

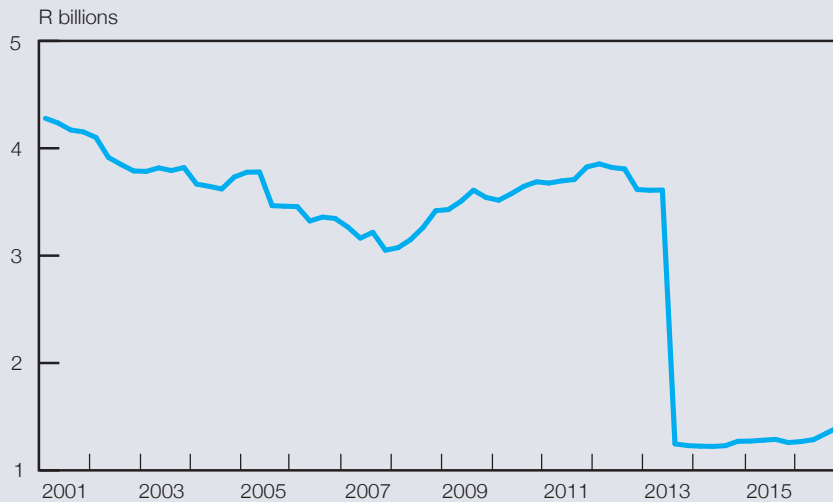
## Box 6 Shrinking participation bond scheme intermediation

Participation bond schemes (PBSs) are collective investment vehicles that pool funds received from investors and mainly provide loans to commercial and industrial real estate developers. The investment term is five years, with investors receiving interest linked to the prime lending rate. PBSs in turn extend mortgage bonds on various properties within their portfolio. This industry channels household savings and other funds for property development. These schemes conduct intermediation in the so-called 'shadow banking' sphere by facilitating maturity transformation from short-term funding to long-term financing.

Property financing by the PBS industry declined from R4.2 billion in 2001 to R3.1 billion in 2007. However, lending activity rebounded somewhat, following the global financial crisis which constrained such financing by banks, and PBSs' investments increased to R3.8 billion in 2011. Subsequently, PBSs' intermediation decreased significantly to only R1.2 billion in 2013 and then remained broadly around this level, reaching R1.4 billion in 2016. The dearth of intermediation by PBSs resulted from a notable decline in the number of such schemes, from 14 in 2001 to only 3 in the fourth quarter of 2016, as some were consolidated into banks and insurance companies while others closed. The biggest capital redemption occurred in 2013 when the largest scheme dissolved.

PBS intermediation appears to have been negatively affected on the funds received side by increased competition from other low-risk investment products such as fixed deposits, with interest rates offered by banks exceeding that of PBSs since mid-2009. Other alternative investments include retail government bonds and money market funds.

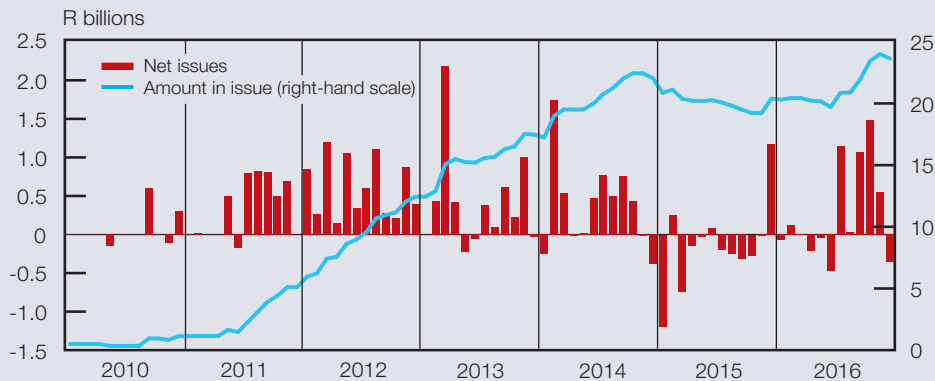
Funds invested by participation bond schemes on behalf of participants



Source: SARB

On the funding side, companies in the real estate sector started to utilise the bond market from the end of 2009. Their outstanding nominal value of bonds in issue in the primary bond market increased from R0.5 billion in November 2009 to R24 billion at the end of 2016. Growth in credit extended by banks for mortgages on commercial property increased significantly from a year-on-year rate of 2% in June 2013 to 16% in September 2015, before slowing in subsequent months. Share issuances on the JSE Limited by listed property companies as a means of raising capital have also increased significantly since 2014. Despite these developments, PBSs continue to be the preferred investment vehicle of some investors.

Bond issuances by JSE-listed property companies



Source: JSE

### Commercial mortgages extended by banks

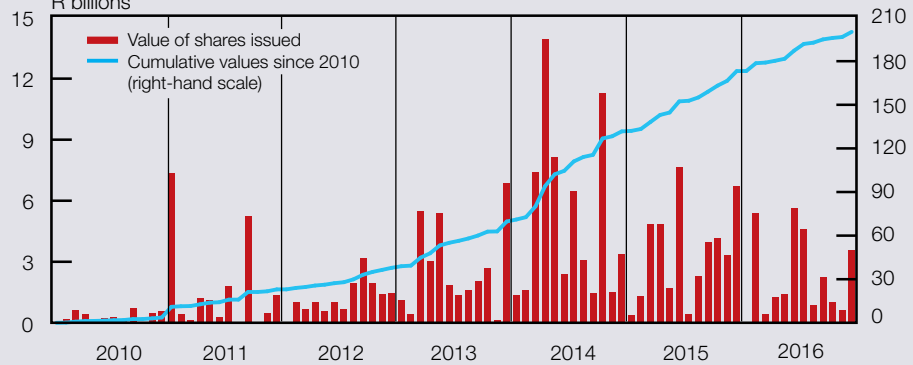
Percentage change over 12 months



Source: SARB

### Value of shares issued by JSE-listed property companies

R billions



Source: JSE