State of the property market in quarter 2 of 2013

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

- Mediocre growth in office market rentals
- Industrial rental recovery relies on a healthy manufacturing and retail sector.
- Drivers of house prices showing no vigour

Quantitative overview of the property market

Table 1.1 provides a snapshot of how the property market has performed over the past four quarters by comparing the latest information (quarter 2013:2) with that collected a year earlier.

Table 1
The property market at a glance at quarter 2013:2*
% growth on four quarters earlier (on smoothed data)

	Nominal	Real**
A-grade CBD office rentals		
Johannesburg	6,8	-4,1
Pretoria	-6,9	-16,4
Durban	-10,5	-19,6
Cape Town	7,5	-3,5
A-grade decentralized office rentals		
National decentralized	4,7	-4,9
Sandton CBD	7,7	-3,3
Randburg Ferndale	6,2	-4,6
Brooklyn/Waterkloof (Pta)	7,0	-3,9
Hatfield	9,9	6,1
Berea (Durban)	-0,7	-1,7
La Lucia Ridge	6,0	-4,8
Claremont (CT)	5,8	-5,0
Tyger Valley	6,1	-4,7

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

Table 1 (continued) The property market at a glance at quarter 2013:2* % growth on four quarters earlier (on smoothed data)		
	Nominal	Real**
Prime industrial rentals (500-m² units)		
National	3,1	-7,2
Central Witwatersrand	4,9	-5,8
East Rand	0,4	-9,8
Durban metro	9,1	-2,0
Cape Peninsula	-1,0	-11,0
Flat rentals (standard quality, all sizes)		
National	4,6	-1,3
Johannesburg metro	1,1	-4,6
Pretoria metro	1,1	-4,6
Durban metro	1,6	-4,2
Cape Town metro	4,6	-1,3

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

Office rentals

There is still no marked improvement in overall office vacancy rates, which should be expected given the persistent weak demand. Naturally, the outcome of this has been mediocre growth in market rentals.

In the second quarter of 2013, office rentals in Johannesburg and Cape Town decentralized were — on average — able to show growth of 6%. In Pretoria, decentralized rentals were up by 5%, while rentals in Durban decentralized showed average growth of 4%.

Industrial market

Rentals in the industrial agglomerations of Durban and Port Elizabeth were able to show the strongest growth (9%). On the

Central Witwatersrand and the East Rand, industrial rentals were up by 5% and 0,4% respectively, while in the Cape Peninsula (-1%) rentals contracted. Over the same period, building costs are expected to have shown growth of roughly 11%, implying that in all of the mentioned areas rentals actually contracted in *real* terms.

Strong and sustained growth in industrial rentals relies on a healthy manufacturing and retail sector. During the reporting quarter, the output produced by the manufacturing sector was able to recover. Evidence, however, that the manufacturing sector is as yet not out of the woods came in the form of the weighty drop in the Kagiso Purchasing Managers Index (PMI) during September 2013. *Real* retails sales have in recent months shown low growth, which is likely to continue given the low levels of consumer confidence and deteriorating consumer credit health.

Flat rentals

Nationally, residential rentals continued to show low growth, which should be expected given the persistent financial pressure that households are under.

In the second quarter of 2013 nominal market rentals on flats and houses grew by 5% and 4% respectively. Market rentals on townhouses posted growth of 3%. Given consumer inflation (excl. housing) of about 6% implies that in *real* terms residential rentals are still contracting. Regionally, flat rentals in Cape Town (+5%) showed the strongest growth. Durban followed with rental growth of 2% while in Johannesburg and Pretoria rentals were marginally higher by 1%.

The house market

After heating up to a yearly growth rate of 12% in April 2012, the growth in national house prices (as measured by Absa) has since cooled to 8% in August 2013. But, considering that key drivers of house prices are showing no vigour, the cooling in house price growth comes as no surprise.

Notable factors that are likely to continue to keep a lid on the growth in house prices are the weak growth in employment, the cooling in the growth of disposable incomes, still-high household debt levels, tighter credit standards to households and contractions in the number of mortgage loans granted.■