

RESEARCH

CAP AND DISCOUNT DATA SURVEY

Nov 2011: RISK STILL FEEDING INTO VALUATION OUTLOOK

	Nov2011	Change from May2011	Change from Nov2010
Average discount rate %	15.27	▲	▼
Average cap rate %	10.56	▲	▲
Average rental growth %pa	5.29	▼	▲
Average expenditure growth %pa	8.12	▼	▼

SUMMARY POINTS

- Average discount rates applied by valuers are marginally stronger than 12 months ago but weaker than six months back.
- Average income capitalization rates have weakened on both 6 and 12 months.
- The average market rental growth is up slightly on 12 months, but down on six months. Expenditure growth is marginally down on both six and 12 months.



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Discount and income capitalization rates:

The average differential between minimum and maximum discount rates employed has narrowed quite substantially to only 170bp, whereas it was around 300bp previously; this may point to greater consensus regarding risk and valuations broadly. The highest (maximum) discount rate recorded is for non-metro CBD and secondary decentralised office markets (17.5%).

The average cap rate employed in the retail sector is 8.98%; in offices it is 10.60% and for industrial property it is now 10.28%.

The lowest average cap rates, in ascending order, are attributed to super regional, small regional, and regional shopping centres. Conversely, and in descending order, the highest rates apply to other (non metro) decentralised secondary grade offices, Port Elizabeth CBD offices, and sharing third position, East London's decentralised secondary grade offices and low grade industrials.

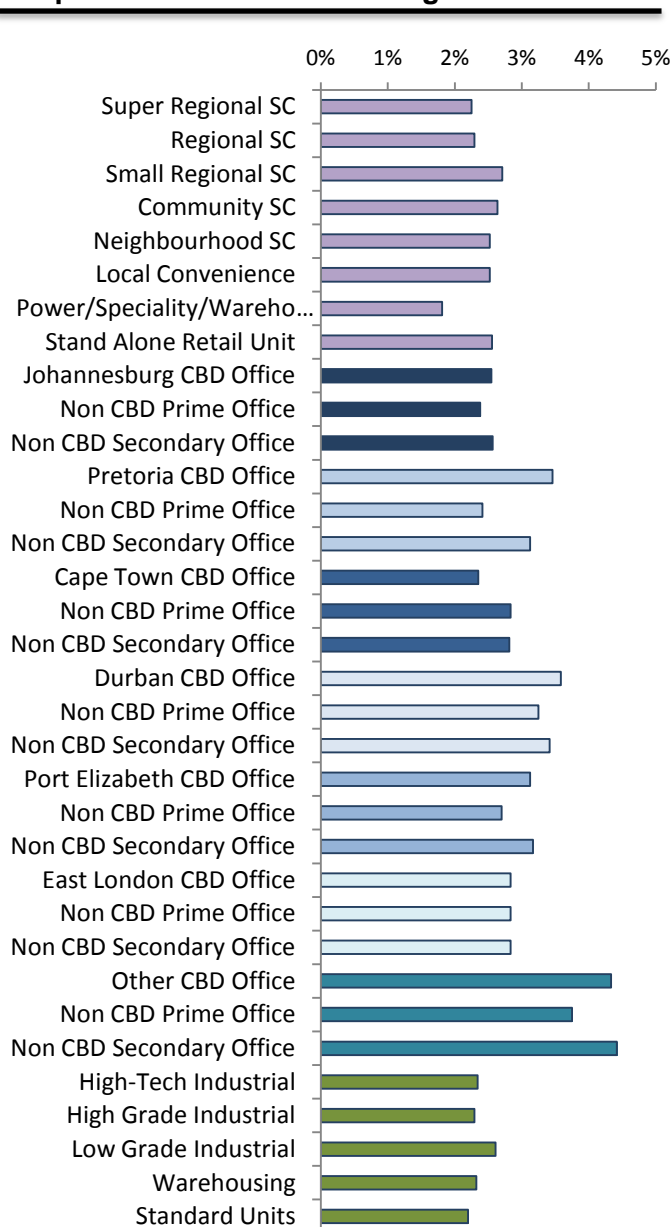
The income and cost relationship:

Across the board, the average market rental growth rate expectation is 5.29% which is marginally down on 6 months prior (5.46%). However, the anticipated average property expenditure growth rate has, interestingly enough, subsided slightly from 8.35% to 8.12%.

The lowest average property expenditure growth rates in ascending order apply to Cape Town CBD offices, Port Elizabeth decentralised prime offices and super regional shopping centres. On the flip side markets with the highest average anticipated cost growth rates in descending order are non metro CBD offices tied with decentralised secondary Port Elizabeth offices, closely followed and also in a tie, by Pretoria's CBD and secondary decentralised offices.

Figure 1 shows the difference between average anticipated property expenditure rates and average rental growth.

**Fig 1:
Gap between cost and rental growth**





On average the rent:cost growth differential across all sectors/segments remains just shy of 3%; perhaps of some good news is that there are now no markets/segments where respondents anticipate zero rental growth and whereas in the previous survey there were.

Whilst the average across all segments is 2.82%, markets above 3% can be considered riskier as they imply potential deterioration in net income, all things being equal (to a large extent this is reflected in the associated discounting rates applied).

It appears that non metro office markets are at particular risk with CBD and secondary segments showing a differential of above 4%. Durban offices as well as the CBD and secondary markets of both Pretoria and Port Elizabeth are above 3%. The only segment below 2% is retail warehousing/power centres.

Figures 2 and 3 show the average rental and cost growth trend for city offices and in general the trend over the past few years highlights the growing income to cost growth disparity.

Transactions recorded:

Of the 193 transactions noted by respondents (down from 298 six months back), 34% were office related (up from 24%); 36% were industrial (down from 44%); and 30% retail. The three most active transaction segments, listed in order of magnitude, are Johannesburg decentralised offices, closely followed by low grade industrial and warehousing.

Fig 2: Prime decentralised office rental growth

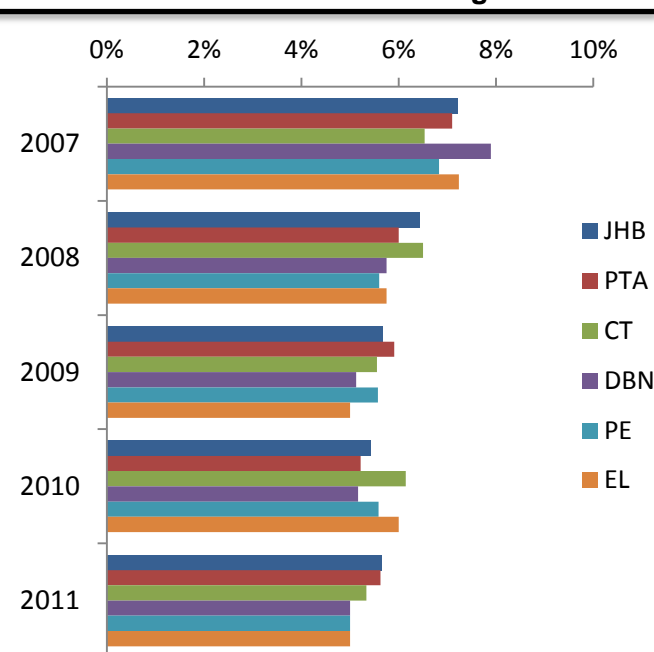
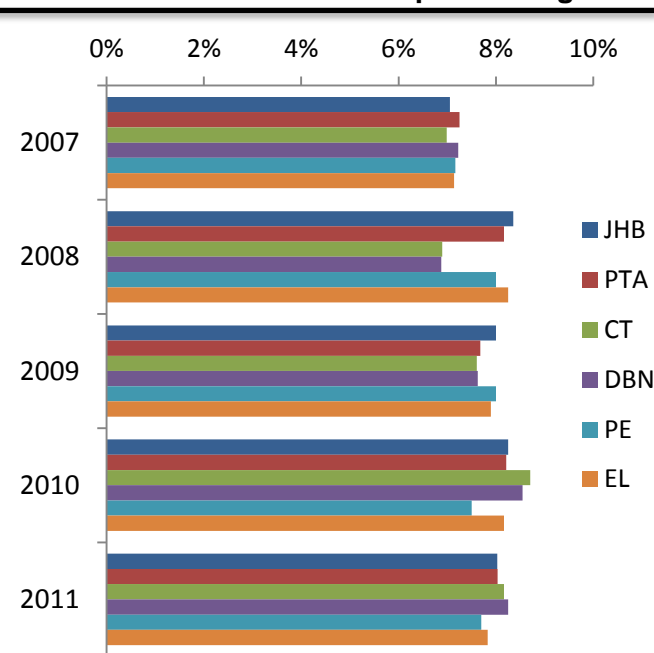


Fig 3: Prime decentralised office expenditure growth





Summary and implications:

Prime office income capitalisation rates (cap rates) have marginally weakened by almost 20bp during the course of November 2011 as compared with November 2010: the average cap rates across all commercial property types (including retail and industrial) is now 10.56% as compared with 10.37%.

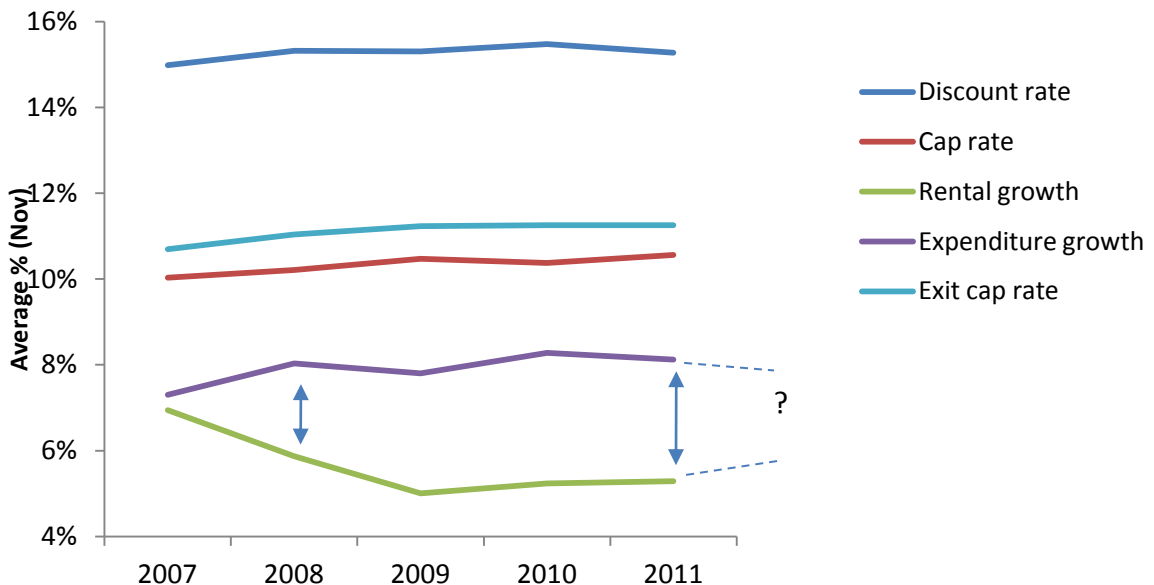
By comparison, average discount rates have strengthened by just over 20bp over the same period. This discrepancy may point to greater risk associated with the short term outlook and a fundamentally more positive outlook on the longer term.

To some extent this yield scenario captures a number of key dynamics including a strong reduction in interest rates (with muted growth prospects and albeit inflation on an upward trajectory), interalia strengthening long bond yields, and scarcity of investment grade stock.

Remaining of some concern to investors is the disparity between anticipated rental and expenditure growth rates which is no doubt serving to increase the risk factor and therefore dampen prices.

The trajectory of this differential as per Fig 4 is however seemingly not widening and may indeed be one of the reasons supporting a strengthening discount rate; though the reality of high operating cost inflation and erosion of future income streams remains of serious concern, more especially as the ability to pass these costs on to tenants is becoming increasingly challenging. As such operating cost savings measures, strategies and technologies will remain of paramount importance.

Fig 4:
All property averages, Nov 2007- Nov 2011





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Market Discount Rate

Property Type		MIN	MAX	MED	AVE
Retail	Super Regional Shopping Centre >100,000m2	12.00%	13.50%	12.63%	12.68%
	Regional Shopping Centre: 50-100,000m2	12.50%	14.00%	13.13%	13.18%
	Small Regional Centre: 25-50,000m2	13.00%	14.50%	13.50%	13.64%
	Community Shopping Centre: 12-25,000m2	13.50%	15.50%	14.00%	14.25%
	Neighbourhood Shopping Centre: 5-12,000m2	14.00%	15.50%	14.50%	14.72%
	Local Convenience Centre < 5000m2	14.00%	16.00%	15.00%	15.03%
	Power Centre/Speciality/Warehouse	14.00%	15.50%	14.50%	14.67%
	Stand Alone Retail Unit	14.00%	16.00%	15.00%	15.03%
Office	Johannesburg CBD Office	14.00%	16.25%	16.00%	15.78%
	Non CBD Prime Office	14.00%	15.50%	14.50%	14.56%
	Non CBD Secondary Office	15.00%	16.50%	16.00%	15.81%
	Pretoria CBD Office	14.00%	16.00%	16.00%	15.54%
	Non CBD Prime Office	14.00%	15.00%	14.25%	14.39%
	Non CBD Secondary Office	15.00%	16.50%	15.88%	15.71%
	Cape Town CBD Office	14.00%	16.00%	14.50%	14.75%
	Non CBD Prime Office	13.75%	15.00%	14.50%	14.35%
	Non CBD Secondary Office	15.00%	16.00%	15.50%	15.50%
	Durban CBD Office	15.50%	17.00%	16.00%	16.13%
	Non CBD Prime Office	14.50%	15.50%	14.75%	14.88%
	Non CBD Secondary Office	16.00%	17.00%	16.50%	16.50%
	Port Elizabeth CBD Office	15.50%	17.00%	16.50%	16.38%
	Non CBD Prime Office	14.00%	16.00%	15.00%	15.00%
	Non CBD Secondary Office	16.00%	17.00%	17.00%	16.67%
	East London CBD Office	15.50%	17.00%	16.75%	16.50%
	Non CBD Prime Office	15.00%	16.00%	15.25%	15.38%
	Non CBD Secondary Office	16.00%	17.00%	16.75%	16.63%
Other CBD Office	15.00%	17.50%	16.25%	16.25%	
Non CBD Prime Office	15.00%	16.50%	15.00%	15.50%	
Non CBD Secondary Office	15.00%	17.50%	15.75%	16.08%	
Industrial	High-Tech Industrial	14.00%	15.50%	14.50%	14.55%
	High Grade Industrial	14.00%	15.50%	14.50%	14.55%
	Low Grade Industrial	14.00%	17.00%	16.00%	15.88%
	Warehousing	14.50%	17.00%	15.00%	15.45%
	Standard Units	15.00%	17.00%	15.00%	15.50%
	Other	14.00%	17.00%	15.75%	15.63%



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Market Cap Rate

Property Type		MIN	MAX	MED	AVE
Retail	Super Regional Shopping Centre >100,000m2	6.25%	14.00%	7.38%	8.06%
	Regional Shopping Centre: 50-100,000m2	7.00%	15.00%	8.00%	8.62%
	Small Regional Centre: 25-50,000m2	7.25%	9.50%	8.63%	8.54%
	Community Shopping Centre: 12-25,000m2	8.00%	10.00%	9.50%	9.23%
	Neighbourhood Shopping Centre: 5-12,000m2	8.50%	11.00%	10.00%	9.81%
	Local Convenience Centre < 5000m2	9.00%	11.50%	10.50%	10.29%
	Power Centre/Speciality/Warehouse	9.00%	12.00%	10.00%	10.19%
	Stand Alone Retail Unit	9.00%	11.50%	10.50%	10.35%
Office	Johannesburg CBD Office	10.50%	12.00%	11.00%	11.28%
	Non CBD Prime Office	9.00%	10.50%	9.50%	9.75%
	Non CBD Secondary Office	9.50%	12.00%	11.00%	10.92%
	Pretoria CBD Office	10.50%	12.00%	11.00%	11.13%
	Non CBD Prime Office	9.00%	10.50%	10.00%	9.75%
	Non CBD Secondary Office	9.50%	12.00%	10.88%	10.88%
	Cape Town CBD Office	8.50%	10.50%	10.25%	9.92%
	Non CBD Prime Office	9.50%	10.00%	9.63%	9.69%
	Non CBD Secondary Office	10.50%	11.00%	10.50%	10.60%
	Durban CBD Office	9.50%	11.50%	11.50%	11.00%
	Non CBD Prime Office	9.50%	10.50%	10.00%	10.00%
	Non CBD Secondary Office	11.25%	12.00%	11.50%	11.56%
	Port Elizabeth CBD Office	10.50%	14.00%	11.75%	11.92%
	Non CBD Prime Office	9.50%	11.00%	10.00%	10.29%
	Non CBD Secondary Office	11.00%	12.00%	12.00%	11.70%
	East London CBD Office	10.50%	12.00%	11.75%	11.50%
	Non CBD Prime Office	10.00%	11.00%	10.50%	10.50%
	Non CBD Secondary Office	11.00%	12.00%	11.75%	11.63%
Other CBD Office	10.00%	12.00%	12.00%	11.33%	
Non CBD Prime Office	11.00%	11.50%	11.25%	11.25%	
Non CBD Secondary Office	12.00%	12.00%	12.00%	12.00%	
Industrial	High-Tech Industrial	9.00%	11.50%	10.00%	10.02%
	High Grade Industrial	9.00%	11.00%	10.00%	9.98%
	Low Grade Industrial	10.50%	13.00%	12.00%	11.63%
	Warehousing	9.50%	12.00%	11.00%	10.79%
	Standard Units	9.50%	12.00%	11.00%	10.83%
	Other	9.00%	12.00%	10.50%	10.50%

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Market Rental Growth rate

Property Type		MIN	MAX	MED	AVE
Retail	Super Regional Shopping Centre >100,000m2	4.00%	7.00%	5.50%	5.54%
	Regional Shopping Centre: 50-100,000m2	4.00%	7.00%	5.50%	5.59%
	Small Regional Centre: 25-50,000m2	4.00%	7.00%	5.50%	5.52%
	Community Shopping Centre: 12-25,000m2	4.00%	7.00%	5.50%	5.59%
	Neighbourhood Shopping Centre: 5-12,000m2	4.00%	7.00%	5.75%	5.75%
	Local Convenience Centre < 5000m2	4.00%	7.00%	5.75%	5.75%
	Power Centre/Speciality/Warehouse	4.00%	10.00%	6.00%	6.17%
	Stand Alone Retail Unit	4.00%	7.00%	6.00%	5.72%
Office	Johannesburg CBD Office	3.00%	8.00%	5.00%	5.67%
	Non CBD Prime Office	3.50%	8.00%	6.00%	5.65%
	Non CBD Secondary Office	3.00%	8.00%	6.00%	5.78%
	Pretoria CBD Office	3.00%	7.00%	5.00%	5.00%
	Non CBD Prime Office	4.00%	8.00%	5.50%	5.63%
	Non CBD Secondary Office	3.00%	7.00%	5.50%	5.33%
	Cape Town CBD Office	4.00%	6.00%	5.00%	5.20%
	Non CBD Prime Office	5.00%	6.00%	5.00%	5.33%
	Non CBD Secondary Office	4.50%	6.00%	5.25%	5.25%
	Durban CBD Office	3.00%	6.00%	5.00%	4.67%
	Non CBD Prime Office	4.00%	6.00%	5.00%	5.00%
	Non CBD Secondary Office	3.50%	6.00%	5.00%	4.83%
	Port Elizabeth CBD Office	5.00%	5.00%	5.00%	5.00%
	Non CBD Prime Office	4.00%	6.00%	5.00%	5.00%
	Non CBD Secondary Office	5.00%	6.00%	5.00%	5.33%
	East London CBD Office	5.00%	5.00%	5.00%	5.00%
	Non CBD Prime Office	5.00%	5.00%	5.00%	5.00%
	Non CBD Secondary Office	5.00%	5.00%	5.00%	5.00%
Other CBD Office	2.50%	5.00%	5.00%	4.17%	
Non CBD Prime Office	4.00%	5.00%	5.00%	4.67%	
Non CBD Secondary Office	2.00%	5.00%	5.00%	4.00%	
Industrial	High-Tech Industrial	4.00%	8.00%	5.50%	5.73%
	High Grade Industrial	4.00%	8.00%	5.50%	5.77%
	Low Grade Industrial	3.00%	8.00%	5.00%	5.46%
	Warehousing	4.00%	8.00%	5.50%	5.73%
	Standard Units	4.00%	8.00%	5.50%	5.80%
	Other	4.00%	6.00%	5.00%	5.00%



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Property Expenditure Growth

Property Type		MIN	MAX	MED	AVE
Retail	Super Regional Shopping Centre >100,000m2	6.00%	10.00%	7.75%	7.79%
	Regional Shopping Centre: 50-100,000m2	6.00%	10.00%	8.00%	7.89%
	Small Regional Centre: 25-50,000m2	6.00%	12.00%	8.00%	8.23%
	Community Shopping Centre: 12-25,000m2	6.00%	12.00%	8.00%	8.23%
	Neighbourhood Shopping Centre: 5-12,000m2	6.00%	12.00%	8.00%	8.27%
	Local Convenience Centre < 5000m2	6.00%	12.00%	8.00%	8.27%
	Power Centre/Speciality/Warehouse	6.00%	10.00%	8.00%	7.98%
	Stand Alone Retail Unit	7.00%	10.00%	8.00%	8.28%
Office	Johannesburg CBD Office	7.00%	10.00%	8.00%	8.21%
	Non CBD Prime Office	6.00%	10.00%	8.00%	8.03%
	Non CBD Secondary Office	7.00%	10.00%	8.25%	8.34%
	Pretoria CBD Office	7.00%	10.00%	8.25%	8.46%
	Non CBD Prime Office	6.00%	10.00%	8.00%	8.04%
	Non CBD Secondary Office	7.00%	10.00%	8.25%	8.46%
	Cape Town CBD Office	6.00%	8.75%	8.00%	7.55%
	Non CBD Prime Office	8.00%	8.50%	8.00%	8.17%
	Non CBD Secondary Office	7.00%	8.75%	8.25%	8.06%
	Durban CBD Office	8.00%	8.75%	8.00%	8.25%
	Non CBD Prime Office	8.00%	8.75%	8.00%	8.25%
	Non CBD Secondary Office	8.00%	8.50%	8.25%	8.25%
	Port Elizabeth CBD Office	7.00%	9.00%	8.25%	8.13%
	Non CBD Prime Office	6.00%	9.00%	8.00%	7.70%
	Non CBD Secondary Office	8.00%	9.00%	8.50%	8.50%
	East London CBD Office	7.00%	8.50%	8.00%	7.83%
	Non CBD Prime Office	7.00%	8.50%	8.00%	7.83%
	Non CBD Secondary Office	7.00%	8.50%	8.00%	7.83%
Other CBD Office	8.00%	9.00%	8.50%	8.50%	
Non CBD Prime Office	8.00%	8.75%	8.50%	8.42%	
Non CBD Secondary Office	8.00%	8.75%	8.50%	8.42%	
Industrial	High-Tech Industrial	6.00%	10.00%	8.00%	8.07%
	High Grade Industrial	6.00%	10.00%	8.00%	8.07%
	Low Grade Industrial	6.00%	10.00%	8.00%	8.07%
	Warehousing	6.00%	10.00%	8.00%	8.05%
	Standard Units	6.00%	10.00%	8.00%	8.00%
	Other	7.00%	8.50%	8.25%	8.00%



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Exit Cap Rate

Property Type		MIN	MAX	MED	AVE
Retail	Super Regional Shopping Centre >100,000m2	7.00%	10.00%	7.50%	8.05%
	Regional Shopping Centre: 50-100,000m2	7.25%	10.50%	8.00%	8.52%
	Small Regional Centre: 25-50,000m2	7.75%	10.50%	9.25%	9.27%
	Community Shopping Centre: 12-25,000m2	8.50%	11.00%	10.00%	9.86%
	Neighbourhood Shopping Centre: 5-12,000m2	9.00%	12.00%	10.50%	10.44%
	Local Convenience Centre < 5000m2	9.50%	12.00%	10.88%	10.88%
	Power Centre/Speciality/Warehouse	9.50%	12.00%	10.75%	10.73%
	Stand Alone Retail Unit	9.50%	12.00%	11.38%	10.97%
Office	Johannesburg CBD Office	11.00%	12.75%	11.50%	11.82%
	Non CBD Prime Office	9.50%	12.50%	10.00%	10.58%
	Non CBD Secondary Office	10.50%	12.75%	11.50%	11.59%
	Pretoria CBD Office	9.50%	12.75%	11.50%	11.46%
	Non CBD Prime Office	10.00%	12.50%	10.50%	10.83%
	Non CBD Secondary Office	10.50%	12.50%	11.50%	11.54%
	Cape Town CBD Office	10.00%	11.50%	10.50%	10.58%
	Non CBD Prime Office	10.00%	11.00%	10.50%	10.50%
	Non CBD Secondary Office	11.00%	12.75%	11.50%	11.65%
	Durban CBD Office	10.50%	13.00%	12.00%	11.88%
	Non CBD Prime Office	10.00%	12.50%	11.25%	11.25%
	Non CBD Secondary Office	12.00%	12.75%	12.50%	12.44%
	Port Elizabeth CBD Office	11.50%	12.50%	11.75%	11.88%
	Non CBD Prime Office	10.00%	13.00%	10.50%	11.10%
	Non CBD Secondary Office	12.00%	13.00%	12.50%	12.50%
	East London CBD Office	11.50%	12.50%	12.00%	12.00%
	Non CBD Prime Office	10.50%	13.00%	11.25%	11.50%
	Non CBD Secondary Office	12.00%	13.00%	12.25%	12.38%
Other CBD Office	10.50%	13.50%	12.50%	12.17%	
Non CBD Prime Office	10.50%	12.75%	12.50%	11.92%	
Non CBD Secondary Office	12.50%	13.50%	12.50%	12.83%	
Industrial	High-Tech Industrial	9.50%	12.00%	10.50%	10.57%
	High Grade Industrial	9.50%	13.00%	10.75%	10.78%
	Low Grade Industrial	11.50%	14.00%	12.50%	12.38%
	Warehousing	10.00%	13.00%	12.00%	11.69%
	Standard Units	10.50%	13.00%	12.00%	11.86%
	Other	9.00%	12.50%	11.50%	11.13%



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Number of Transactions		
	Property Type	TOTAL
Retail	Super Regional Shopping Centre >100,000m2	0
	Regional Shopping Centre: 50-100,000m2	1
	Small Regional Centre: 25-50,000m2	6
	Community Shopping Centre: 12-25,000m2	10
	Neighbourhood Shopping Centre: 5-12,000m2	13
	Local Convenience Centre < 5000m2	13
	Power Centre/Speciality/Warehouse	8
	Stand Alone Retail Unit	6
Office	Johannesburg CBD Office	13
	Non CBD Prime Office	22
	Non CBD Secondary Office	8
	Pretoria CBD Office	0
	Non CBD Prime Office	4
	Non CBD Secondary Office	1
	Cape Town CBD Office	3
	Non CBD Prime Office	0
	Non CBD Secondary Office	5
	Durban CBD Office	0
	Non CBD Prime Office	0
	Non CBD Secondary Office	0
	Port Elizabeth CBD Office	5
	Non CBD Prime Office	3
	Non CBD Secondary Office	0
	East London CBD Office	0
	Non CBD Prime Office	2
	Non CBD Secondary Office	0
Other CBD Office	0	
Non CBD Prime Office	0	
Non CBD Secondary Office	0	
Industrial	High-Tech Industrial	10
	High Grade Industrial	9
	Low Grade Industrial	20
	Warehousing	18
	Standard Units	10
	Other	3

Note:

The min and max fields are simply the minimum and maximum responses in that category. The average calculation took the values given by each respondent and divided them by the number of respondents. The median calculation was similarly performed. Where a range was provided by the respondent, this was recorded as two 'respondents' - one with the smaller value and the other with the larger, so as not to distort the min / max.

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