State of the property market in quarter 1 of 2014

The following are the significant findings or conclusions made in this issue of *Rode's Report*:

- Restrained growth in office rentals
- Still no magic on the residential rental front
- House-price growth moving sideways

Quantitative overview of the property market

Table 1 provides a snapshot of how the property market has performed over the past four quarters by comparing the latest information (quarter 2014:1) with that collected a year earlier.

Table 1
The property market at a glance at quarter 2014:1*
% growth on four quarters earlier (on smoothed data)

	Nominal	Real**
A-grade CBD office rentals		
Johannesburg	2,2	0,3
Pretoria	9,1	6,9
Durban	-6,5	-8,3
Cape Town	9,1	6,9
A-grade decentralized office rentals		
National decentralized	2,0	-0,1
Sandton CBD	6,8	4,7
Randburg Ferndale	-2,1	-4,0
Brooklyn/Waterkloof (Pta)	6,4	4,3
Hatfield	0,5	-1,5
Berea (Durban)	1,5	-0,6
La Lucia Ridge	1,7	-0,2
Claremont (CT)	10,6	8,4
Tyger Valley	11,0	8,8

Table 1 (continued) The property market at a glance at quarter 2014:1* % growth on four quarters earlier (on smoothed data)		
	Nominal	Real**
Prime industrial rentals (500-m² units)		
National	4,4	2,4
Central Witwatersrand	3,5	1,5
East Rand	6,6	4,5
Durban metro	6,6	4,6
Cape Peninsula	7,4	5,3
Flat rentals (standard quality, all sizes)		
National	3,2	-2,6
Johannesburg metro	0,5	-5,2
Pretoria metro	1,0	-4,7
Durban metro	1,4	-4,3
Cape Town metro	6,4	0,4

* Unless otherwise specified
** Nominal values deflated by BER Building Cost Index; however, flat rentals are deflated using the Consumer Price Index.

Noteworthy is that Cape Town rental growth significantly outperformed the other cities with respect to flat rentals, industrial rentals and A-grade office rentals (both CBD and decentralized). Has Cape Town decoupled from South Africa?

Office rentals

In general, the growth in office market rentals continues to be restrained by lacklustre growth in the demand for office space and its resultant adverse effect on office vacancy rates.

In the first quarter of 2014, market rentals for prime office space could — on a national basis — only show yearly growth of 2%. Given that since 2012 there seems to have been a slight increase in the national office vacancy rate, the cooling and weak growth in national market rentals is understandable. A look at the regions also reveals moderate growth in market rentals. In the

quarter under review, rentals in Cape Town decentralized were — on average — up by 5%. This was followed by Durban decentralized, where rentals grew by 3%. In Pretoria and Johannesburg, decentralized rentals were only up by 1%.

Industrial market

In the first quarter of 2014, market rentals for prime industrial space nationally showed growth of 4%. However, when zooming in at the regional level one sees that growth in industrial rentals was not too shabby on the East Rand, in Durban and in the Cape Peninsula. In these regional industrial conurbations, industrial rentals showed reasonable growth of 7%. This was in contrast to the Central Witwatersrand, where rentals were up by a meagre 3%. In Port Elizabeth, rentals remained at roughly their previous-year levels.

It seems that work has again started to dry up for non-residential contractors, forcing them to trim profit margins and, in turn, resulting in low growth in accepted tender prices. We estimate building costs — overall tender prices — to have shown yearly growth of only 1% in the first quarter of 2014. This, of course, implies that in all of the major industrial conurbations — barring Port Elizabeth — rentals were still able to show *real* growth.

For now, prevailing weak and low levels of business sentiment will most likely keep the demand for industrial space at bay. The outcome of this could be continued moderate growth in market industrial rentals.

Flat rentals

In the first quarter of 2014, both house and townhouse rentals were able to grow by 4% nationally, while rentals of flats showed growth of only 3%. This should be compared with consumer inflation of about 6%. Thus, this is further evidence, if any were needed, that the consumer out there is under severe stress.

Regionally, flat rentals in Cape Town again showed the strongest growth with their yearly growth rate of 6%, while in Durban flat rentals were up by a modest 2%. In Johannesburg and Pretoria, flat rentals could only fetch growth of 1%. In the first quarter of 2014, consumer prices (excluding owners' equivalent rent) showed growth of about 6%. This implies that Cape Town was the only city in which nominal flat rentals were, at least, able to show growth in line with inflation.

The house market

Despite persistent headwinds, the growth in nominal house prices is, for now, still managing to move sideways at a rate slightly above consumer inflation.

According to the Absa House Price Index (HPI), the growth in national house prices has been moving sideways at a yearly growth rate of about 9% since October 2013. FNB's HPI has been showing sideways growth of about 8% since November 2013, while Lightstone's index has been showing growth of 7% since December 2013.

Key drivers of house prices continue to presage the likelihood of a moderation in growth. One such driver is economic activity. The current low-growth economic environment implies we should expect even slower growth in employment and disposable incomes. Another headwind to the growth in house prices is the possibility of rising interest rates. In fact, in its May 2014 policy statement the Monetary Policy Committee (MPC) mentioned that it held the view that SA is in a rising interest-rate cycle. ■