

PRESS INFORMATION

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Power cuts and PUTs?

It's hard not to have been affected in some way by the power cuts (euphemistically called "load shedding") during the first weeks of 2008. Hardly a day passed without the crisis grabbing headlines, but of great significance is the toll the power crisis is taking on the economy.

Holders of Property Unit Trusts (PUTs) have reason to be happy from an investment point of view, as they are likely to benefit from the situation as they are already property owners. This will not necessarily keep away the cold on winter nights, nor make the showers any warmer, but you may be able to afford that generator you wanted.

John Loos, FNB Home Loans Property Strategist, has identified several ways in which the property markets will be affected by Eskom's emergency.

Firstly, there is the impact on economic growth. Although government officials have been quoted as saying that there will be no adverse effects on the economy due to the shortage of electrical power, many South African economists disagree. The loss of power to the mines in the second half of January 2008 has been estimated at R1.8 billion and the general (non-government) forecast is that economic growth could dip below 3% this year, after exceeding 4% last year.

In 2007, the cost to the South African economy of the generally deteriorating national power supply, and inefficiencies because of poor infrastructure, was estimated to be between a massive R2.9 billion and R8.6 billion for the year. In 2008, the cost is likely to be higher.

Secondly, electricity shortages will exacerbate the supply constraints in the property market. Says Craig Hallowes: "We have often spoken about the supply squeeze currently at force in the market, as demand has galloped ahead of the industry's ability to bring new properties on stream. With new developments now facing difficulties in term of securing power supply, both for the construction of the buildings and then for running of them once constructed, even fewer new projects are likely to be realised."

Loos points out that: “It will be (a) priority to first make sure that existing installations are able to operate relatively free of disruption (i.e. an end to rolling blackouts), and that demand management programmes first free up capacity, before allowing a proliferation of new electricity-guzzling projects.”

Certain areas have already experienced a moratorium on further development, as existing infrastructure is insufficient to cope with the additional burden. Councils have restricted additional rezoning until the required infrastructure is in place and there is now a shortage of zoned land in the country.

“From a commercial property point of view, the problems relate to something that the industry has been warning about for a while: capacity constraints. These constraints relate not only to the obvious electricity crisis, but more significantly to human capacity: in other words, the inability of all municipal bodies and their technical support staff to carry out the necessary work to get zonings and proclamations effected, and to ensure that services are both put in, and then kept working. It is possible then, that should the experience in early 2008 continue for the next few years, the overall impact on the South African economy from all human and infrastructure constraints will be considerably more significant than is estimated at the moment,” says Hallows.

While some municipalities now require new developments to fit solar water heating, the PUT landlords are being proactive on behalf of their existing tenants and shareholders. All options to supply power to their buildings, regardless of power outages, are being explored.

Further evidence of the slowing new commercial property market comes from the FNB Mortgage Market survey which reveals that commercial property is seeing a slowdown in mortgage advances. Significantly, “when one examines loans for vacant land and new building construction, the slowdown appears significantly worse than for loans on existing buildings.” This implies that supply tightness can be expected to continue in the near term.

The tighter the supply, the higher the returns from existing properties as rentals grow more rapidly. As the supply of new developments is expected to be restricted, PUTs are likely to benefit in that they already own income producing properties. In addition, PUTs have well-diversified property portfolios, so outages in one area will have only a relatively minor impact on the overall performance of the PUT. Which means you will be able to read about your positive investment returns from PUTs...by candlelight.

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