

**OMIGSA Comment – Evan Robins, Sector Head: Listed Property**

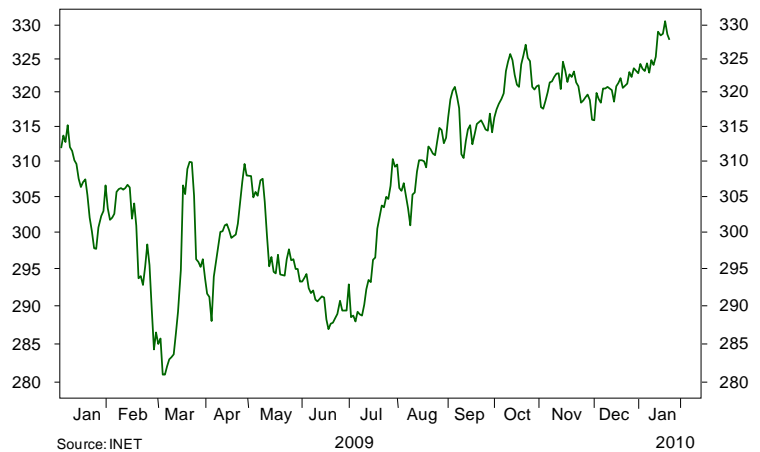
**Listed property remains attractive on a long-term view**

According to FTSE/JSE figurers, SA listed property provided a 14.1% total return in 2009 (4% in the fourth quarter), of which 4% was capital appreciation. This is a robust performance considering the rise in bond yields (which depresses property prices) and a falling distribution growth rate.

The yield on the generic 10-year government bond rose 176 basis points (bps) in 2009 (22bps in the fourth quarter) with the All Bond Index (ALBI) delivering a -1% return (+1% in the fourth quarter), with a 10% capital loss. Compared to bonds,

property now offers substantially less relative value than it did at the beginning of 2009.

**JSE SA Listed Property Index**



The growth rate of listed property distributions in 2009 fell to 7.4% from 11.6% in 2008. This was a sharper deceleration than the market anticipated. Direct property conditions became tougher with higher vacancies rates (on par with our expectations), a struggle to let new developments and softness in market net rentals. General equities outperformed with the FTSE/JSE All Share Index (ALSI) delivering a 32.1% total return (11.4% in the fourth quarter). This could favour property in the event of a pull-back in equities.

The sector is appropriately valued and can sustain positive nominal distribution growth, albeit at a slower rate over the intermediate term. Direct property market news-flow may become more negative (e.g. office vacancies rates are heading for double digits in some markets), higher electricity costs constrain net rental growth and significant new space continues to be released. The optimism implicit in the strength in retailers' share prices is positive for listed property. On a long-term secular view, property remains attractive as existing rents are too far below viability rentals for new developments.

15 - 21 Jan 2010 in a nutshell

**Global:** Most global markets were battered this week, following a flurry of negative economic news from the US and on fears that China might tighten its monetary policy. The S&P 500 in the US shed 2.79% while its European counterpart tumbled 4.25% and emerging market shares plummeted 3.16%.

**South Africa:** The local bourse lost steam this week, on profit-taking and a firmer greenback, putting commodities under pressure. The FTSE/JSE All Share Index sank 2.32% and the winners of the week were financials and Listed Property, which climbed 1.34% and 1.23% respectively.

Markets and Economics - Highlights

**Global**

- The number of US workers filing new applications for unemployment insurance unexpectedly rose last week as claims delayed from the year-end holidays were pushed through. Initial claims for state unemployment benefits rose 36 000 to a seasonally adjusted 482 000 in the week ended January 16, rising for a third straight week, the Labour Department said.

- The eurozone's economic recovery has run into resistance this month, according to data that cast doubt on the pace of growth in the 16-country region. Purchasing managers' indices for this month showed the first overall drop since they started to rebound last February, adding to fears that the robust expansion in economic activity in the second half of last year is not being maintained.
- China beat its target of 8% economic growth comfortably last year and came close to overtaking Japan as the second-biggest economy in the world, even as more signs emerged that inflationary pressures were building. The economy expanded 10.7% y/y in the fourth quarter and 8.7% in 2009, in spite of the global economic crisis.

### South Africa

- Although likely to remain subdued in the opening months of the year, there is a good chance that following the FIFA World Cup economic growth could be surprisingly solid and South Africa could end 2010 with annual GDP growth of over 3% y/y, according to Rian le Roux, chief economist at Old Mutual Investment Group's Economic Research Unit. This is notably above consensus forecasts.
- Retail sales fell more sharply than expected in November 2009, highlighting the plight of embattled consumers and reviving speculation that the Reserve Bank may cut interest rates again this year. Retail sales dived 6.6% from November last year, accelerating from a 6.1% drop in October, Stats SA said.
- Most South African businesses are optimistic about the outlook for this year, expecting a turnaround in the economy sooner than their global counterparts, according to a report released this week by an accounting firm.

#### Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 21.01.2010	% Performance Return
United States	S & P 500 (US\$)	-2.79%	1,116	0.08%
Europe	Euro Stoxx 50 (Euro)	-4.25%	2,863	-3.48%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-3.16%	981	-0.86%
South Africa	FTSE/JSE All Share (ZAR)	-2.32%	27,490	-0.64%
Global	MSCI (US\$)	-3.39%	1,167	-0.09%
ZAR/Dollar	Rand/US \$ (ZAR)	2.72%	7.56	2.30%
ZAR/Pound	Rand/£ (ZAR)	1.66%	12.24	3.20%
ZAR/Euro	Rand/Euro (ZAR)	-0.28%	10.66	1.62%
JSE	Industrials	-0.24%	24,988	-1.02%
JSE	Financials	1.34%	19,756	2.22%
JSE	Resources 20	-5.06%	50,752	-0.65%
JSE	Small Companies	-0.31%	28,126	0.86%
JSE	Listed Property	1.23%	329	1.86%
JSE	RAFI® ALSI	-2.13%	5,755	0.05%
JSE	RAFI® 40	-2.41%	5,590	-0.04%
JSE	SWIX	-1.32%	5,693	-0.73%

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