

State of the property market in quarter 4 of 2014

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

- Office rentals in Sandton shrink
- Underperforming manufacturing sector continues to place a damper on the growth of industrial rentals
- Growth in flat rentals gaining some momentum

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 2014:4) with that collected a year earlier.

Table 1		
The property market at a glance at quarter 2014:4*		
% growth on four quarters earlier (on smoothed data)		
	Nominal	Real**
A-grade decentralized office rentals		
National decentralized	4,2	-4,3
Sandton CBD	-3,5	-11,3
Randburg Ferndale	-5,0	-12,8
Brooklyn/Waterkloof (Pta)	6,5	-2,2
Hatfield	5,6	-3,1
Berea (Durban)	-6,2	-13,8
La Lucia Ridge	3,3	-5,2
Claremont (CT)	9,9	1,7
Tyger Valley	1,0	-7,3
A-grade CBD office rentals		
Johannesburg	9,8	0,8
Pretoria	8,0	-0,9
Durban	2,4	-6,0
Cape Town	4,9	-3,7

Table 1 (continued)
The property market at a glance at quarter 2014:4*
% growth on four quarters earlier (on smoothed data)

	Nominal	Real**
Prime industrial rentals (500-m² units)		
National	4,1	-4,4
Central Witwatersrand	4,9	-3,7
East Rand	5,4	-3,3
Durban metro	6,6	-2,1
Cape Peninsula	6,9	-1,8
Flat rentals (standard quality, all sizes)		
National	6,4	0,6
Johannesburg metro	3,9	-1,8
East Rand metro	7,9	2,0
Pretoria metro	7,6	1,7
Durban metro	5,2	-0,5
Cape Town metro	4,1	-1,6
* Unless otherwise specified		
** Nominal values deflated by BER Building Cost Index; however, flat rentals are deflated using the Consumer Price Index.		

Office rentals

Rentals in Sandton, the country's financial hub and premier office node, are shrinking. This, of course, comes as no surprise given office vacancy rates that have been ballooning in recent years.

In the fourth quarter of 2014, market rentals for grade-A multi-tenanted office property in Sandton were down by roughly 4% when compared to the same quarter a year ago. This comes after growth in rentals had been cooling consistently for a number of quarters due to rising vacancy rates. Similarly, the performance of rentals in other top suburban office nodes was also poor. As a result, Johannesburg decentralized as a whole recorded growth of only 2%. On average, rentals in Pretoria (+5%) and Durban decentralized (+4%) fared slightly better. The best performance, however, came from Cape Town decentralized. Thanks to office vacancy rates that were able to move south, the growth in market rentals in Cape Town accelerated to 10%.

Industrial market

The manufacturing sector — an important pillar of the industrial property market — remains stuck in a rut. Hence, the growth of market-rentals stayed well below the growth in replacement costs.

In the fourth quarter of 2014, the best growth in nominal rentals came from Durban and the Cape Peninsula, where rentals were up by 7%. On the Central Witwatersrand and the East

Rand, rentals showed slightly lower growth of 5%. Over the same period, building-cost inflation — as measured by the BER BCI — came in with growth of roughly 9%. This implies that in all of these important industrial conurbations, industrial rentals again contracted in *real* terms.

The house market

House prices in Cape Town are accelerating and showing strong growth, and – surprisingly – Bloemfontein is showing a similar performance. However, the exact opposite is happening in Port Elizabeth.

To find possible reasons behind these trends, we compared unemployment rates with growth in house prices for the country's major metros. We found a very robust inverse relationship between the unemployment rate and the compound growth in house prices. Cape Town, with the lowest unemployment rate, also recorded the strongest growth in house prices. On the other end was the Port Elizabeth-Uitenhage metropolitan area with the highest unemployment rate and poorest house-price growth. Perplexingly, at first, was the performance of Bloemfontein. Despite having a higher unemployment rate, the growth in house prices has over recent years been at a par with Cape Town. We find Bloemfontein's performance to be the result of both demand- and supply-side factors.

Flat rentals

Nationally, the yearly growth in flat rentals is gaining momentum. However, whether this trend will continue is a moot point, in light of households that remain financially stretched, and are about to become even more so.

In the fourth quarter of 2014, national nominal flat rentals were able to show yearly growth of 6%; this after they had been accelerating since the second quarter of that year. During the reporting quarter, rentals in Pretoria (+8%) recorded the strongest growth, followed closely by the East Rand, where rentals were up by 7%. In Durban, flat rentals showed growth of 5%, while in Johannesburg and Cape Town, rentals grew by only 4%. In the same quarter, consumer inflation (excluding owners' equivalent rent) stood at 6%, implying that rentals in Pretoria and on the East Rand were able to grow in *real* terms. ■