State of the property market

State of the property market in quarter 4 of 2012

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

- Listed property funds report impressive growth in distributions
- No vitality in the office rental market
- Growth in industrial rentals heating up, but we're not out of the woods yet
- House prices likely to do a dead cat bounce

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 2012:4) with that collected a year earlier.

Table 1
The property market at a glance at quarter 2012:4*
% growth on four quarters earlier (on smoothed data)

	Nominal	Real**
A-grade CBD office rentals		
Johannesburg	-6,9	-14,3
Pretoria	+3,7	-4,7
Durban	-6,9	-14,5
Cape Town	-2,8	-10,7
A-grade decentralized office rentals		
Sandton CBD	-0,4	-8,4
Randburg Ferndale	+3,7	-4,8
Brooklyn/Waterkloof (Pta)	+2,8	-5,6
Hatfield	-0,6	-8,8
Berea (Durban)	-6,1	-13,8
La Lucia Ridge	-4,7	-12,5
Claremont (CT)	-1,4	-9,4
Tyger Valley	+6,3	-2,5

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

Table 1 (continued)
The property market at a glance at quarter 2012:4*
% growth on four quarters earlier (on smoothed data)

	Nominal	Real**
Prime industrial rentals (500 m² units)		
Central Witwatersrand	+5,2	-4,2
East Rand	+5,3	-3,3
Durban metro	+5,9	-2,7
Cape Peninsula	+9,1	+0,2
Flat rentals (standard quality, all sizes)		
Johannesburg metro	+3,5	-2,4
Pretoria metro	+1,0	-4,7
Durban metro	+2,0	-3,8
Cape Town metro	+0,0	-5,7

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

Capitalization rates

In the fourth quarter of 2012, capitalization rates on shopping centres, industrial and office properties remained at roughly their previous-quarter levels.

This is much to the relief of non-residential property owners who have in recent years been frustrated by the adverse impact that rising vacancy rates, poorly performing market rentals and explosive operating costs have had on property cash flows and, consequently, on market values.

Office rentals

Office rentals are still lethargic as a result of generally weak demand-side conditions.

In the fourth quarter of 2012, market rentals in Cape Town and Pretoria decentralized mustered yearly growth of 3%. This was followed by Johannesburg decentralized, where rentals were up by a measly 1% and Durban decentralized (-4%), where rentals actually contracted.

Industrial market

On a national basis, the yearly growth in industrial rentals is slowly heating up, seemingly benefiting from the lagged impact of declining vacancy rates.

In fact, such has been the acceleration in the growth of market rentals that in the fourth quarter of 2012, prime industrial rentals recorded a nationally averaged growth rate of 7%. Disappointingly, this growth failed to be in excess of building-cost inflation, implying that we are, as yet, not out of the woods when it comes to industrial property. Regarding industrial rentals in the major industrial regions, in the reporting quarter the strongest yearly growth of 9% was achieved in the Cape Peninsula. This was followed by Durban (+6%), the East Rand (+5%), the Central Witwatersrand (+4%) and Port Elizabeth (+4%).

Flat rentals

Nationally, in the fourth quarter of 2012 market rentals for flats and houses grew by 5% and 3%, respectively. Rentals on townhouses lagged behind – ending the quarter almost 1% lower than a year ago.

As for flat rentals in the major cities, in the reporting quarter Johannesburg recorded the strongest nominal growth of 4%. This was followed by Durban and Pretoria, where rentals were up by 2% and 1% respectively. In Cape Town, flat rentals remained roughly at the same level of a year ago. Over the same period, consumer prices (excluding owners' equivalent rent) showed growth of just below 6%, implying that flat rentals were unable to show real growth in any of these cities.

The house market

In spite of headwinds, in recent months the yearly growth in house prices has been able to accelerate.

National nominal house prices were up by an impressive 10% in February 2013. The low and stable cost of borrowed money (interest rates) might be one possible explanation for the current strength in house prices. Another might be the lagged impact of the strong growth in disposable incomes experienced between June 2011 and March 2012.

Yet there remain headwinds in the way of growth in house prices. Consider here, for example, the frustratingly high household debt-to-disposable income levels, which adversely affect consumers' credit-risk profiles. Other factors to consider are the current slump in consumer confidence levels, upward pressure on property running costs and the unimpressive growth in economic activity. What's more, the housing finance game has seemingly also changed. Deal sweeteners like 100% loan-to-value mortgage loans and discounts to prevailing prime interest rates — once the norm during the housing boom years when volumes were high — have become like hens' teeth.

For these reasons, the growth in house prices might be doing a dead cat bounce. That is, lose some of its current zest and thereafter, decelerate.■