



PE PROPERTY BUZZ

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Hi from Ian



I recently had the pleasure of attending a talk sponsored by Greyvensteins Attorneys in which award-winning investigative journalist **Debora Patta** was the guest speaker. From the moment she started talking, Debora, who heads up

3rd Degree on e.tv, had my attention as she chatted about current events and her reasons for loving South Africa (note: she's Italian by birth). Interesting stuff coming from someone who, in her 21 year journalism career, has seen a lot of the dark side of humanity but who nevertheless believes that **the good in SA far outweighs the bad**. Early on into her talk, she brought up Eugene Terre 'Blanche's murder, adding that contrary to the belief of many, SA is not on the verge of a race war and that the extreme right does not represent the true Afrikaner "who voted overwhelmingly for reform in the 90s". (She also noted that the majority of black people are embarrassed and appalled by Julius Malema's behaviour—and that he doesn't hate white people but has too much power, especially in light of how young he is. And that ET was the first person ever to walk out of one of her interviews, after she began asking questions about Jani Allen!)

In her opinion, SA's most critical problems include poor service delivery and the fact that the majority of black people are still outside the economy. She also believes that Malema is not the big issue: rather it's Zuma's failure to crack down on him, as a result of which he's increasingly being viewed as a "lame duck president". There's a big fight going on in the ANC right now, she told—a **succession debate** as a result of Zuma's coming to power on a lot of IOUs.

As for why she's **passionate about SA**: it has one of the world's most free presses; it creates heroes in the unlikely places (Nkosi Johnson being one); it is a compassionate nation with unsung heroes everywhere; among its most noble characteristics is perseverance; it's **an entrepreneurial country where anything is possible**; a land that breeds remarkable children and a place where the potential for greatness is high. I agree.

To this I must add that **South African property still represents incredibly good value for money**: the Global Real Estate Guide ranked South Africa (Cape Town) number 78 on its 2009 list of the world's most expensive property markets. (FYI the UK was 3rd and the USA 6th.) So, if you have any queries or are looking for sound real estate advice, please give me a call on **083 650 2913**.

Until next month... ciao ciao!

Issue 4, April 2010

In this issue:

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Challenges ...



By Cees Bruggemans, Chief Economist FNB

We all face challenges daily. Getting up in the morning. Getting ship-shape. Hitting the traffic. Facing the music. Watching television without going to sleep.

Over and over again.

What waits far over the horizon, like massive Highveld thunderstorms, are challenges far more intimidating in a league of their own. These are potential challenges that could sink us.

It used to be that we faced a population explosion, but a further doubling of our present population was eventually deflected by events.

[Read more ...](#)

Interest rates to stay the same — Reserve Bank governor Gill Marcus



By Mariam Isa and Business Day Online (22 April 2010)

Reserve Bank governor Gill Marcus said interest rates will remain the same in the foreseeable future. She was addressing a conference hosted by the Bureau for Economic Research in Johannesburg today.

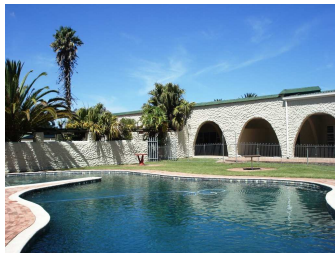
However Marcus said the bank will be keeping a close eye on interest rates.

That's after the International Monetary Fund revised its forecast for South African economic growth this year saying growth would increase.

But the IMF also warned the recovery will be "tempered" by high unemployment, tight credit and

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Gregdale Estate—Wilderness

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The world only recently faced a massive financial implosion, but it also was made to go away, mostly through quick policy responses globally. One wonders whether what looms can be as easily deflected.

The two big events ahead are energy transformation and climate change (nowadays very much interconnected), with all kinds of consequences.

South Africa has coal resources for at least another century of carbon-based electricity generation, indeed potentially so for a couple of centuries.

So whether we want to grow at 3.5% annually (our historic trend), doubling national income in real terms every 20 years (and 32-fold in a century) or at 7% annually (doubling every decade and 32-fold in half a century), it doesn't supposedly matter. Energy-wise it is possible, physically, until you start focusing on the small print.

Given what we have experienced this past decade, and will likely experience this next decade, one really wonders what's coming.

For instance, a doubling of national income these next twenty years (3.5% annual growth), and assuming the same electricity intensity (not quite likely, with real prices doubling shortly), we would have to double our existing electricity generating capacity (40 000mw) by 2030 (and at the latest by 2040 if electricity consumption grows by only 2.5%, some one-third slower than GDP).

That would be eight fully-grown Medupi power stations of 4800mw each, together costing at least R1-1.2 trillion in today's money, with one power station fully coming on stream every three or four years.

Doesn't sound impossible, especially if you can line them up in a row, achieving economies of scale and greatly increased local content (as we used to do it, in the 1970s and 1980s), also keeping building costs contained.

The world, however, has a survival agenda of its own in terms of climatic change, and coal-based power stations aren't part of it, especially if build in emerging competitors with little bargaining power.

China and India are now big enough to fall outside this minor league, but South Africa may not be unless it could deprive the world of something only it can mainly supply (platinum?), but that doesn't sound particularly promising either as we need the export proceeds.

This reality points to two immediate problems.

Firstly, although our civil engineering industry this past decade has shown ability of scaling up to handle any project load (within reason), our public sector apparently lost the skill set needed to handle a such full load when going by recent experiences.

So finance is one thing, but skill in commissioning and running such infrastructure quite another.

Secondly, the global audience may decide to start boycotting our exports (especially its energy-intensive metals) if our carbon-print remains unacceptable high.

We may be forced to go to even more costly and more complex energy systems (nuclear) before much more time has lapsed, with the current spate of planned new coal-based power stations merely a grudgingly allowed transition stage.

Our financial and skill challenges won't get less, but are going to increase, with us as yet not showing much evidence of being able to handle the skill requirement adequately.

All this before we address the real short-term problem demanding our fullest attention these next 10-15 years: the replacement of our existing 40 000mw electricity generating base.

It is ever so nice living off the past, as we have been doing for decades now in more ways than one. But one bill is approaching fast. Coal-fired power stations don't run on forever. They have a finite working life (about 40-50 years, stretchable but not much).

With most of our existing electricity capacity build in the 1970s and 1980s, our existing 40 000mw capacity (also the equivalent of 8 Medupis) is due for replacement by about 2020-2025. With a power station taking ten years to build, planning should begin soon.

So these next 20-30 years we need not just build eight new Medupis but closer to 16-20 of them, allowing for new growth AND replacement. That's impressive, considering what has been involved with building just one (and it still being far from commissioned).

Only a fraction of these many power stations by 2030-2040 are in fact likely to be coal-fired. Instead, they need to be nuclear in order to be sufficiently environment friendly and globally acceptable. And with Koeberg having 1800mw capacity, we really are talking about at least the equivalent of 40 new Koebergs being needed after two new coal-based power stations have been delivered these next few years (Medupi and Kurile).

That's impressive and looks rather intimidating.

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Do we face a difficult energy transition? Yes, beyond a doubt. Our car population during this period will probably effortlessly transform from an oil base to an electricity base (assuming there is electricity in our future). But to get our electricity base to make the full-sized conversion to nuclear and other alternative sources (wind, solar, wave) will be another order-of-magnitude challenge.

Now, if this were to be the only BIG challenge awaiting through 2040, besides keeping political body-and-soul together and keeping the social peace, doubling our urbanization ratio to 80%, achieving 3.5% average GDP growth and fully transforming the economy while doing so (cutting unemployment back to more acceptable levels), it could possibly be done.

But it will need to be done while the world climate probably rearranges our furniture. There are some very scary studies suggesting Southern Africa is going to become a lot drier than what it is today.

Beneath the surface soils of Botswana and large parts of Zimbabwe, Namibia, Angola and Zambia (and border areas of South Africa) there apparently lurk unpleasant truths. These were once sandy desert wastes in (much) drier times. And these times will probably be returning.

Our rainfall will probably increase in the far eastern parts, but the Western, Southern and interior parts look like being hung out to dry as the decades roll by, just as we want to double our national income (and urban and industrial water consumption) every 20 years or so.

Water rationing in agriculture, mining and industry and for human consumption seems inevitable, mainly by letting its price rise.

This would also generate the funding (over decades) to come up with imaginative new engineering solutions. Building more river dams seems to be a limited option (all nice locations already taken), towing Antarctic icebergs or otherwise desalting seawater are other possibilities, but the real option probably waits elsewhere on the continent.

Ours is going to become a Californian problem, where over a century ago they started to harvest the water resources of the Sierra Nevada hundreds of miles inland. Or like Israel irrigating the Negev desert. Indeed, very much like the Lesotho Highlands Water Scheme supplying Gauteng, only on a much grander regional scale.

The already water-rich areas of the Congo and neighbouring regions are probably going to become even more blessed with rain as climatic change progresses.

The potential for dams, hydroelectric stations and enormous waterways (a few thousand kilometers in length) might become serious propositions (alternatively relocating our industrial critical mass to nearer the new water resources, higher-up in Africa).

But again there looms the question whether regionally we have enough engineering talent. Building it privately will probably not be a problem. But running the infrastructure could be something else, as with the power stations. This aside of the funding.

Which brings us to the third challenge, an old one but probably increasingly desperate. Agriculture will need to change drastically in nature, given climatic change, both in terms of temperature increases, rainfall reductions and drastic changes in soil conditions in large parts of the country. Whether the skill and capital will be there to do so is another matter.

Yet South Africa has made massive adjustments before. By the late 1970s it produced over 1000 tons gold annually, after which the industry went into decline as gold seams went too deep and mining costs increased faster than the gold price.

But instead of losing a major industry, export earner and labour employer like gold mining overnight, the combination of a rising Dollar gold price, depreciating Rand and cost savings allowed a gradual scaling down of the industry over the subsequent 30 years.

South Africa today produces only some 200 tons of gold annually and although the loss of such a major industry is destabilizing, its gradual staging allowed the economy to adjust without overly large disruption.

Hopefully we will be able to absorb the looming energy, water and agricultural transformations these next 20-40 years in a similar fashion.

Central to all three challenges is technical skill. These we should nurture where we find them (instead of encouraging them to emigrate, be it to Aussie, Kiwi, Dubai, Congo, Gabon, Cameroon, Mozambique or eventually back to Zim) and greatly expand their supply with all means at our disposal.

For we will assuredly need every one of them.

Reference: Mark Lynas, "Six Degrees – our future on a hotter planet", Harper Perennial, 2008

rand strength.

It sees the economy growing 2,6% this year, faster than its previous forecast of 1,7% made last October.

The IMF's latest estimate is above official forecasts for growth of 2,3% this year, but just below market consensus, which sees the economy expanding 2,9%.

It sees the world economy growing 4,2% this year, revised up from 3,9% in January. Emerging giants China and India are leading the recovery from the worst global recession in six decades.

Growth in sub-Saharan Africa was set to quicken to 4,75% this year and 6% next year from 2% last year, the IMF said in its world economic outlook.

It sees SA's output rising 3,6% next year, also well above forecasts of 3,2% and consensus estimates from Reuters of 3,5%.

"Although the rebound in world trade is supporting recovery, SA's growth will be tempered by high unemployment, tight credit conditions and the recent strength in the rand," it said.

The economy shed 870000 jobs last year, not quite as bad as expected but keeping the official jobless rate at a steep 24,3%. Employment has begun to pick up, but at a slow pace as SA pulls out of recession. Private-sector borrowing fell for the fifth month running in February, pressured mainly by a fall in lending to companies.

The Reserve Bank cited rand strength as a factor behind its surprise interest rate cut last month.

Gains by the currency, which scaled a two-year peak against the euro last week, tend to erode the competitiveness of local exports.

The rand has since pulled back, but is still stronger on a trade-weighted basis since the Bank's last policy meeting. This has fuelled speculation that there could be scope for another rate cut at its policy meeting next month.

Keeping inflation inside its 3%- 6% target range is still the Bank's mandate, although it takes growth and jobs into account when making policy decisions.

The IMF sees inflation in SA at an average 5,8% this year and next, broadly in line with official estimates of 5,8% this year and 6,1% next year.

It predicts that the deficit on SA's current account, its broadest measure of trade in goods and services, will widen to 5% of gross domestic product this year and 6,7% next year. That should help check the rand's gains.

Sub-Saharan Africa had weathered the global crisis well due to its "limited integration" into the world's economy, the IMF said. Shocks hit the region mainly through trade with middle-income economies hit the hardest.

There were several risks to sub-Saharan Africa's outlook. These included the effect of a "more hesitant" recovery in the "advanced economies", which could affect commodity prices.

<http://www.businessday.co.za/articles/Content.aspx?id=106887>

