South African Property Returns Slow

Johannesburg – March 25, 2015 – MSCI Inc. (NYSE: MSCI), a leading provider of investment decision support tools worldwide, has today released the **IPD South Africa Annual Property Index**, which shows the South African investment property sector delivered an ungeared total return of 12.9% in 2014 - down from 15.9% in 2013.

Income return was steady at 8.7%, however, capital growth slowed to 4.0% from 6.8% the year before, reflecting a more cautious approach among valuers.

The latest **IPD South Africa Property Index**, sponsored by Nedbank Property Finance, is based on asset level data collected from a sample of 1,726 properties covering R264bn capital value at the end of December 2014. This represents around two thirds of professionally managed investment property in South Africa.

Stan Garrun, Executive Director, MSCI, comments, “The latest **IPD South Africa Annual Property Index** reveals modest performance in 2014, with industrial property the best performer. Overall, the results for property are unspectacular, but fundamentals, particularly, rental growth and occupancies were stronger and costs were lower in 2014, than they have been for some time.

He adds, “The headline figures are broadly in line with expectations, given that the commercial property sector is still in recovery mode, with the prospect of absorbing excess market supply in a low-growth environment. While headwinds in the form of constrained electricity supply and rising interest rates remain, most analysts expect economic growth to improve in 2015 on the back of a more supportive global economic environment.”

Direct property performed in line with its reputation as a hybrid asset class, delivering a total return between the MSCI SA Equities Index and bond returns on a 3-year view, at a lower volatility than both the other asset classes.

Property values were buoyed by a combination of a stronger long bond yield and aggressive asset and property management. The focus on active management resulted in an impressive net income growth of 8.1%. This was driven by a lower vacancy rate, a basic rental growth of 6.4% as well as declining operating costs when expressed as a percentage of gross rentals.

Capital value growth has declined in all sectors though still positive at 4% on aggregate. This slower growth reverses the bullish view of the year before, perhaps reflecting a fully priced market especially at the top end.

At a sector level, industrial property was the top performing sector during the year with a total return of 14.1%, outperforming retail at 13.3%. The office sector continued to underperform, in a difficult market, but still managed a respectable 12.1% total return courtesy of a 9.5% income return. The vacancy rate of all three sectors improved during the year, but excess supply in specific segments continue to weigh on base rental growth.

At a property segment level, the top performer for 2014 was small regional centres at 16.2%, driven by improved occupancy and a stronger yield. Non-CBD offices and light manufacturing property counted among the worst performing segments for the year.

Robin Lockhart-Ross, Managing Executive of Nedbank Property Finance said, "As major financiers in the South African commercial property industry, we are encouraged by the overall performance delivered by the investment property sector during 2014 as measured by the IPD index. These results must be seen in the context of the challenging economic backdrop and low growth environment, which has impacted adversely on the annual capital growth shown across all segments, although net income performance has held up well.

"The returns generated by the sector are an affirmation of the attractiveness of commercial property as an investment asset class, as well as an indication of the professional nature with which the South African property industry is managed, yielding positive and sustainable returns for investors."

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About MSCI

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The company's flagship product offerings are: the MSCI indexes with over USD 9.5 trillion estimated to be benchmarked to them on a worldwide basis[1]; Barra multi-asset class factor models, portfolio risk and performance analytics; RiskMetrics multi-asset class market and credit risk analytics; IPD real estate information, indexes and analytics; MSCI ESG (environmental, social and governance) Research screening, analysis and ratings; and FEA valuation models and risk management software for the energy and commodities markets. MSCI is headquartered in New York, with research and commercial offices around the world.

[1] *As of June 30, 2014, as reported on September 30 2014 by eVestment, Morningstar and Bloomberg*

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