



OMIGSA Comment – Evan Robins, Sector Head: Listed Property

Listed property recovers in May

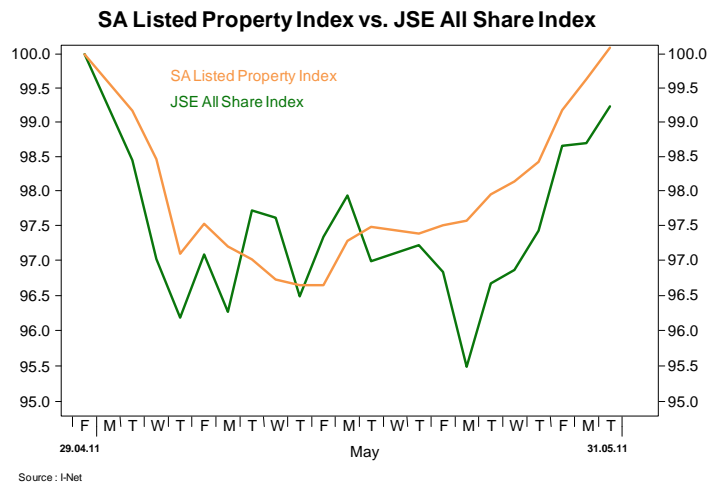


Listed property recovered from weakness early in the month to manage a 0.1% return for May. While this was above the FTSE/JSE All Share Index's -0.8% and general retailers' -2.7%, it was disappointing. This is because the All Bond Index provided a 1.4% return as bond yields fell, while property yields increased. Since higher yields reflect lower prices, this has reversed some of the pricing gains relative to bonds the sector has enjoyed this quarter.

Redefine, Fountainhead and Vukile reported results during the month. Fountainhead and Redefine showed poor distribution growth because of company-specific factors which did not reflect comparable net property income growth. Vukile surprised with a 9% increase in distributions. While its score performance was good, this headline growth was flattered by lumpy non-annuity income.

The Old Mutual SA Quoted Property unit trust supported the new listing in May of an entrepreneurial BEE managed property fund.

The sector offers a one-year forward yield of 8.5%, slightly above the 10-year bond yield, and distribution growth around inflation. Downside operational risk has declined and funding conditions are easier. Commercial building plans passed have fallen materially, which will facilitate rental increases in the recovery. A genuine recovery in property conditions may take longer than many anticipate, with higher electricity and rate costs constraining net rental growth, and over-rentals possibly developing in time (a key concern). Large capital raisings may constrain prices. The direct commercial property market remains resilient. On a long-term secular view, property is attractive, as existing rents are below feasibility rentals for new developments.



17 – 23 June 2011 in a nutshell

Global: Global stocks were a mixed bag this week on the back of new developments in the Eurozone, which largely impacted the dollar and consequently emerging markets and currencies. The S&P 500 rose 1.3%, while its European counterpart remained stagnant and emerging market stocks slid 0.2%.

South Africa: The FTSE/JSE All Share Index ended lower for the fourth consecutive week, falling 2.2% amid Eurozone concerns. The biggest loser was resources, which slid 2.9%, largely due to dollar strength this week.

Markets and Economics – Highlights

Global

- The Federal Reserve Board, in its report of the US economy, downgraded its projections for growth of the US gross domestic product to between 2.7% and 2.9% and ratcheted up its estimates for unemployment for both 2011 and 2012. Economists believe that a sustained growth rate above 3% is necessary to reduce unemployment. Meanwhile, following the central bank's suggestion of no additional stimulus and no change to its benchmark interest rate, the US currency climbed against all 16 of its peers.
- International lenders approved a five-year austerity plan for Greece which will pave the way for \$16.7 billion in further aid by early July and provide the basis for a second rescue package backed by the EU and the International Monetary Fund. On confirmation of the Greek deal, the Euro bounced against the dollar, Wall Street reversed its sharp selloff and emerging market currencies, including the rand were hard hit. Meanwhile, the Greek parliament must enact spending cuts, tax hikes and a selloff of state assets to secure aid and avoid a default in mid-July.
- Brazil's unemployment rate in six of its largest cities was unchanged at 6.4% in May, forcing the Brazilian Central Bank to continue raising interest rates to help manage inflation. Four consecutive interest rate hikes have been implemented this year in order to restrict domestic demand and rein in consumer access to credit. Interest rates now stand at 12.3%, the highest of the world's major economies, while inflation was running at an annual rate of 6.6% through mid-June, above the target range of approximately 4.5%.


South Africa

- Consumer inflation in May reached 4.6%, compared to 4.2% in April. Food prices, with a weighting of nearly 15% in the consumer price basket, rose 6.3% year on year. Electricity prices rose more than 19% year on year. Inflation is forecast to reach the upper limit of its target range in the final quarter of 2011 and to peak at 6.3% in the first quarter of 2011 before returning to within the target range by the second quarter. An immediate rate hike is not expected, but economists predict the earliest to be in the first quarter of 2012.
- Sparked by the stronger US dollar, the rand fell to a one-week low against the US currency on Thursday, tumbling to R6.89 the day before on global risk aversion before recovering somewhat.
- Worries about the Eurozone, South Africa's largest trading partner, have helped push the country's benchmark Top-40 index down about 4% so far this year. Despite this, the country's economy registered a strong quarterly performance of 4.8% in the first quarter, compared to 4.5% in the previous quarter. According to a Reuters poll, South African blue-chip stocks look likely to rise 13% by the end of this year, helped by strong commodity prices and solid corporate earnings.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 23.06.2011	% Performance Return
United States	S & P 500 (US\$)	1.26%	1,284	2.07%
Europe	Euro Stoxx 50 (Euro)	0.00%	2,731	-2.22%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-0.18%	1,105	-4.00%
South Africa	FTSE/JSE All Share (ZAR)	-2.17%	30, 327	-5.58%
Global	MSCI (US\$)	0.63%	1,282	0.16%
ZAR/Dollar	Rand/US \$ (ZAR)	-0.15%	6.83	3.33%
ZAR/Pound	Rand/£ (ZAR)	-0.91%	10.93	6.01%
ZAR/Euro	Rand/Euro (ZAR)	0.41%	9.74	10.18%
JSE	Industrials	-1.72%	27,076	-10.96%
JSE	Financials	-1.57%	20,852	-3.67%
JSE	Resources 20	-2.85%	50,724	-9.91%
JSE	Small Companies	-0.50%	31,823	-5.63%
JSE	Listed Property	-1.04%	380	-1.81%
JSE	RAFI® 40	-2.35%	6,311	-5.17%
JSE	RAFI® ALSI	-2.25%	6,094	-5.77%
JSE	SWIX	-1.98%	6,395	-5.17%

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