

ANNEXURE A INDUSTRIAL MARKET OVERVIEW

1. INDUSTRIAL MARKET OVERVIEW / INDICATORS

- ✓ Industrial rentals in the larger conurbations sustained their robust growth momentum during the first quarter of 2008.
- ✓ Nominal rentals for prime industrial space in the Central Witwatersrand were up by an impressive 27% on a year earlier, followed by the Cape Peninsula (+24%), Durban (+22%) and Port Elizabeth (+14%).
- ✓ In addition, building-cost inflation (as measured by the BER BCI) is expected to have grown by 20% over the same period, translating into *real*-rental growth in all of these industrial areas, barring Port Elizabeth.
- ✓ Over the past few years, robust industrial rental growth has not only been supported by high replacement costs but also the robust demand for industrial space, on the back of strong economic growth.
- ✓ More recently, however, economic prospects have started to weaken with key economic indicators, such as vehicle sales, retail sales and manufacturing production foretelling the possibility of an economic slowdown.
- ✓ This, of course, does not bode well for rental growth from the demand side, should a contracting economy lead to waning in demand for industrial space.
- ✓ **Table 1** considers the performance of industrial rentals relative to the previous 10-, 5- and one-year periods. The reader will note that we are currently seeing a strong revival in industrial rentals, following a weak rental performance over the last 10 years.
- ✓ In **Table 2**, we examine pioneer industrial rentals, which provide a quick-and dirty prognosis of the short-term direction of industrial rentals. These rentals suggest that there is still a great upside potential for industrial-rental growth.

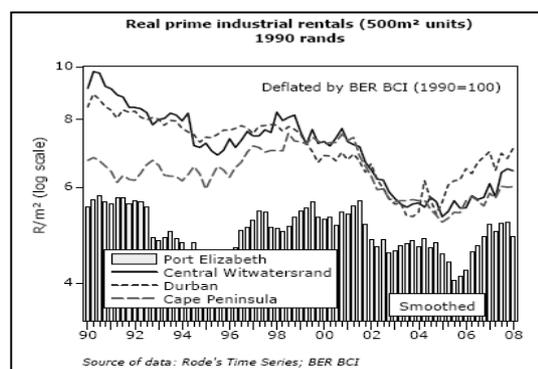
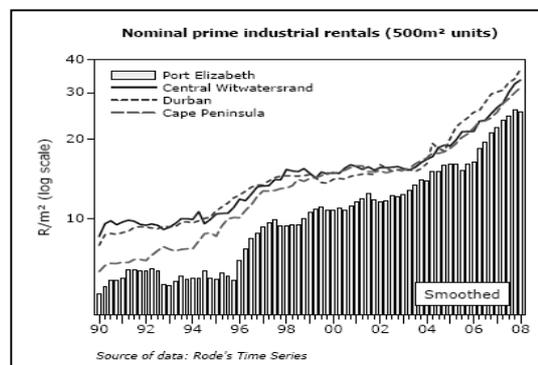


Table 1: Nominal Prime industrial rental growth (%) for 500m² units (% annual compound growth on smoothed data) – 2008:Q1

	Last 10 Years	Last 5 Years	Last Year
Central Wits	8.6	17.6	27.0
East Rand	10.5	16.8	28.0
Durban	11.7	21.2	21.9
Cape Peninsula	8.5	15.8	23.6
Port Elizabeth	11.0	16.2	14.3

Source: Demacon, 2009

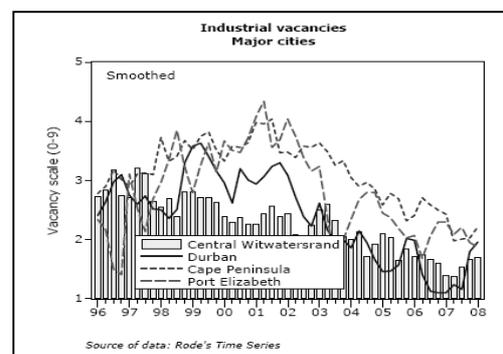
Table 2: Pioneer Rental Rates for new, state-of-the art industrial developments during quarter 2008:01 – Highest gross rental rates achieved (2 500m² units) – Rands per rentable square m² (excl Vat)

	Pioneer	Normal Prime
Central Witwatersrand	60.0	30.7
West Rand	55.0	26.6
East Rand	55.0	30.6
Vereeniging	38.0	27.2
Pretoria	45.0	25.7
Polokwane	30.0	13.0
Nelspruit	42.0	27.3
Durban	55.0	35.6
Newcastle	15.0	7.33
Cape peninsula	54.0	26.9
George	25.0	18.0
Port Elizabeth	50.0	19.9
Bloemfontein	25.0	13.8

Source: Demacon, 2009

Industrial vacancies

- ✓ Industrial vacancies in all of the major industrial regions, barring Port Elizabeth, pointed north during the reporting quarter.
- ✓ Notwithstanding this, on the Rode industrial vacancy scale, all of the larger industrial regions still had vacancy factors of about 2, which we interpret as a vacancy percentage of roughly 3,5%.



It is important to understand that vacancy figures are not actual vacancy percentages, but rather graduation on a 0-9 vacancy scale. Furthermore, the vacancies are for all the unit sizes combined.

0	1 2 3	4 5 6	7 8 9
Nil	Low	Medium	High

where: low = <10% vacancy;
medium = 10% - 20% vacancy;
high = >20% vacancy.

Industrial Rentals and vacancy figures

Table 3 indicates the mean prime industrial market rentals for the various industrial nodes within South Africa for 2008:Q1.

Table 3: Mean Prime Industrial Market Rentals, 2008:Q1 (R/m² gross lease, excl VAT)

	250m ²	500m ²	1000m ²	2500m ²	5000m ²	Vacancy
Central Witwatersrand	34.3	33.8	32.1	30.7	29.1	1.7
West Rand	32.7	31.6	27.4	26.6	25.1	1.4
East Rand	34.1	32.8	31.9	30.6	30.6	1.3
Pretoria	32.7	31.3	28.2	25.7	23.2	1.7
Polokwane	24.8	20.8	16.5	13.0	0.0	1.0
Nelspruit	34.5	33.3	30.5	27.3	25.0	3.0

	250m ²	500m ²	1000m ²	2500m ²	5000m ²	Vacancy
Durban	39.6	38.1	36.8	35.6	35.6	1.9
Cape Peninsula	33.6	31.6	29.8	26.9	25.4	2.3
Port Elizabeth	26.2	24.9	22.1	19.9	19.5	1.9
Bloemfontein	23.9	19.8	15.9	13.8	12.4	3.9

- ✓ Mean Rentals varies as follows for the different sized industrial floor areas:
 - 250m²: R23.9/m² to R39.6/m²
 - 500m²: R19.8/m² to R38.1/m²
 - 1 000m²: R15.9/m² to R36.8/m²
 - 2 500m²: R13.8/m² to R35.6/m²
 - 5 000m²: R12.4/m² to R35.6/m².
- ✓ Industrial vacancies in these nodes also varied between 1.0 and 3.9 (refer to scale described above).

Stand Values

- ✓ Although still growing phenomenally, industrial stand values took a breather of sorts from the vigorous, in some cases triple-digit, growth rates recorded in the previous two quarters.
- ✓ In the reporting quarter, industrial stand values in Durban (+69%), the Central Witwatersrand (+62%), the Cape Peninsula (+49%) and Port Elizabeth (+16%) were all still notably up on the same period a year earlier.
- ✓ In addition, building-cost inflation (as measured by the BER Building Cost Index) is expected to have been 20%, meaning ultra-strong *real*-rental growth in all of these areas, except Port Elizabeth.
- ✓ Naturally, the party is not over, because the Eskom moratorium on new electricity certificates will inevitably make existing, serviced stands the target for a gold rush by desperate industrialists and speculators.
- ✓ Furthermore, as the accompanying graph indicates, the values of serviced land, zoned for industrial use, are still strongly geared by industrial rentals with a 1% increase in market rentals leading to an approximate 1,7% increase in stand values.
- ✓ The reason for this is that land is a residual item in the so-called residual-land-valuation model used by developers and valuers. The effect of this approach is that, in the absence of major building-cost inflation, growth in market rentals will lead to an exponential increase in stand values — i.e. rising rentals have a leveraging effect on land values.

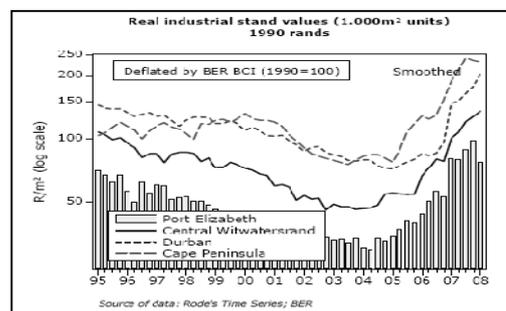
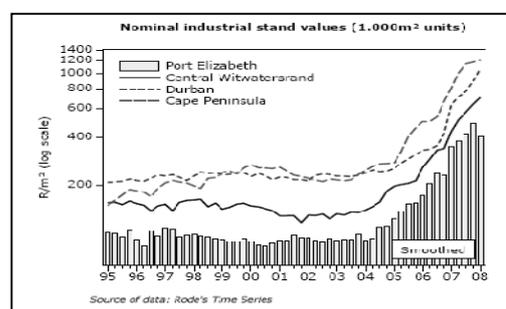


Table 4: Mean Market Values of Nominal Industrial Stands of 1 000m² (R/m² – smoothed)

	1998:01	2003:01	2007:01	2008:01
Central Witwatersrand	163	131	512	703
East Rand	131	115	470	705
Durban	241	226	714	1 068
Cape Peninsula	190	212	1 014	1 210

Port Elizabeth	97	92	378	403
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Mean Market Values for 1 000m² industrial stands experienced positive growth compared to previous years.

Table 5: Mean Market Values for Services and Level Industrial Stands, 2008:Q1 (R/m² excl Vat)

	1 000m ²	2 000m ²	5 000m ²	10 000m ²
Central Witwatersrand	722	739	722	673
West Rand	573	548	510	446
East Rand	714	672	639	587
Pretoria	588	579	543	501
Polokwane	209	199	243	0
Nelspruit	667	675	563	475
Durban	1 127	1 150	1 143	1 142
Cape Peninsula	1 223	1 144	992	920
Port Elizabeth	358	346	300	292
Bloemfontein	274	234	226	188

Source: Rode, 2009

- ✓ Mean market values for industrial stands of various sizes varied as follows:
 - 1 000m²: R274/m² to R1 223/m²
 - 2 000m²: R234/m² to R1 150/m²
 - 5 000m²: R226/m² to R1 143/m²
 - 10 000m²: R188/m² to R1 142/m².

Operating Expenses

Table 6 indicates the operating expenses underlying industrial floor space in the market.

Table 6: Operating Expenses for industrial buildings (Rand/m²/month), 2008:Q1

	Stand Alone Buildings	Industrial Park
Central Witwatersrand	5.6	6.8
West Rand	5.8	7.0
East Rand	4.6	5.6
Pretoria	5.0	6.5
Polokwane	6.5	N/A
Nelspruit	3.7	4.5
Durban	7.8	8.0
Cape Peninsula	5.5	6.6
Bloemfontein	3.0	3.5

Source: Rode, 2009

It is evident that operating expenses in general is higher within Industrial Parks than Stand Alone Buildings. Operating Costs pertaining to stand alone buildings varied between R3.0/m² to R7.8/m². Operating Costs pertaining to industrial parks varied between R3.5/m² and R8.0/m².

2. INDUSTRIAL MARKET TRENDS

Logistics efficiencies are becoming an ever increasing component of the SA Industrial market representing an area where savings can accrue. This arises out of a shifting focus from production to “moving” goods and one which SA can benefit from in terms of the exchange rate and geographical distance.

The retail sector is contributing to the robust performance of a particular sector within industrial property – namely warehousing and distribution facilities. In turn, the distribution and warehousing companies have growing demand for ever larger facilities, which is set to fundamentally change the way industrial property is marketed and leased. Various large property companies are specializing in the roll-out of distribution parks – generally offering a range of warehousing and factory space within prime and well located nodes.

Demand for industrial real estate in good locations (most notably in the main urban areas) continues to outstrip supply throughout SA's primary and secondary industrial nodes. This demand is largely driven by developers and investors who are competing to satisfy growing tenant demand.

Over the past 24 months, upward pressure on land prices has been significant. The increase can be ascribed to strong consumer demand, a shortage of zoned industrial land and in some cases the inability to supply electricity or other municipal infrastructure quickly enough. Not enough land is coming to the market - the existing supply is full.

Throughout the country the same trends in land prices have been experienced and a few deals have been concluded at prices of between R700/m² and R1 000/m² for the best locations. Higher rentals follow higher land prices and are further compounded by rapidly increasing building costs. Net asking rentals for new prime developments have reached about R45/m² net for warehouse accommodation.

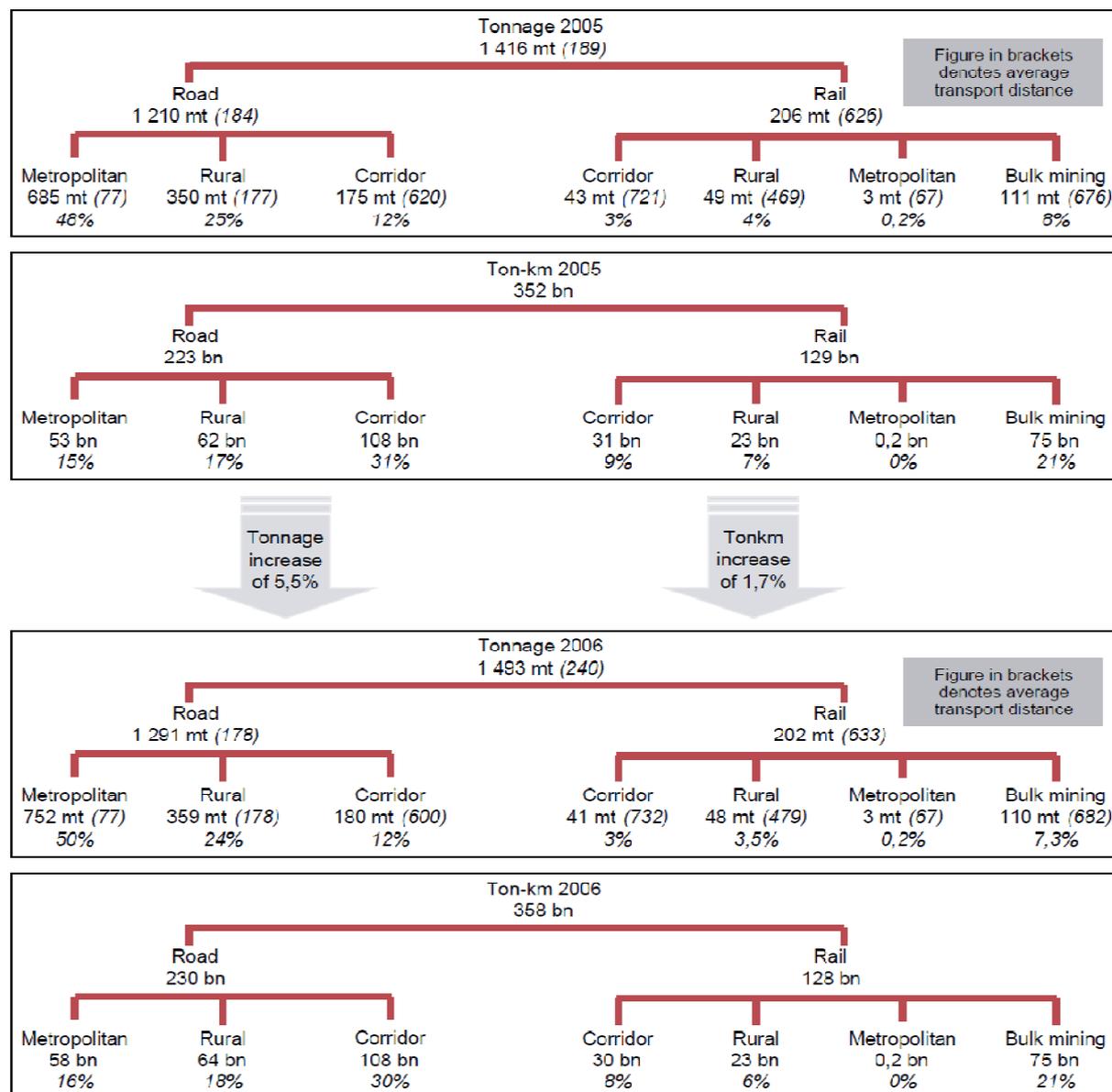
The sector has been boosted by positive manufacturing production, and though some specific subsectors such as the textile industry have been affected by foreign-exchange dynamics, the general industrial market has been thriving.

The International Property Database (IPD) confirms that capitalisation rates have declined and property values and rentals have been improving in both the new and the older industrial nodes.

✓ Trends in Warehouse and Logistics Market

In order to clarify the importance of freight transport in South Africa and more so for the Saldanha Bay area a brief description is given for land freight. Total land transport in the South African economy in 2006 amounted to 1.5 billion tons shipped. The split between road and rail, and changes from 2005, are shown in **Figure 1**.

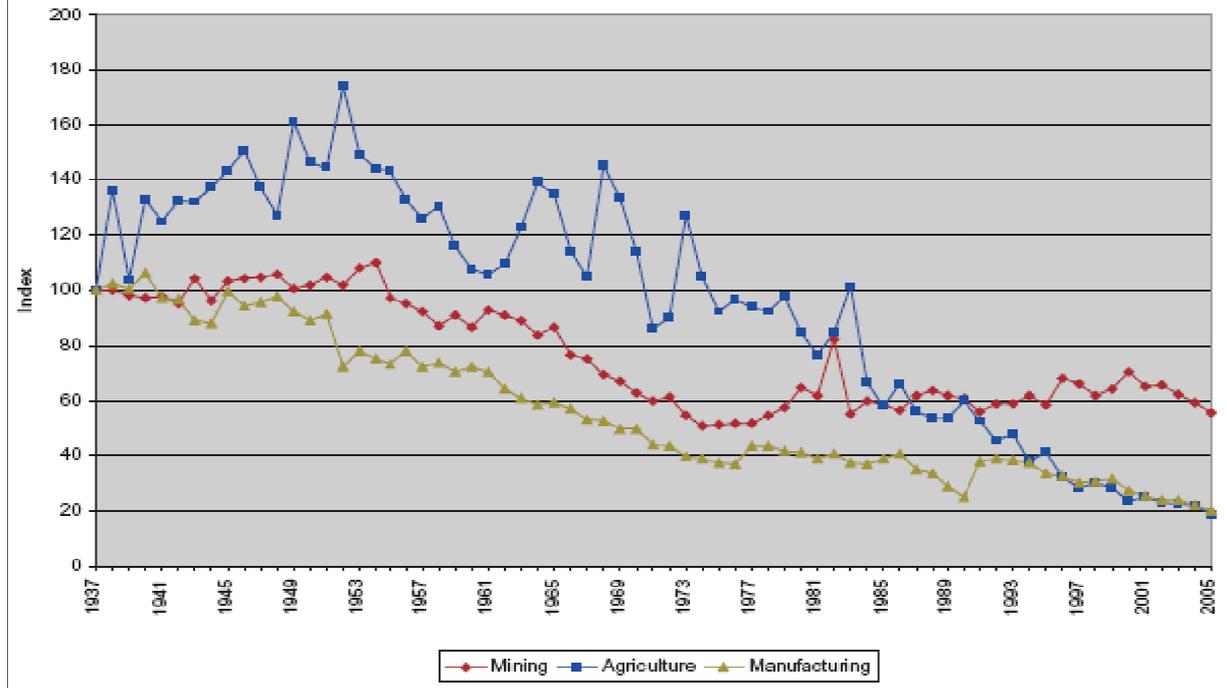
Figure 1 Land Freight transport in South Africa (percentages denote share of total tonnage and ton-km, respectively).



Source: Logistics Survey, 2007

Figure 2 shows the relationship between rail freight and production in the national economy in 2006.

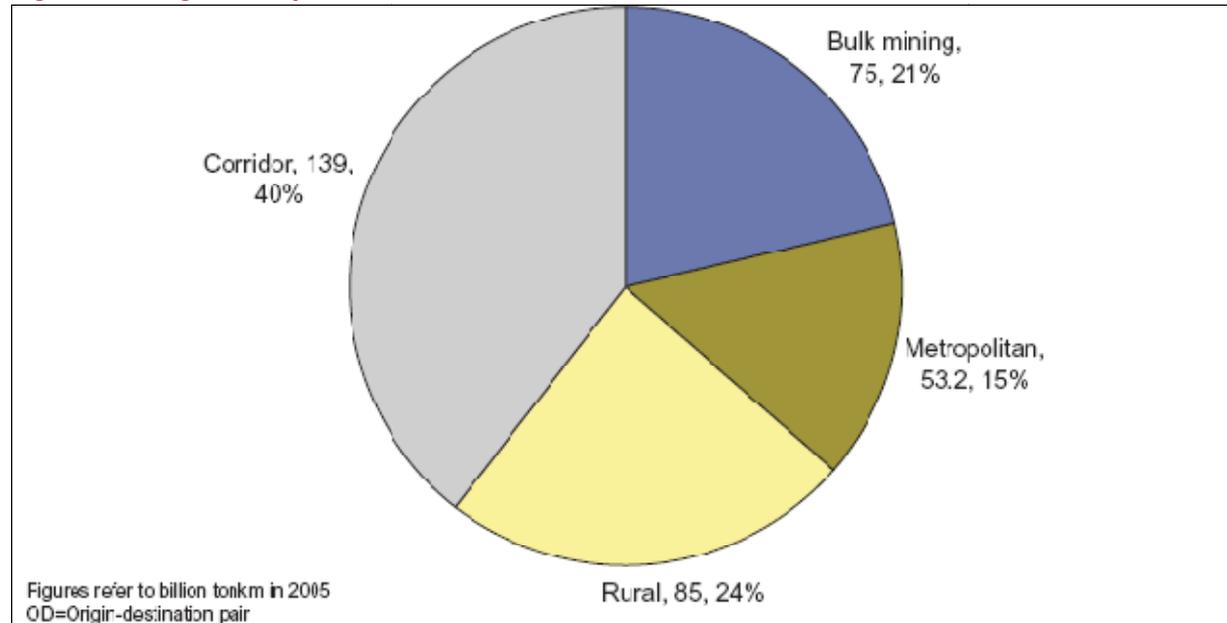
Figure 2: Relationship between rail transport and physical production in the economy



Source: State of Logistics Survey, 2006

Figure 2 clearly illustrate the decrease in the number of goods that are being transported by rail in relation to the volumes of the produced goods. The importance of rail as a transportation medium has decreased dramatically over the past two decades. **Figure 3** shows the importance of corridor movements.

Figure 3: Freight transport demand in South Africa

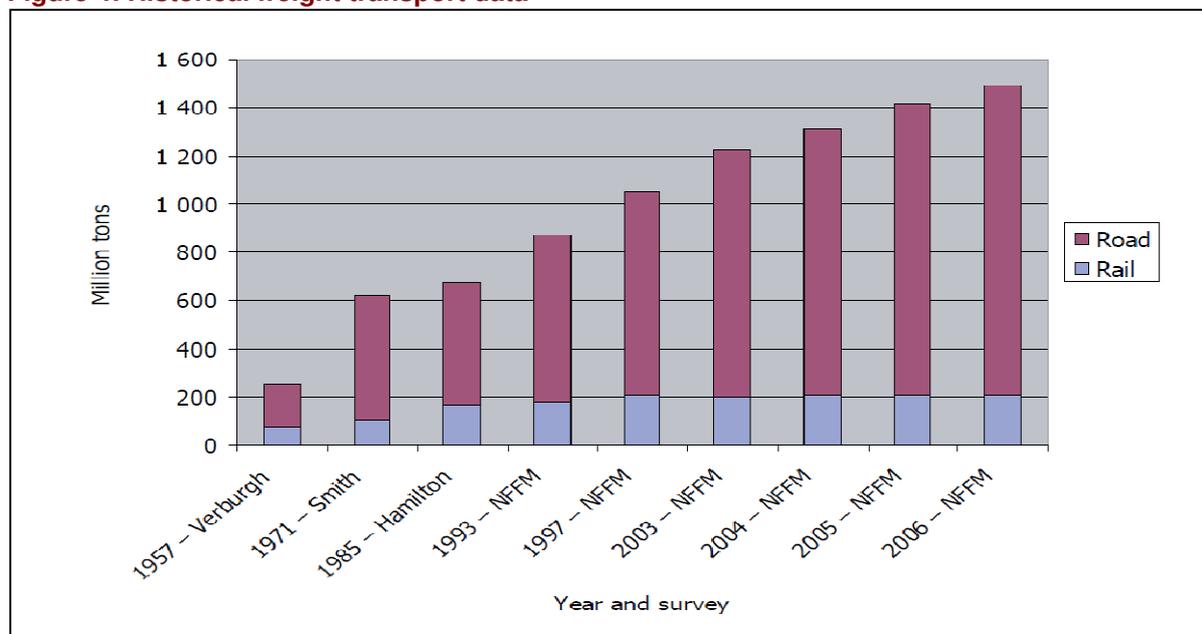


Source: State of Logistics Survey, 2006

Figure 3 shows the important role that corridors play within the freight sector in South Africa. It is therefore paramount that the routes accessed by the freight companies provide in certain needs of the different modes.

As reported in previous surveys, all growth is still captured by road. The core modal structure of South African transport has not changed and the challenges that arise from this structure are still valid. These identified challenges include the inordinate volume of road freight on corridors, which requires sustained road infrastructure investment in these corridors, thereby limiting funds for rural road infrastructure development. Historical data for freight shipped in South Africa are reflected in this survey in **Figure 4**.

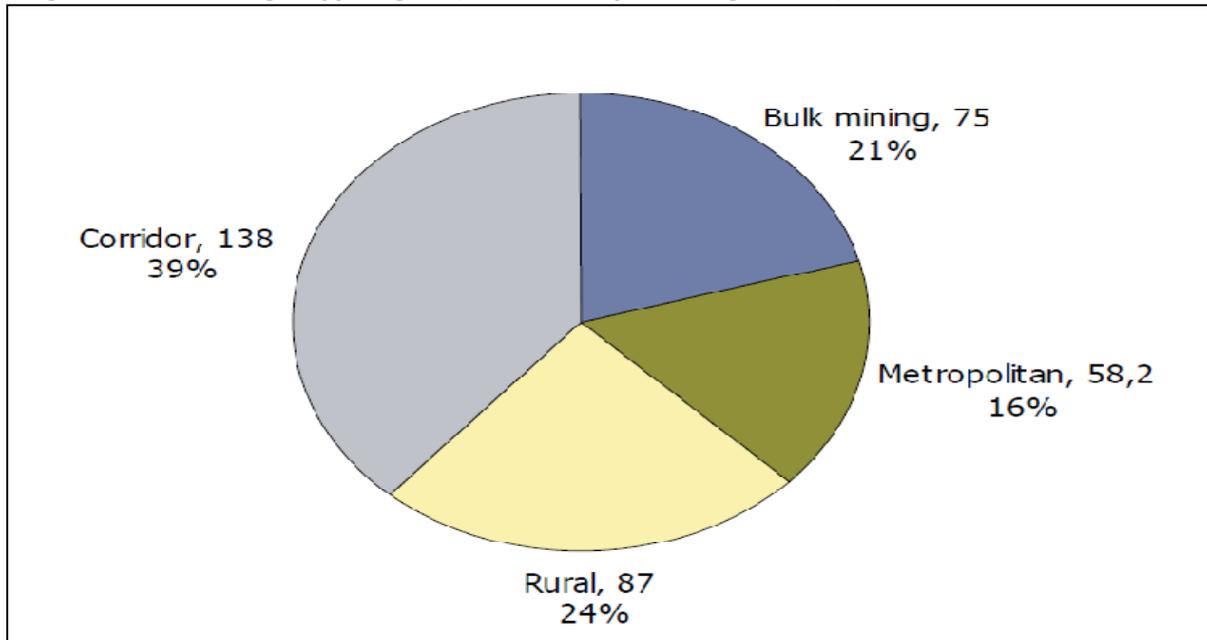
Figure 4: Historical freight transport data



Source: State of Logistics Survey, 2007

Figure 4 - The data for 1957 to 1985 are based on sporadic surveys by Verburgh, Smith and Hamilton and the data from 1993 to 2006 on the application of the national freight flow model (NFFM) methodology to data from these years. The need for modal restructuring is clearly illustrated. The same methodology was also applied to the four typologies of transport, i.e. corridor, bulk mining, rural and metropolitan traffic. The total ton-km distribution for 2006 between the four typologies is illustrated in **Figure 5**.

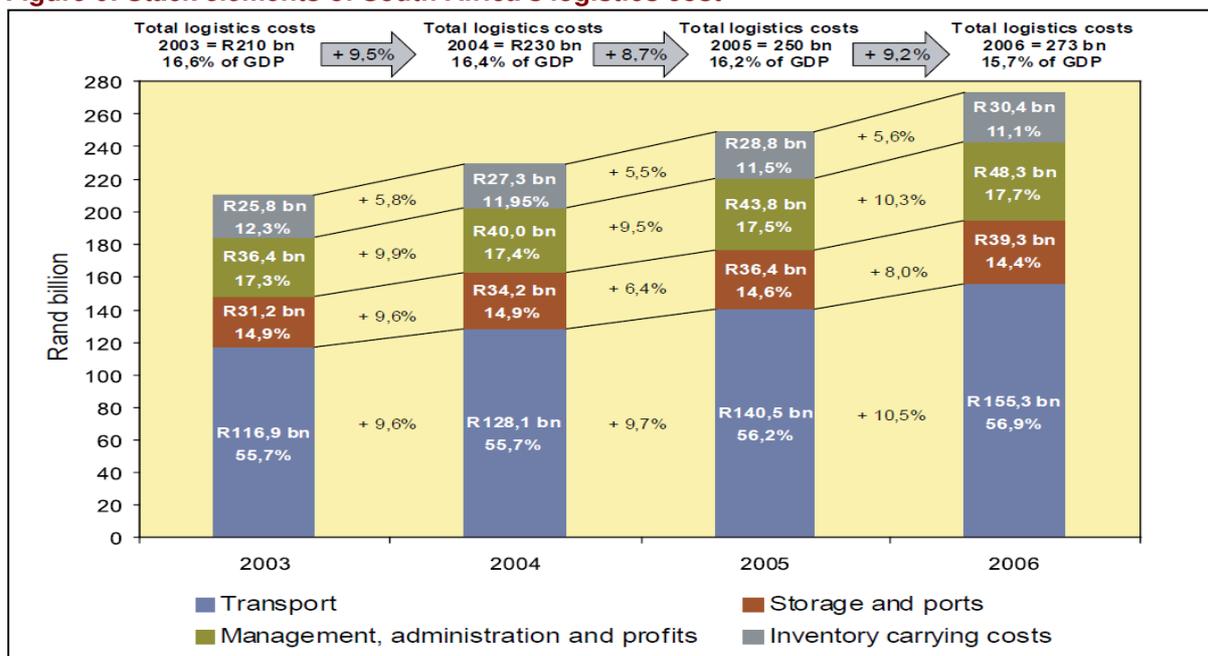
Figure 5: Freight typologies (ton-km and percentage share)



Source: State of Logistics Survey, 2007

Logistics costs in South Africa amounted to R273 billion in 2006. It is unlikely that the downward trend in logistics costs since 2003 could be ascribed to improvements in the structural efficiency of the logistics system. It is far more likely that logistics operators are better able to utilise available spare capacity in an environment where the GDP has increased substantially. Logistics costs will have to be tracked over a much longer period to draw any definite conclusions in this regard. Improvements in the structural efficiency of the logistics system will also show up only over a much longer timeframe. Figure 6 shows the stack element of South Africa’s logistics cost.

Figure 6: Stack elements of South Africa’s logistics cost



Source: State of Logistics Survey, 2007

The stack elements of logistics costs are depicted in **Figure 6**. Logistics cost increased by 9.2% between 2005 and 2006. The contribution of the stack elements to logistics costs remained relatively unchanged. However, the increase in the transport sector's contribution (predicted in earlier surveys) is clear. The transport sector is more susceptible to 'administered' prices (costs elements outside the control of logistics managers), and the poor configuration and management of South Africa's freight network will continue to drive this trend (*Logistics Survey, 2007*).

It is evident from **Figure 6** that transport cost is the major contributor to freight cost and for this reason location close to National roads and on route to markets will be the optimum location for logistics hub and warehouses.

Findings

- ✓ In terms of the Saldanha Bay Municipal area an extensive transport network is in place, including roads, railways, air links and the port.
- ✓ The Port of Saldanha is the only iron-ore handling port in South Africa and is managed by Transnet National Ports Authority.
- ✓ Various roads lead to the Saldanha Bay Municipal area, such as the R45 (between Malmesbury and Saldanha), the R27 (coastal route between Cape Town and Saldanha) and there is a number of railway lines connections (all freight).
- ✓ The airport is not currently being used to its full potential and could be further developed into a cargo / passenger airport.
- ✓ The major goods moving to and from the Saldanha Municipal area is mineral products (ores, slag, ash), base metals & articles (iron and steel, aluminium, tools), machinery & mechanical appliances (boilers and nuclear reactors) and vegetables (fruit, nut, oil seeds etc.).
- ✓ Transport cost is usually the most expensive cost for freight, followed by management and administration cost and then storage and port cost.