Welcome to Lightstone's first commercial property update! The information in this newsletter includes analysis of recent market activity and trends in South Africa's commercial property market.

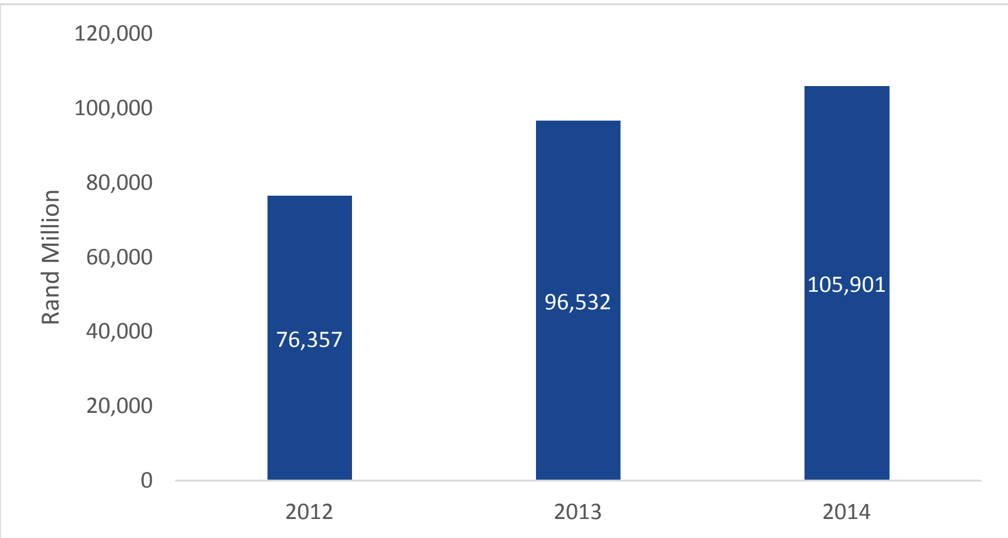
Our focus is on transaction activity and market share data based on transfers and bonded transactions of R5 million or more, as registered with the Deeds Office in South Africa between 2012 and 2014.

Commercial property sector bucks sluggish economic trends June 2015

Research into the local commercial property market reveals some interesting trends. What we find most interesting is the fact that transaction activity in the South African commercial market appears to be on the up, despite the sluggish performance we've seen over a long period of time in local and global economies.

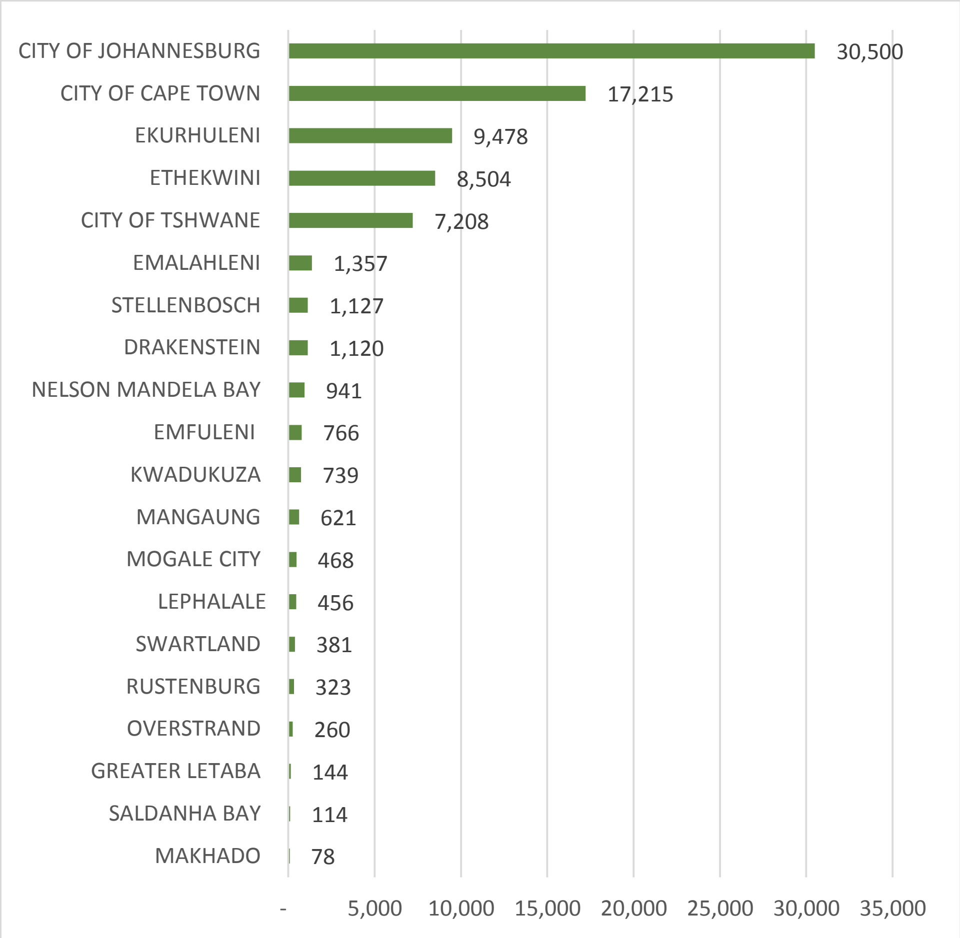
Property owners and stakeholders in the commercial property sector continue to seek investment opportunities, which has led to an uptick in the share prices of listed commercial property companies. We have also seen a steady increase in the volume of transactions carried out in the past few years.

Figure 1: Overall transaction activity (R-million)



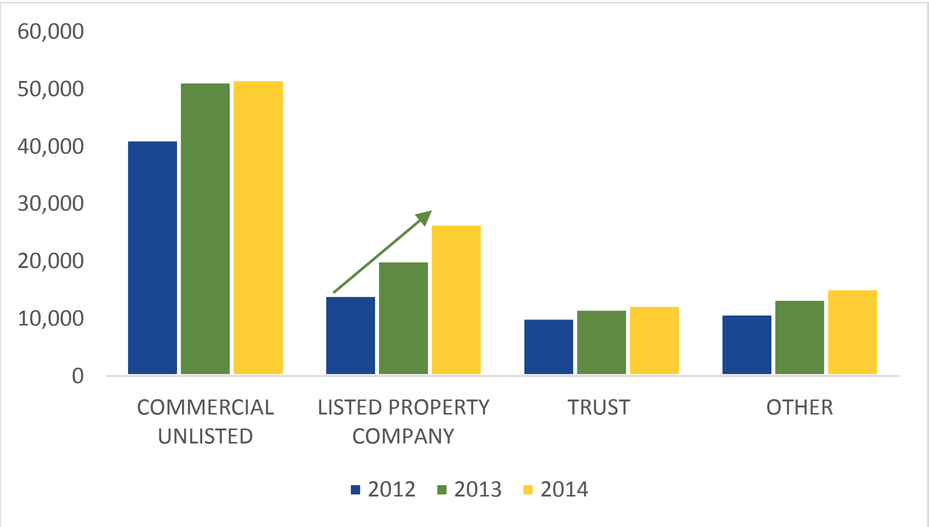
In 2014, transactions in the commercial property space were valued at R105-billion, a 9.7% increase from 2013. The three major metropolitan municipalities in Gauteng – Johannesburg, Ekurhuleni and Tshwane, accounted for 57.7% of 2014's total transaction activity, representing more than R47,2-billion.

Figure 2: Transactions by geographical spread: 2014



Between 2012 and 2014, the share of listed commercial property transactions increased from 18.5% of the total market to 25%, indicating that listed commercial property companies are continuing to aggressively buy income-producing assets in order to increase their investments (as is evident in Figure 3). This trend is signalled by the amount of excess supply the market has welcomed during this period.

Figure 3: Transactions by owner segments



All three segments of the commercial property space – retail, offices and industrial – have seen increased development activity, especially in the office segment where development activity has been particularly noticeable in the Johannesburg suburbs of Rosebank, Sandton, Waterfall and Bryanston, as well as in the Cape Town city centre and nearby Century City. A number of funds have been acquiring existing properties in non-CBD areas for redevelopment and upgrading to better yielding assets in order to address tenants' demands for quality accommodation.

The industrial sector has also seen visible growth, particularly in the Waterfall Estate area and Ekurhuleni in Gauteng. Retail has also benefited somewhat from township retail development activity by a number of funds looking to address the shortage of retail stock in historically disadvantaged townships.

Investors are attracted by the compressing yield in the sector, which according to the South African Property Owners Association (SAPOA), have improved from 10.01 in 2012 to 9.50% in 2014 for the overall commercial property sector*.

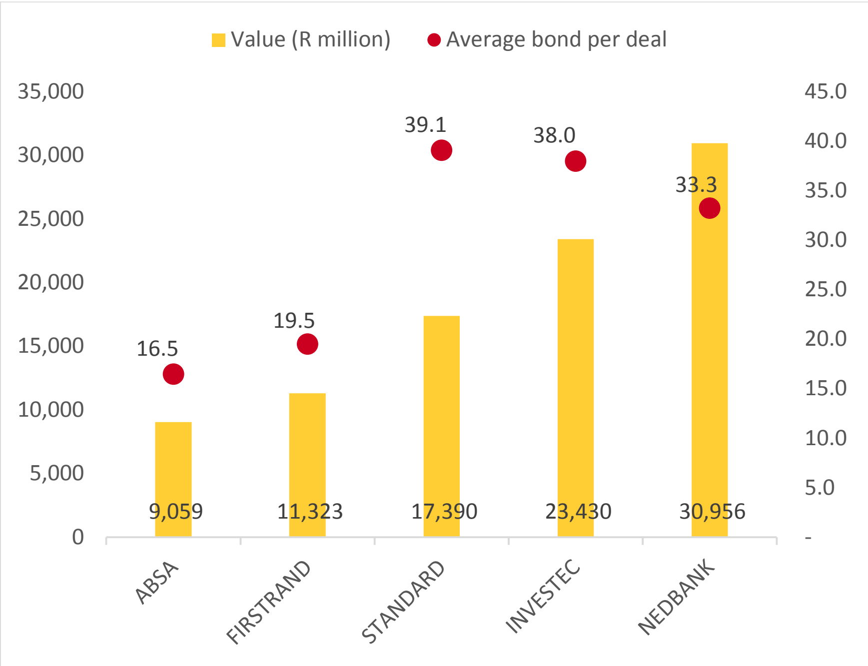
Transaction activity according to owner segments reveal that the majority of transactions are undertaken by the non-listed sector, although the listed sector is fast gaining momentum as indicated by the share of ownership between 2012 and 2014. The listed sector's transaction activity grew by 42.5% in 2013 and 32% in 2014, surpassing the growth rate of the other owner segments.

Market share statistics show interesting trends in the sector. Nedbank remains the leader in the sector, with more than R30,9-billion in bonded properties during this period. Standard Bank and Investec are in second and third spot, with the latter having gained a significant position over this time.

It's interesting to note that Nedbank is positioned as the fourth biggest retail bank overall, but beats its competitors Absa, FNB and Standard Bank in the commercial property segment. Also, Nedbank's average bond per transaction is somewhat lower than that of Standard Bank and Investec. This indicates that Nedbank could be lending on lower-priced assets compared to its competitors.

*SAPOA Capitalisation and Discount Rate Survey

Figure 4: Lending market share analysis



The big take-out for us here is that even in times of sluggish economic performance, commercial property transaction activity seems to carry on thriving, proving that property is a vital asset class in the economy. The good news is that transaction activity is likely to improve, mainly driven by the listed real estate sector as they continue to look for well-performing assets.