

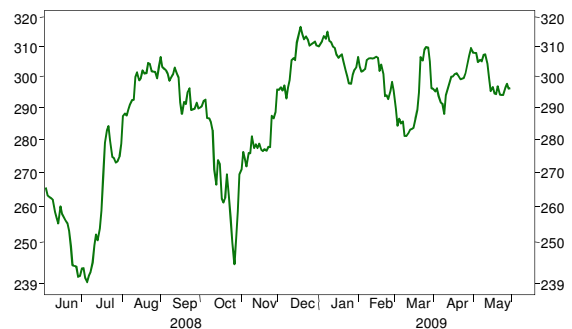
OMIGSA Comment – Len van Niekerk, Sector Head: Listed Property

Listed property offers defensive cash flowalbeit with lower growth



The listed property sector has been range bound so far this year, recording a near flat year-to-date return of -0.4%. It has outperformed the All Bond Index's (ALBI) -4.6% to end-May, but underperformed the FTSE/ JSE All Share Index's (ALSI) 7.4% as "bombed out" equities staged some recovery. The sector may continue to underperform equities if appetite for risk remains, but is also likely to continue outperforming bonds and cash.

FTSE / JSE SA Listed Property Index



Source: INET

The listed property sector is fairly valued and offers defensive cash flows, albeit with lower growth over the next two years (7%-8%) than in the previous two (12%-14%). Market rentals have largely peaked and tenant arrears have increased. Property expenses (especially higher electricity, rates and taxes) are putting pressure on tenants' ability to afford space and landlords' operating margins. While vacancies are expected to rise over the next two years, the slowdown in building completions means that national vacancies are unlikely to rise to the crisis levels of above 12% recorded in 2002, and may top out at 6%-7%. Expiring leases are still below market rentals and continue to provide an uplift to revenue growth.

05 - 11 June 2009 in a nutshell

Global: 'Recovery' remains the main feature in most major global bourses this week, but the mixed signals from the US macroeconomic data are a cause for concern for investors. The S&P 500 in the US was flat at 0.32% while the European stocks and emerging market shares rose marginally, 1.41% and 1.51% respectively.

South Africa: The local market tracked its global peers, with the FTSE/JSE All Share Index ending the week a flat 0.85% on profit taking in the resources sector. The biggest loser was listed property which was down 0.34%, and resources were the winners, ending the week 1.14% higher.

Markets and Economics - Highlights

Global

- US President Barack Obama promised to deliver more than 600 000 jobs through his \$787bn stimulus plan over the next three months, with Federal Agencies pumping billions of dollars into public works projects, schools and northern summer youth programmes.
- The British economy might have contracted at a much sharper rate than previously thought in the first three months of this year after major revisions to construction output figures, said the Office of National Statistics.
- The biggest emerging markets are buying dollars at the fastest pace since before credit markets froze in September, protecting exports even as their leaders consider alternatives to the US currency. Brazil, Russia, India and China increased foreign reserves by more than \$60bn last month to limit currency gains as global recession restricted exports, revealed central bank data.

South Africa

- Factory output plunged a record 21.6% in April compared with the previous April. The fall was worse than expected and highlighted the plight of the economy's second-biggest sector, said Statistics SA.
- Offshore portfolio flows are returning to SA, as global investors recover their risk appetite. According to the Reserve Bank, non-residents bought nearly R4bn worth of shares on a net basis last week. This followed net foreign purchases of R27.3bn through the JSE between February and last month, after net outflows of R675 million in January and R54.4bn last year.
- Business confidence dipped to a new 10-year low in the second quarter of this year, but the fall was modest enough to suggest that the economy's downturn is slowing, the Bureau for Economic Research (BER) said.
- The price of an average three-bedroom house dropped by R35 300 in the year to last month, the steepest fall in 23 years, said a local bank.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 11.06.2009	% Performance Return
United States	S & P 500 (US\$)	0.32%	945	4.65%
Europe	Euro Stoxx 50 (Euro)	1.41%	2,522	2.90%
Emerging Mkts	MSCI Emerg Mkts (US\$)	1.51%	791	39.51%
South Africa	FTSE/JSE All Share (ZAR)	0.85%	23,863	7.20%
Global	MSCI (US\$)	1.12%	997	8.37%
ZAR/Dollar	Rand/US \$ (ZAR)	-0.63%	7.93	-16.79%
ZAR/Pound	Rand/£ (ZAR)	1.94%	13.13	-4.30%
ZAR/Euro	Rand/Euro (ZAR)	-1.24%	11.16	-15.20%
JSE	Industrials	-0.23%	20,986	-2.37%
JSE	Financials	0.85%	15,811	0.20%
JSE	Resources 20	1.14%	43,481	12.91%
JSE	Small Companies	2.75%	24,001	5.68%
JSE	Listed Property	-0.34%	292	-5.81%
JSE	RAFI® ALSI	1.53%	4,697	9.28%
JSE	RAFI® 40	2.11%	4,557	6.92%
JSE	SWIX	0.35%	4,815	5.82%

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