Property forecasts for 2001

By Erwin Rode
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Way back in 1978, when I started doing my first tentative property forecasts, life was simple. The forecaster could assume, and bank on, an inflation rate of 15% or so. All metropolitan areas and all property types were growing at a similar rate, or so we assumed, because nobody knew better for want of statistics. There was no decaying node, no crime crisis. There were no sharp hikes in municipal taxes or interest rates. Capitalisation rates were pretty stable. Hence the risk of owning property was low and property was still regarded as an inflation hedge by the investment community. And it was cheap to finance property with loan capital.

How things have changed! The serene sea became tempestuous, resulting in a dramatic rise in the risk of owning property during the 1990s, especially during the second half of the decade. This is evidenced by the sharp hike in capitalisation rates since 1996, which wiped billions off institutional property portfolios.

I was reminded of our stormy milieu when I sat down to write this prognosis for 2001. If owning property is now much riskier, so is forecasting the property market. Nevertheless, in spite of the high risk attached to forecasts, these are still needed by investors and developers. They cannot do without them. The only choice they have in the matter is whether they are going to get explicit forecasts from analysts or whether they are going to rely on implicit forecasts (their own estimates). For instance, by clinging to a property a landlord is implicitly assuming that the investment performance of such a property will be *relatively* good, after adjusting for risk. By *relatively good* I mean relative to alternative investments.

My forecasts are based on an assumed growth in the SA economy of about 3%, and they assume that interest rates will stay at more or less the current levels. Here then are my prognoses for 2001:

- On average, house prices, coming off a low base, will grow by about 2% real in sound areas. The exception is the Cape Peninsula, where house prices will not exceed the inflation rate because they are growing from a high base. Upmarket suburbs will do best and low-priced neighbourhoods will fare worst.

- Flat rentals will just keep up with inflation, as houses are now more affordable at the lower interest rates.

- Real office rentals in the sought-after suburbs will rise further, and decline further in the decaying CBDs. The Cape Town CBD, through its City Improvement District (CID), will stem the tide of crime and grime, but its rentals will nevertheless fall further behind those in the suburbs. Grade-A vacancies in the good nodes will stabilise at the present levels.

- In the wake of falling vacancies, prime industrial rentals will show a dramatic turnaround on the Witwatersrand. The recovery in other cities will be less dramatic.

- Capitalisation rates will stay at more or less current levels.

- Total returns on listed property will once again beat inflation by a handsome margin.

To sum up, I expect a patchy property market in 2001, but on balance better than in 2000. ■