

Retail upgrades will kickstart construction industry

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Building professionals in the South African construction sector need little reminding that the development pipeline has shrunk in recent months.

Recently published Stats SA data suggest that the real value of building activity in the residential and commercial property sectors across SA declined by some 24 percent in 2010. During the course of the year residential building activity declined by some 22 percent and the non-residential sector fared worse, with building activity deteriorating by a massive 34.7 percent.

A disaggregation of these figures indicates that construction activity declined at about the same rate in the Western Cape, Gauteng and KwaZulu-Natal.

The square metres of office buildings completed in the Western Cape during the course of 2010 declined by 73.2 percent, and building activity in the retail and industrial sectors declined by 34.1 percent and 44.5 percent respectively. The development of smaller homes seems to have kept up best with building activity declining by a mere 0.2 percent in 2010.

The decline in building activity is being influenced by a number of factors. First, although there is evidence that the average SA household's balance sheet is improving, households are achieving this by carefully managing debt and their mortgage repayments. There is however some risk that a rising inflation rate and significant increases in administered prices will reduce buying power as the year progresses.

In addition, investors and developers are finding it difficult to secure debt financing required to initiate new projects. Commercial property owners are primarily concerned with maintaining existing tenants and are not focusing on increasing existing capacity. Vacancy rates will probably need to decline to below 5 percent before investors and financiers will consider new developments.

Looking forward, it is likely that the next phase of the construction cycle will be initiated by the retail sector. Initially, the focus is on additions to existing developments rather than the development of new ones. This will be followed by the residential and industrial sectors. The office sector will lag while excess space is being mopped up.

StatsSA figures show that the trend in building plans remains strongly negative, so it is unlikely that building activity will rebound strongly in the first half of 2011.



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