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## **PRESS INFORMATION**

### **UPWARD PRESSURE ON BUILDING MATERIALS CONTINUES**

*The Association of Property Unit Trusts (APUT) looks at recent trends in building material costs. The continued upward pressure on building materials is good news for Property Unit Trust holders.*

Anyone involved in building at the moment will be well aware of galloping price increases of building materials and it seems that there will be no respite in the near term. It is beginning to look like 2005 all over again when commercial building cost inflation peaked at 37% year-on-year in the third quarter.

Much of the pricing pressure is a result of good old scarcity and the fundamentals of supply and demand. Commercial space, especially office and industrial space, is in short supply and developers are hard pressed to bring new projects on stream, creating ballooning demand for building materials.

So bad was the trend that in October 2007 the competition commission announced that it was to investigate anti-competitive behaviour in the industry. At the time, an assessment revealed that the price of building and construction materials had risen by 80% over seven years compared to the Producer Price Index rise 60% over the same period. Significantly, cement prices had almost doubled and steel had increased by 120% while brick prices have been lifted by between 10% and 12% each year.

Earlier this month, in releasing the half-year result to 31 March 2008, cement producer PPC, which Barloworld unbundled last year, said that in July it could increase its prices by "several percentage points" more than March's producer price inflation figure of 11,8%. The company has already lifted its cement price by an average of 8.5% in January and the double-digit increase would be in addition to that.

Surging input costs, such as diesel and electricity, are dramatically raising cement production costs and other manufacturers are bound to effect similar price hikes. Diesel has increased by 28% for the year to date and the risk remains firmly on the upside.

Steel has seen several price increases already this year. ArcelorMittal, South Africa's largest steel company, has applied hikes ranging between 9% and 18% for each month at

the beginning of 2008. In May, another hefty hike of between 20% and 22% took place and a further 5% has been set for June. This has brought the total steel price increase for the year to date to an unbelievable 65%.

Although ArcelorMittal has departed from the import parity pricing model and now benchmarks its steel to a basket of international prices, this does not mean that the local market has escaped the global commodity price boom.

With the building industry being buffeted by such dramatically rising costs and high interest rates, it's small wonder that confidence slipped to a five year low. The FNB building confidence index for the first of 2008 slumped by 20 points from a level of 86 in 4Q2007 to 66 in 1Q2008, with the biggest decline coming from retailers of building materials (from 100 to 48).

Looking at the future, John Loos, FNB Property Strategist, notes that: "We should expect high building costs for a good few years and periodic surges in building cost inflation due to input scarcities. This all goes hand in hand with stronger long term economic growth and the big fixed investment boom that this has brought. With a proliferation of construction projects for some years to come, building construction in both residential and commercial will have to compete for certain scarce inputs with civil construction."

"For holders of Property Unit Trusts," says Craig Hallows, spokesperson for the Association of Property Unit Trusts (APUT), there is good news amidst this gloom. "It means that their returns are likely to continue to increase. Existing building values will lift in line with rising replacement costs, while the shortage of buildings will lead to improved rental income."