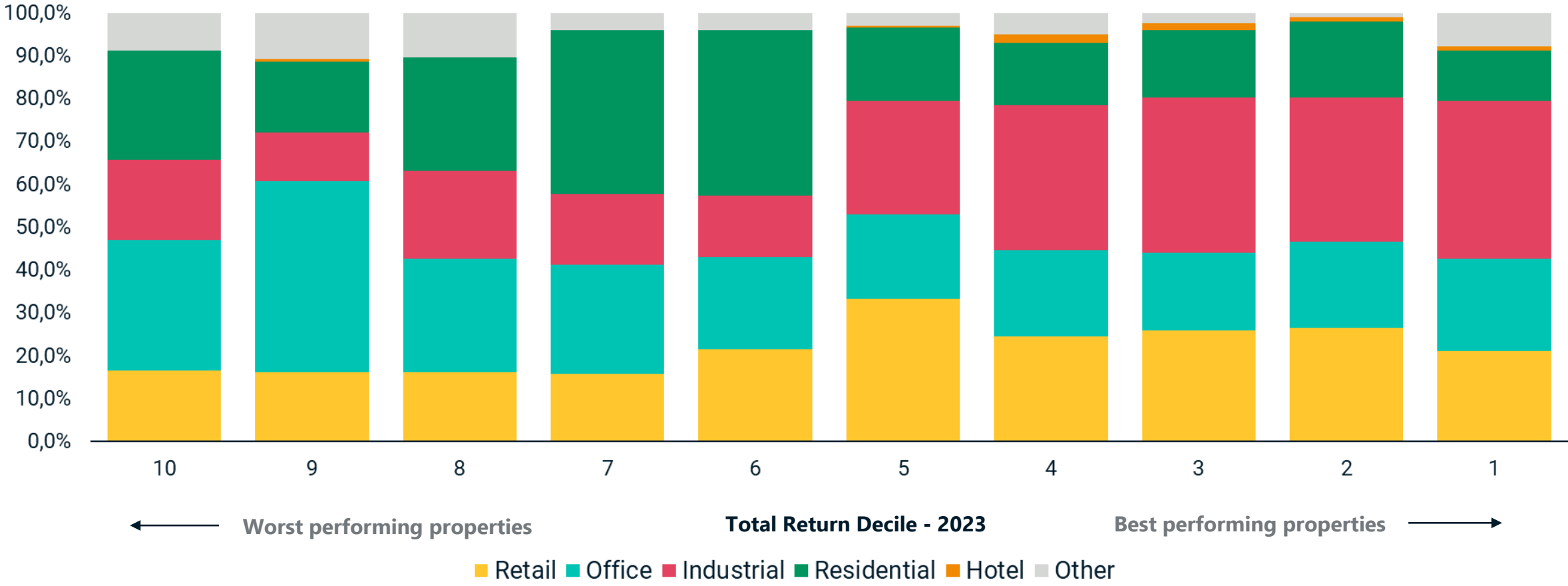


Source: MSCI Real Estate Global Intel

Information Classification: GENERAL

# More industrial properties in top half of total return distribution

% of Sector by Asset Total Return Decile  
All Assets

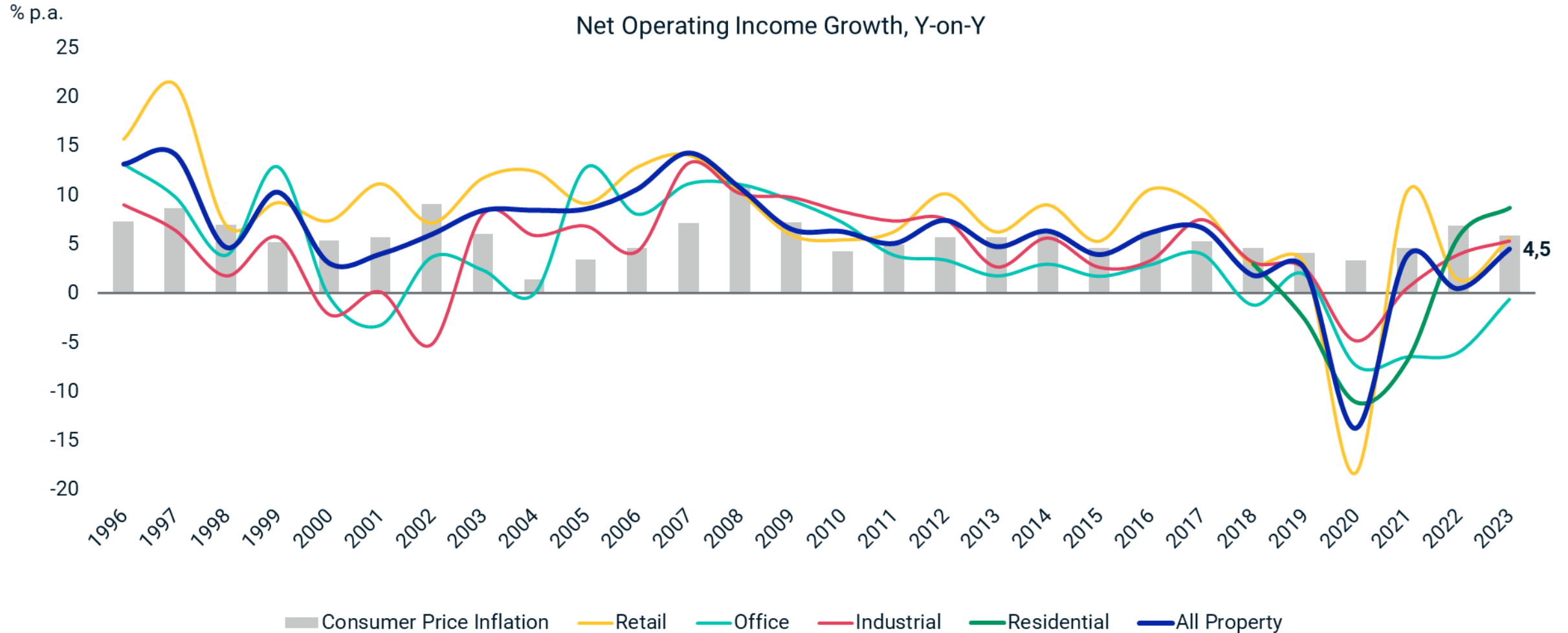


Source: MSCI Real Estate Global Intel

Information Classification: GENERAL

# Net Income growth continuing to improve in 2023 but not yet in real terms

Same Store

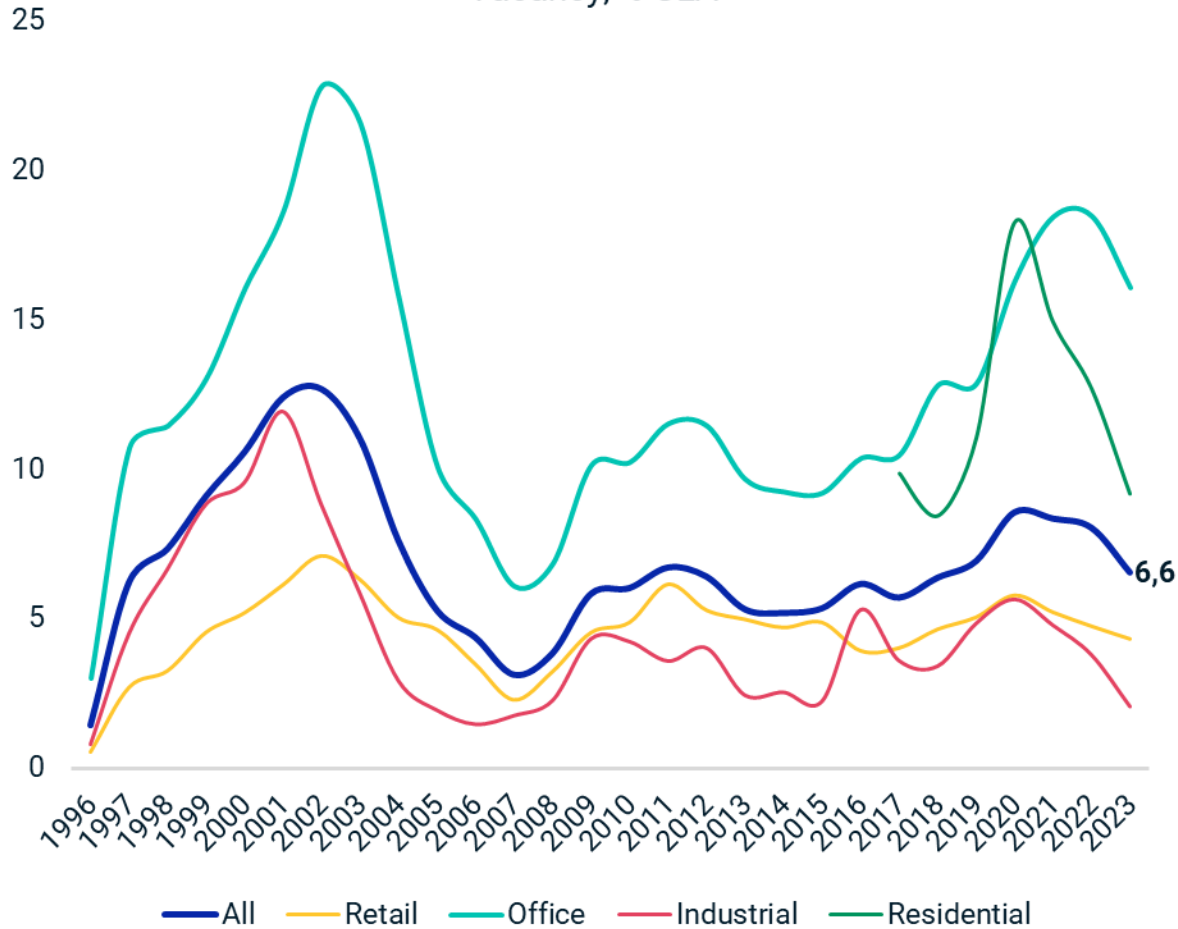


# Vacancy is coming off and rental growth has improved

Standing Investments

% p.a.

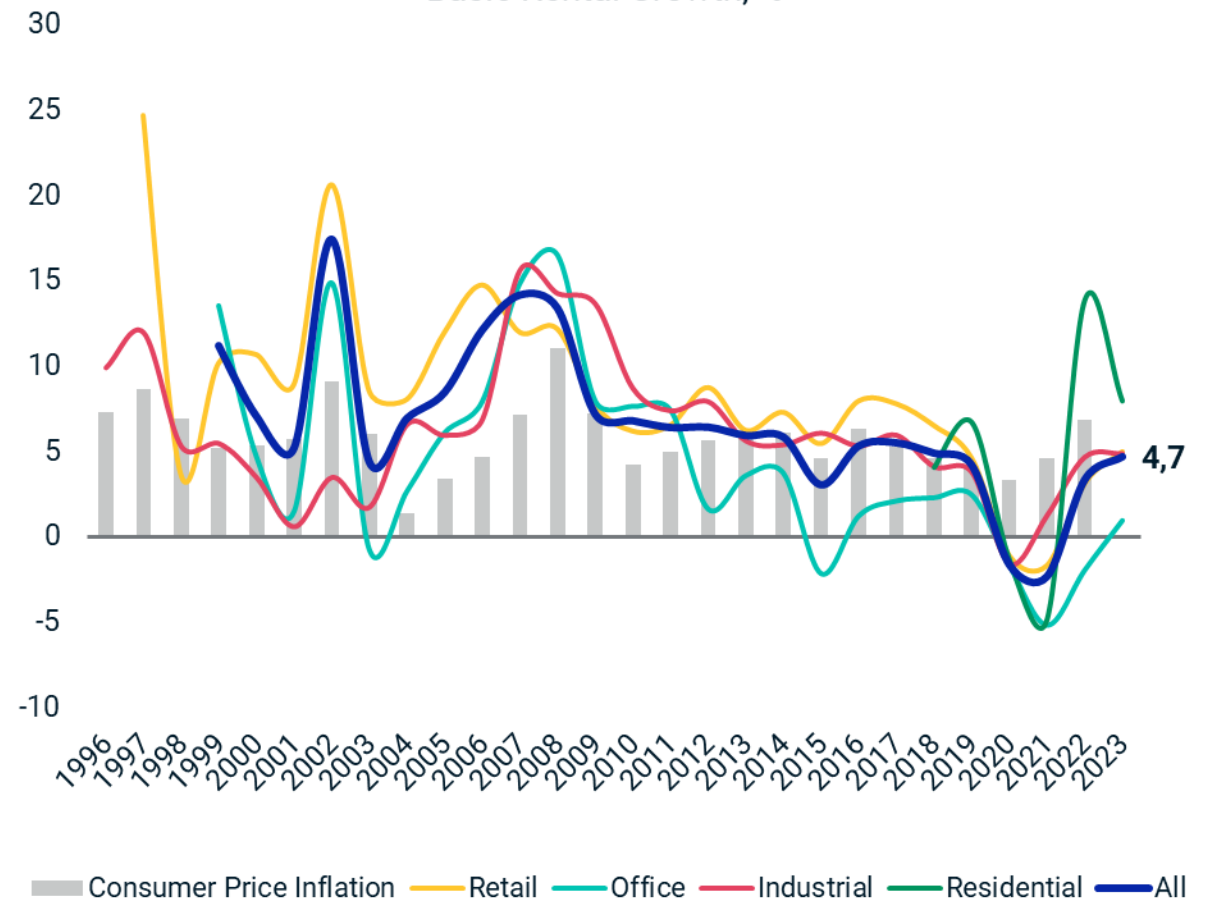
Vacancy, % GLA



Same Store

% p.a.

Basic Rental Growth, %

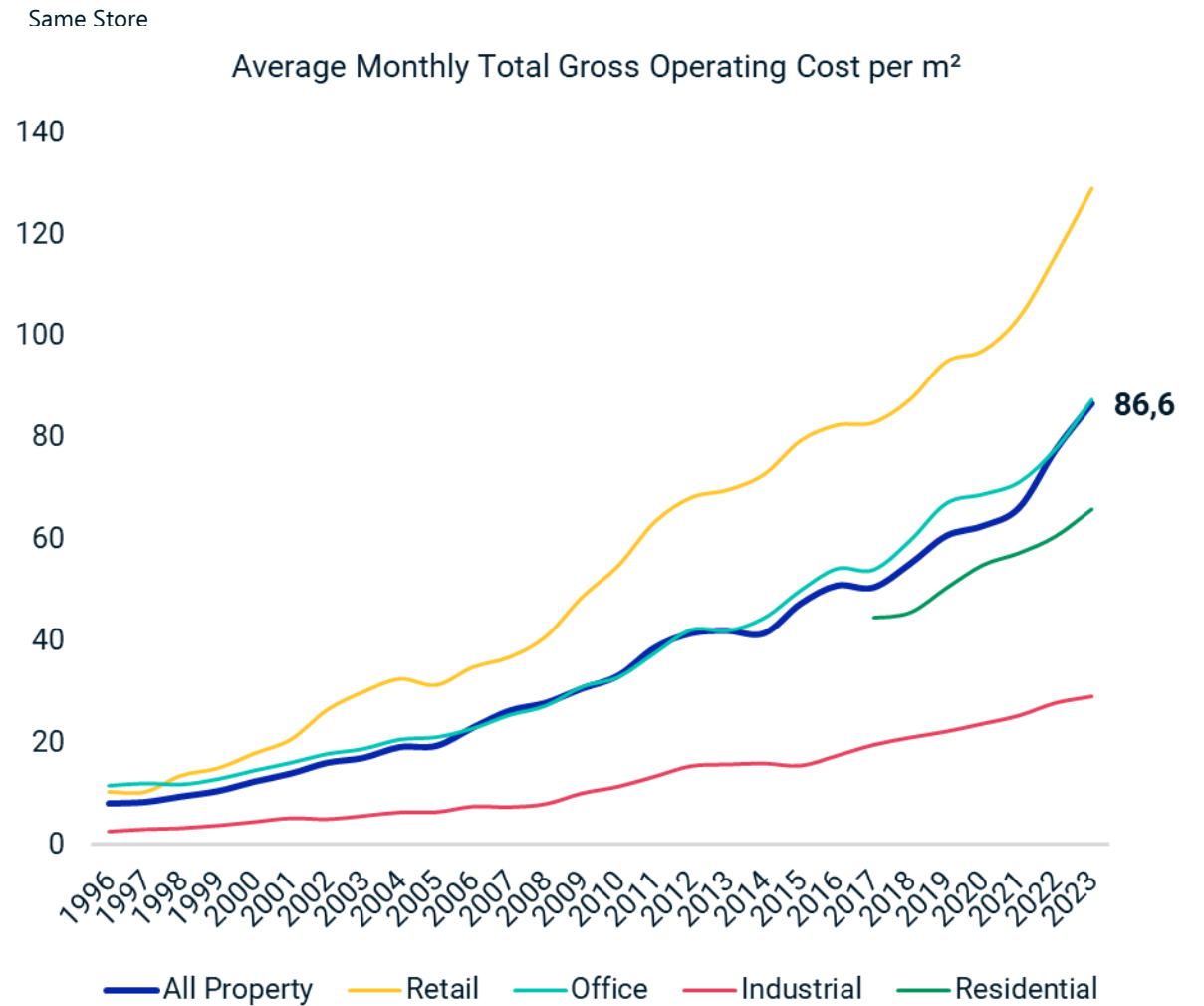
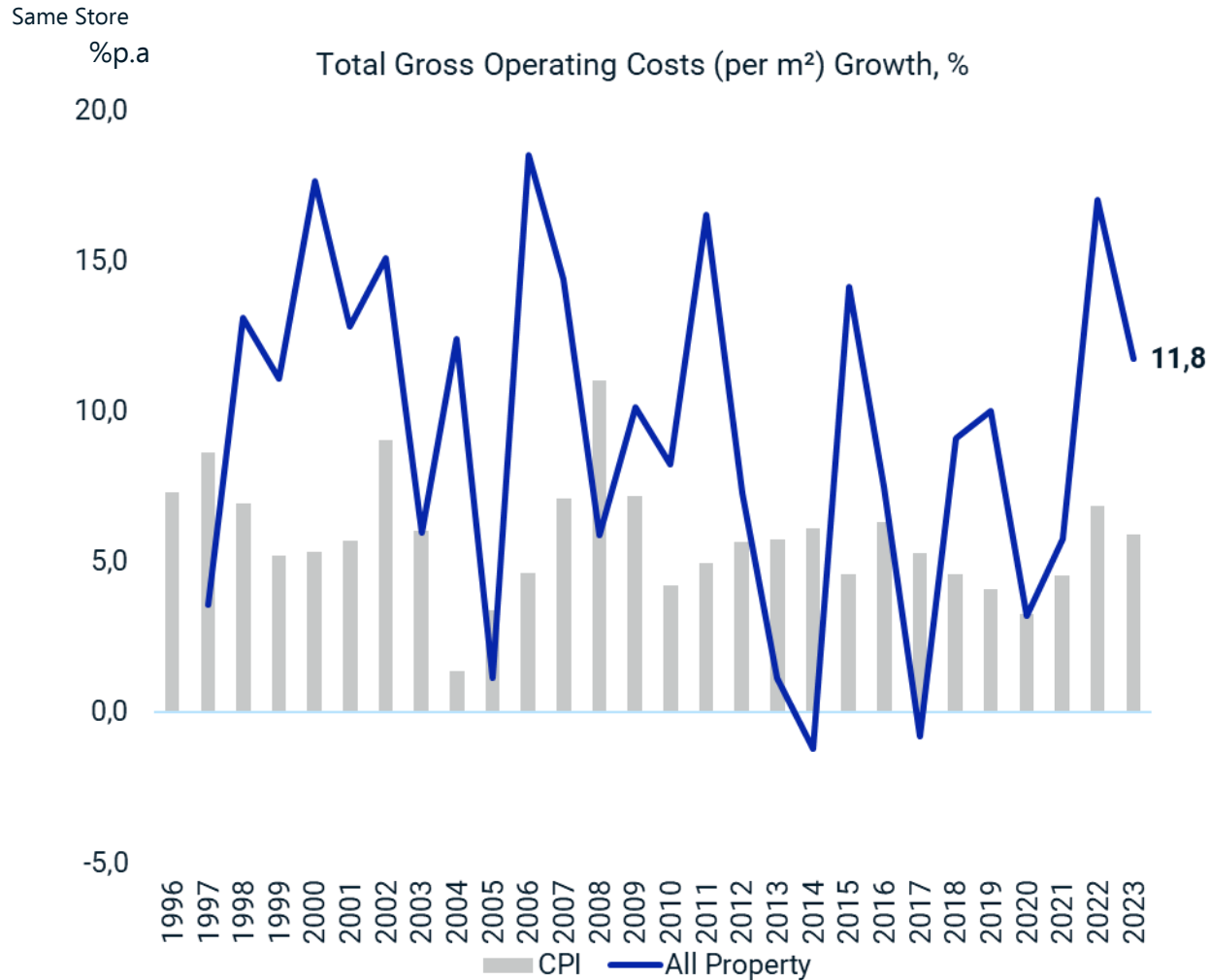


Source: MSCI Real Estate Global Intel

Information Classification: GENERAL

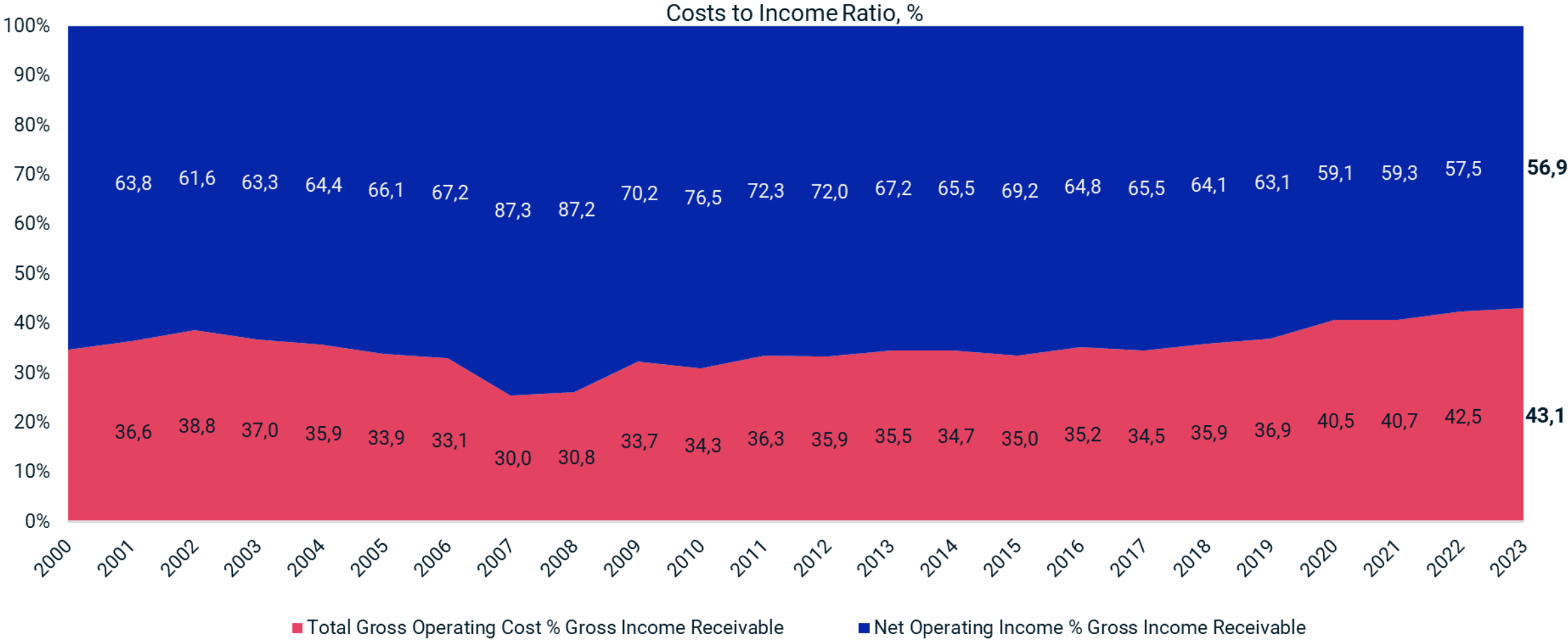
Same Store

# Total Operating Costs are growing faster than inflation especially in retail



# The cost to income ratio continues to creep upwards

Same Store

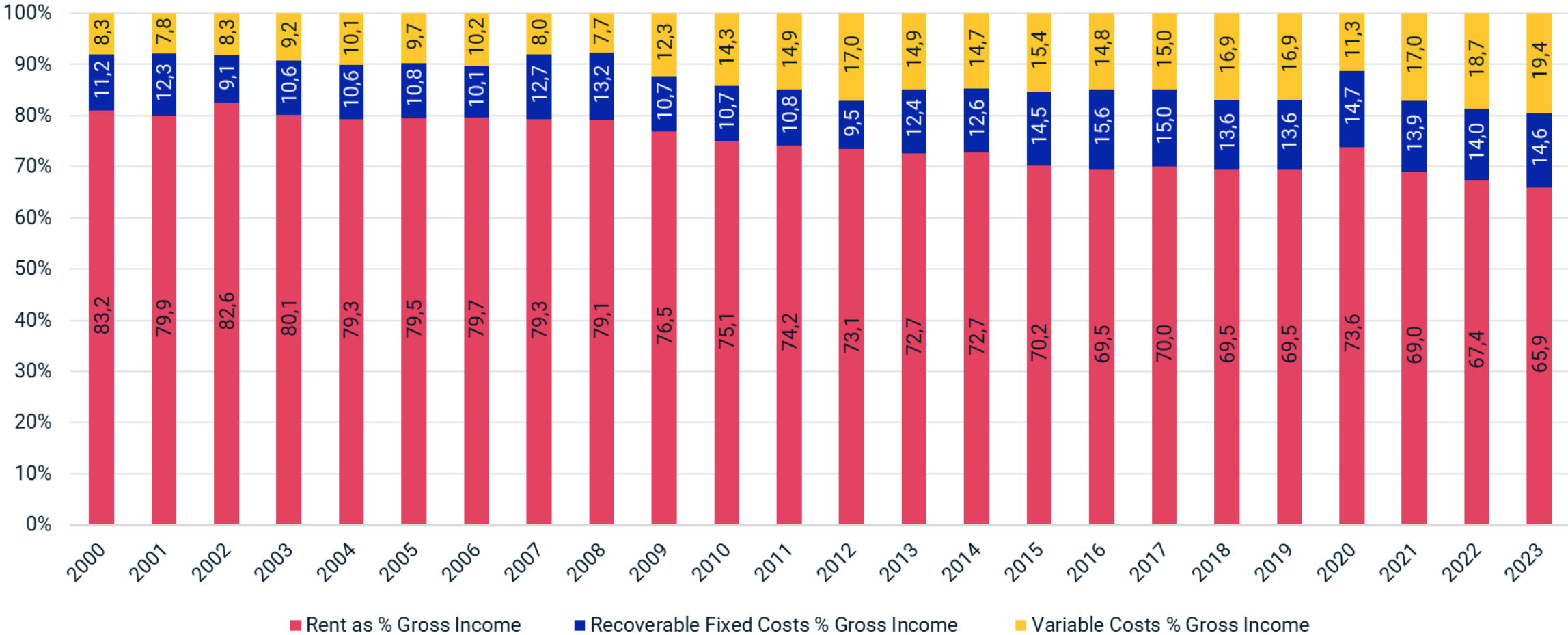


Source: MSCI Real Estate Global Intel

Information Classification: GENERAL

# Rent continues to be a smaller proportion of the tenant's cost of occupation

Same Store

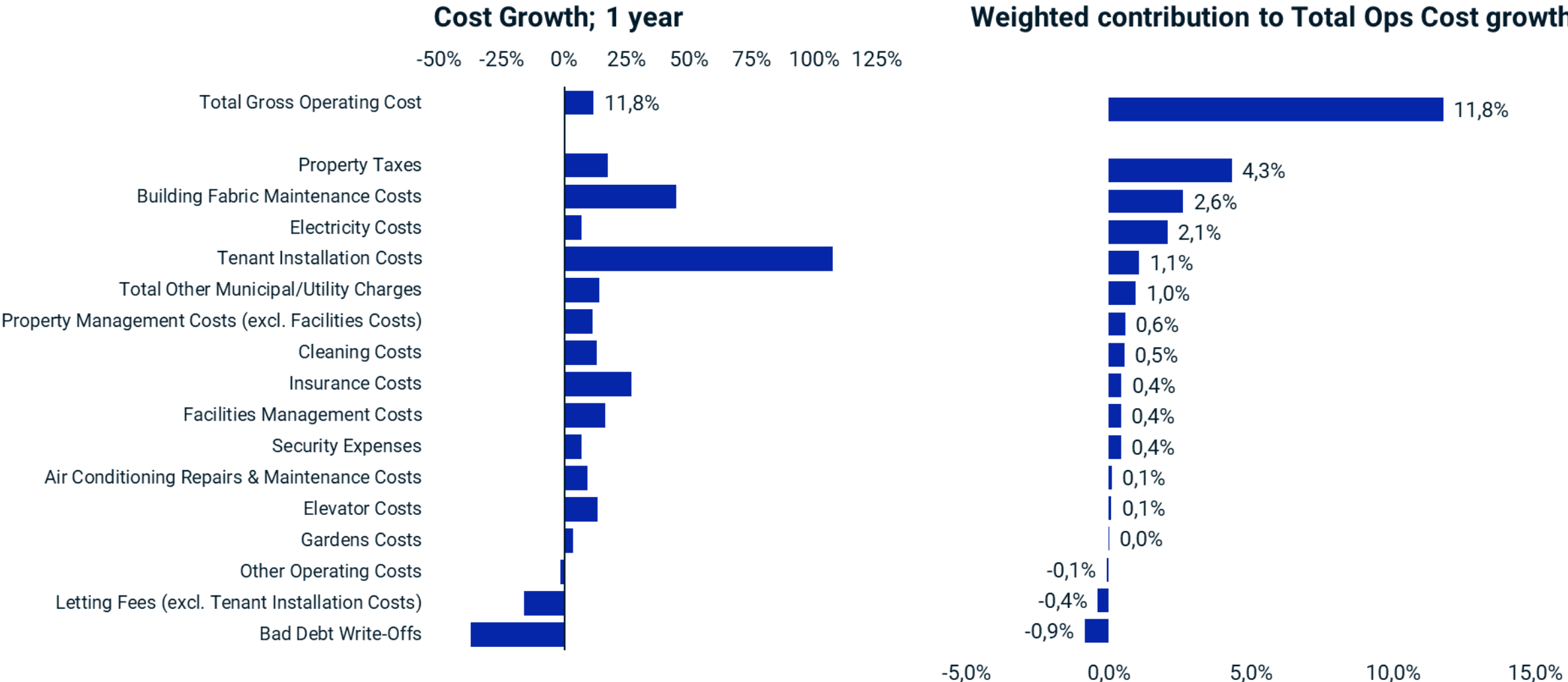


Source: MSCI Real Estate Global Intel

Information Classification: GENERAL

# Rates and Electricity still drove 50% of Total Cost growth.

Building Maintenance (incl Diesel) and TI also grew quickly



Source: MSCI Real Estate Global Intel

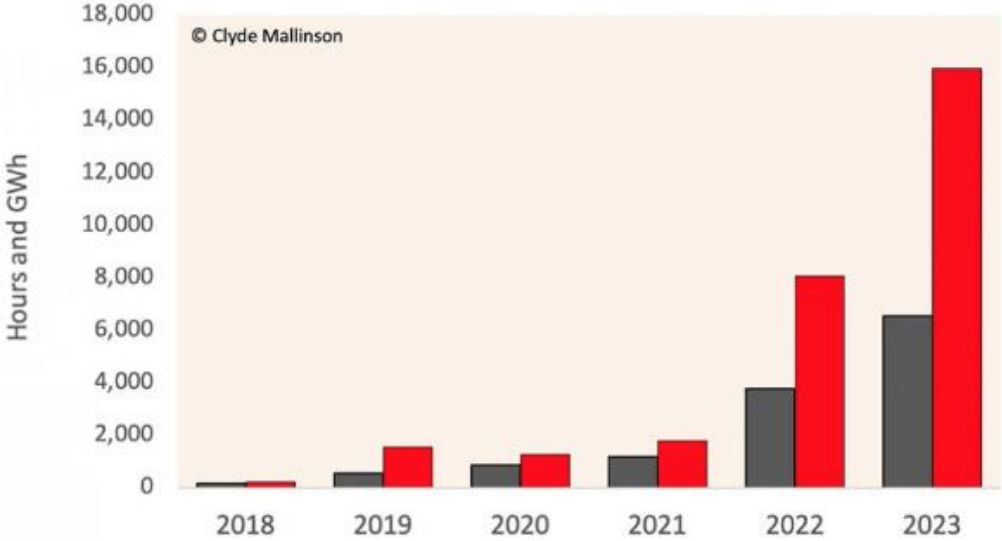
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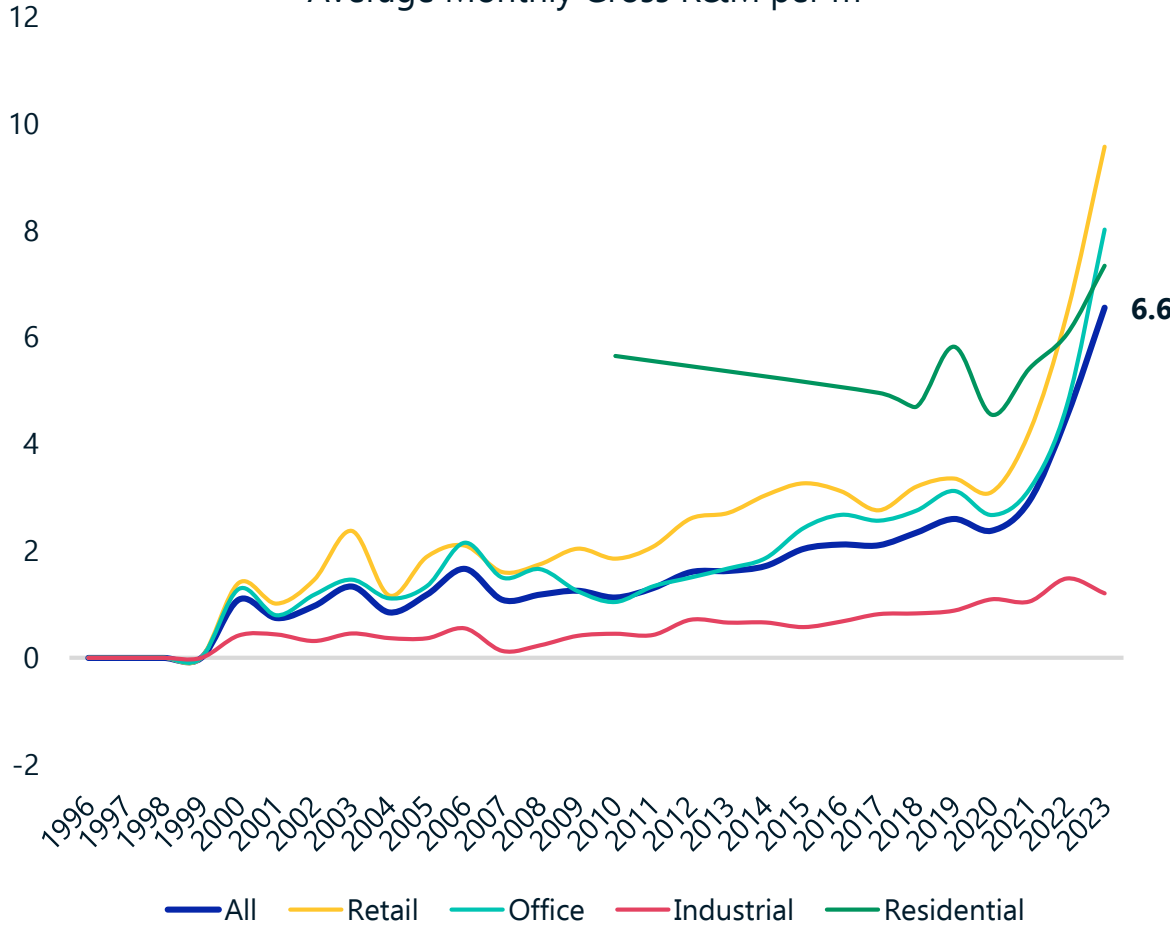
# Load shedding is becoming a material cost driver

Same Store

Annual hours and total GWh of load shedding 2018 to 2023 year to date



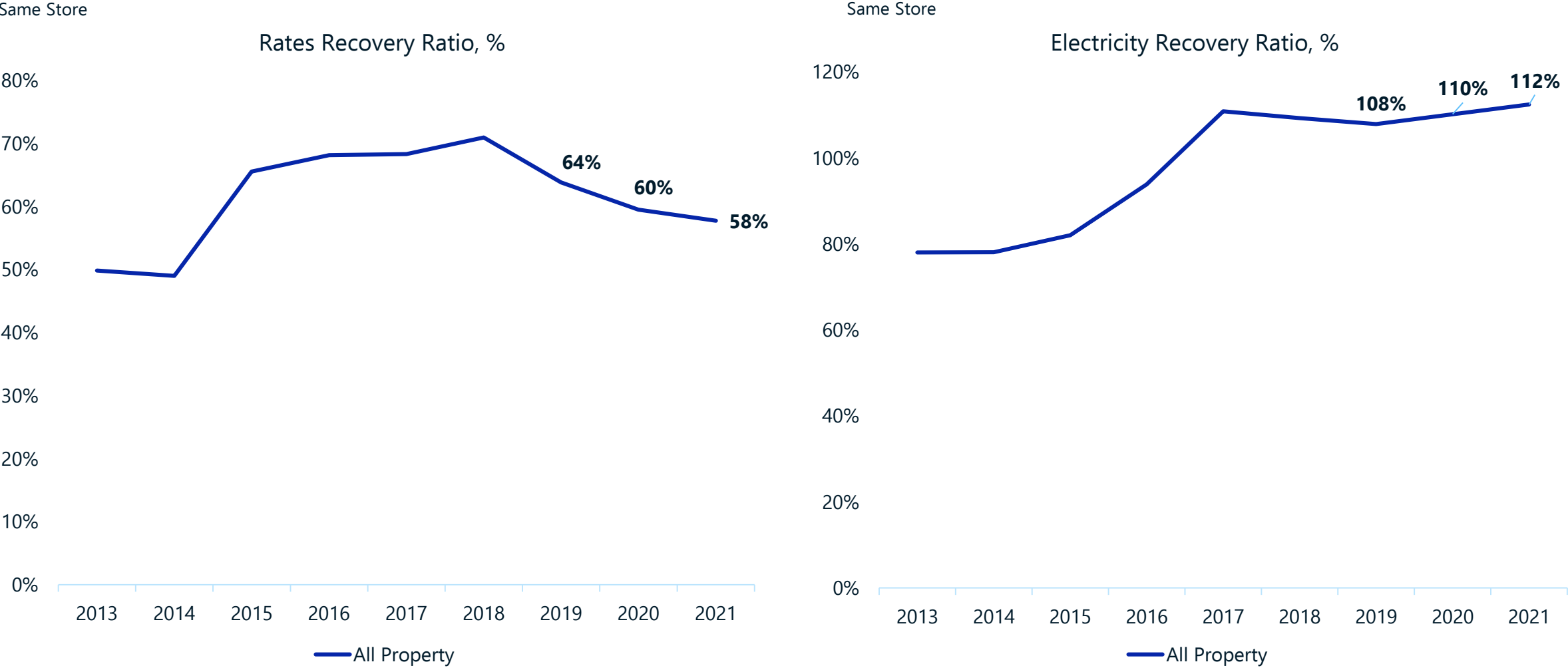
Average Monthly Gross R&M per m<sup>2</sup>



Source: <https://www.engineeringnews.co.za/>; Source: MSCI Real Estate Global Intel

Information Classification: GENERAL

# Recovery ratios improving on electricity but not on rates where owners continue to absorb a larger portion

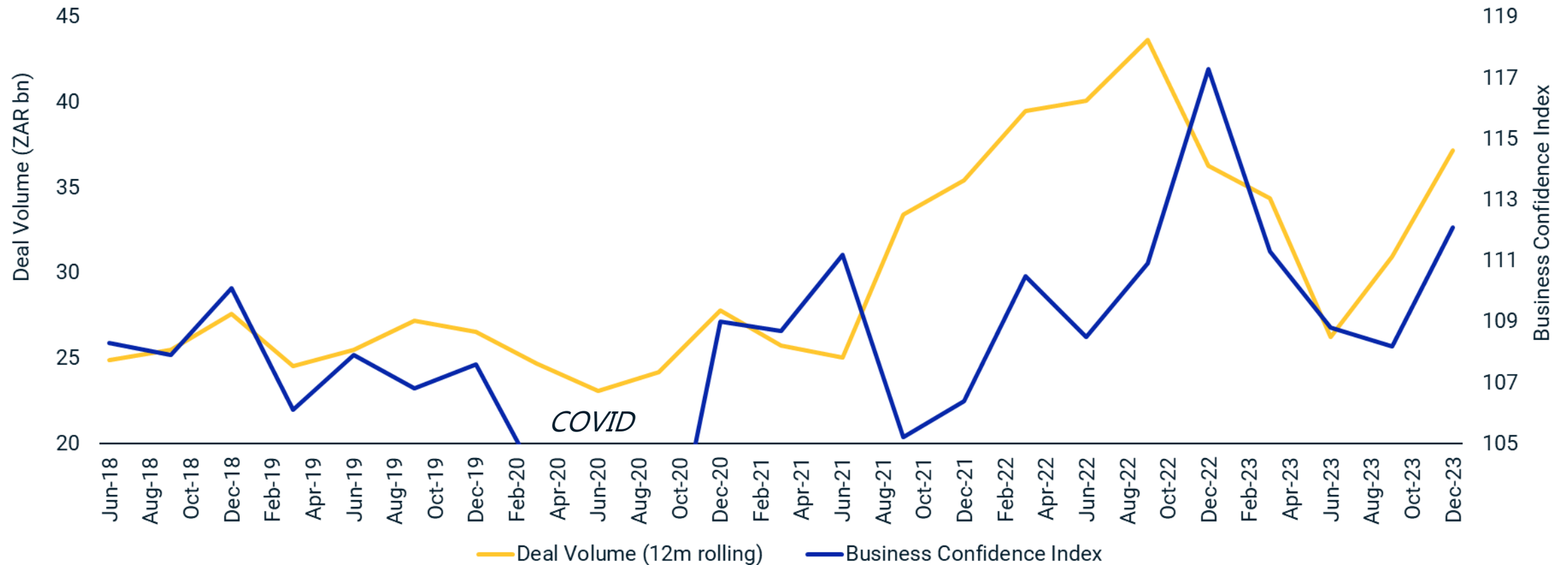


Source: MSCI Real Estate Global Intel

Information Classification: GENERAL

# Improved business confidence generally boosts deal volume & returns. What will happen after the elections?

**Deal Volume & Business Confidence**  
All Property; ZAR



# Summary

Globally, the reflation crisis is having a negative impact on values across sectors creating opportunities for buyers

**South Africa:  
8,7% Total Return in 2023  
Income Return improved to 8,3% and  
Capital Growth slowed to 0,4%**

**Capital Growth was hindered by yield impact, aka valuer sentiment - while income impact shows that valuations were underpinned by growing net income**

Capital expenditure is shown to be non-yield enhancing - maybe a tied to non-grid energy sources

**Property fundamentals improved in terms of vacancy, rental growth and net income growth.**

**Costs are still growing faster than inflation resulting in a higher cost to income ratio**

**Thank you**

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