State of the property market

State of the property market in quarter 1 of 2013

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

- Weak office demand continues to hamper rentals
- Poorly performing manufacturing sector posing the biggest threat to industrial rentals
- House prices showing strong growth, but risk to outlook persists

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 2013:1) with that collected a year earli-er.

Table 1
The property market at a glance at quarter 2013:1*
% growth on four quarters earlier (on smoothed data)

	Nominal	Real**
A-grade CBD office rentals		
Johannesburg	+3,0	-5,6
Pretoria	-4,3	-12,2
Durban	-6,1	-13,8
Cape Town	-0,6	-8,8
A-grade decentralized office rentals		
National decentralized	+4,6	-4,1
Sandton CBD	+1,5	-6,9
Randburg Ferndale	+6,4	-2,4
Brooklyn/Waterkloof (Pta)	+6,6	-2,3
Hatfield	+5,6	-3,1
Berea (Durban)	-3,1	-11,1
La Lucia Ridge	+4,8	-1,4
Claremont (CT)	-0,2	-8,5
Tyger Valley	+11,5	+2,3

* 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 2013:1* % growth on four quarters earlier (on smoothed data)		
	Nominal	Real**
Prime industrial rentals (500 m² units)		
National	+3,9	-4,7
Central Witwatersrand	+5,8	-2,9
East Rand	+2,7	-5,8
Durban metro	+9,1	0,0
Cape Peninsula	+3,0	-5,5
Flat rentals (standard quality, all sizes)		
National	+4,3	-1,4
Johannesburg metro	+1,8	-3,8
Pretoria metro	+1,1	-4,4
Durban metro	+1,5	-4,1
Cape Town metro	+1,1	-4,4

* Unless otherwise specified
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Office rentals

On the back of weak demand for office space and no discernible improvement in vacancy rates, market rentals continue to show mediocre growth.

In the first quarter of 2013, market rentals in Cape Town decentralized (+5%) showed the strongest growth. Johannesburg and Pretoria decentralized recorded growth of 4% while in Durban, decentralized rentals were up by a measly 2%. The recent slump in economic activity has now prompted a number of economists to scale down their *real* GDP growth forecasts for 2013. This does not augur well for office demand, vacancy rates and consequently market rentals.

Industrial market

A poorly performing manufacturing sector poses the biggest threat to strong growth in industrial rentals.

In the first quarter of 2013, the output produced by the manufacturing sector showed no year-on-year growth. When compared to the previous quarter, the performance was even worse, with output contracting by an annualized rate of almost 8%. Perhaps as a consequence, the yearly growth in Rode's national industrial rental index also cooled slightly to a growth rate of only 4%.

As for the major industrial conurbations, nominal industrial rentals in Port Elizabeth and Durban were able to show yearly growth of 9%. This was in line with the expected growth rate of building costs. The Central Witwatersrand followed with rental growth of 6%, while on the East Rand and in the Cape Peninsula, rentals were up by a mere 3%.

Flat rentals

In the first quarter of 2013, flat and house rentals were able to show modest growth of 4% and 3% respectively. Rentals on townhouses remained, however, at roughly the same levels they were a year ago. From this finding it is evident that townhouses are still oversupplied – a hangover from the boom period.

Regionally, flat rentals in Johannesburg achieved growth of about 2%, while in Pretoria, Durban and Cape Town, rentals were up by a measly 1%. Over the same period, consumer prices (excluding owners' equivalent rent) showed growth of just below 6%, implying that rentals on flats were not able to show *real* growth in any of these regions.

The house market

The growth in nominal house prices has in recent months been nothing short of impressive.

Since the third quarter of 2012, the yearly growth in national house prices has been heating up to such an extent that in May 2013, nominal house prices (as per Absa) were up by an impressive 11%. Naturally, the sustainability of the current strong growth in prices has to be questioned, especially when key drivers of demand for housing continue to struggle.

In this regard, other house-price indices show contradictory (much lower) trends in prices, and one should never forget that banks' price indices reflect the experience of each individual bank. So, if a bank were to change its lending policy, this would affect the index. Nonetheless, an important driver of house prices is economic activity; hence, the current cooling in economic growth must be a damper on prospects for house prices.■