State of the property market

State of the property market in quarter 4 of 2010

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

- Office and industrial cap rates reflect renewed optimism
- Industrial rentals end 2010 on a better note
- Houses should not expect further help from the Reserve Bank

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 2010:4) with that collected a year earlier.

Table 1
The property market at a glance at quarter 2010:4*
% growth on four quarters earlier (on smoothed data)

	Nominal	Real**
Prime CBD office rentals		
Johannesburg	-8,1	-4,2
Pretoria	0,0	4,1
Durban	0,9	5,1
Cape Town	-4,7	-0,7
Prime decentralized office rentals		
Sandton CBD	24,0	29,0
Randburg Ferndale	10,5	15,0
Brooklyn / Waterkloof (Pta)	11,9	16,5
Hatfield	9,3	14,0
Berea (Durban)	0,0	4,1
La Lucia Ridge	4,3	8,7
Claremont (CT)	-0,1	4,0
Tyger Valley	-13,7	-10,2

*Unless otherwise specified

Table 1 (continued) The property market at a glance at quarter 2010:4* % growth on four quarters earlier (on smoothed data)		
	Nominal	Real**
Prime industrial rentals (500 m² units)		
Central Witwatersrand	-2,6	1,4
Port Elizabeth	8,6	13,0
Durban metro	-1,0	3,1
Cape Peninsula	0,0	4,1
Flat rentals (standard quality, all sizes)		
Johannesburg metro	1,9	-0,7
Pretoria metro	2,9	0,4
Durban metro	3,8	1,2
Cape Town metro	3,6	1,0
Port Elizabeth	0,4	-2,1
Bloemfontein	3,5	0,9

* Unless otherwise specified

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

** Nominal values deflated by BER Cost Index. However, house prices are deflated using the Haylett index.

Capitalization rates

Capitalization rates for prime office and industrial properties continued to strengthen — albeit slightly — in the fourth quarter of 2010.

This strengthening can be viewed as signalling renewed optimism regarding prospects for capital growth. Adding weight to the renewed optimism is the resurgence in economic growth, bringing with it improved prospects for property fundamentals some time in the future. But, hefty sales by foreigners of South African gilts over recent months have resulted in upward pressure on long-bond yields. Should this trend continue, it might lead to property investors eventually requiring higher income returns.

Office rentals

Office rentals in Johannesburg decentralized seem to be leading the race on the road to recovery.

In the fourth quarter of 2010, market rentals in Johannesburg decentralized were, on the whole, up by 10% on the same period a year earlier. In Pretoria decentralized, market rentals were up by 5%, followed by Cape Town (+3%) and Durban (+1%) decentralized.

Industrial market

Industrial rentals in the major industrial conurbations managed to end 2010 on a better note.

Despite still being lower in the fourth quarter of 2010 — when compared to the same quarter a year earlier — the contractions in market rentals on the Central Witwatersrand (-3%) and Durban (-1%) were at least not as large as in the previous three quarters. In the Cape Peninsula, rentals were at the same level they were a year earlier, while in motor city Port Elizabeth (+8%) the strongest growth in rentals was recorded.

While rentals are still drifting lower in nominal terms, building costs (as measured by the BER Building Cost Index) have *contracted* by an estimated 4% at the end of last year. This implies *real* rentals are more or less stable.

Flat rentals

The mild recovery in flat rentals continued in the fourth quarter of 2010, and these rentals are growing at close to the official inflation rate. Noteworthy growth rates were as follows:

Johannesburg (+1,9%), Port Elizabeth (+0,4%), Durban (+3,8%), Cape Town (+3,6%), Bloemfontein (+3,5%), and Pretoria (+3,0%). These growth rates compare with the CPI of 2,6% (excl. housing) in the reporting quarter.

The house market

No help for the ailing house market can, for now, be expected from a further lowering of interest rates.

Given the hefty sales by foreigners of South African gilts over recent months, it comes as no surprise that the rand exchange rate has also softened somewhat. Without the buffer of a strong currency, the sharply rising oil and international food prices could now spell upward pressure — from a cost-push perspective — on domestic inflation.

The most likely outcome would be a reluctance from the Reserve Bank to lower lending rates further.■