State of the property market in quarter 3 of 2013

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

- A few pockets of decent growth in office rentals
- Support pillars of the industrial property market are shaky.
- House-price growth expected to lose some of its steam

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 2013:3) with that collected a year earlier.

Table 1
The property market at a glance at quarter 2013:3*
% growth on four quarters earlier (on smoothed data)

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

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

* Unless otherwise specified
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Office rentals

The demand for office space remains sluggish and continues to weigh down on rental growth.

There are, however, a few pockets of decent rental growth, especially in a few premier office nodes in some of the country's major cities. Examples of these are the Sandton CBD (+10%) in Johannesburg, Menlyn (+13%) in Pretoria and Century City (+10%) in Cape Town, where nominal rentals were in the third quarter of 2013 able to outperform building-cost inflation (+8%). The growth in the Sandton CBD is amazing considering all the new space that is about to hit the market.

Zooming out to the regional level shows that rentals in Cape Town decentralized were during the third quarter of 2013 able to show the strongest growth of 5%. This was followed by Johannesburg (+4%),

Durban (+4%) and Pretoria (+2%) decentralized, where rentals showed slightly more modest growth.

Industrial market

The current shaky performances of the manufacturing and the retail sectors – the support pillars to the industrial property market – do, for now, imply continued weak growth in industrial market rentals.

In the third quarter of 2013, market industrial rentals on the East Rand and in the Central Witwatersrand were able to show growth of 6% and 2% respectively, while in the Cape Peninsula, rentals remained roughly at the same levels as a year ago. The top performer amongst the country's major industrial agglomerations was Durban. Here, nominal rental growth of 9% was just about good enough to beat building-cost inflation (+8%).

Flat rentals

The growth in national residential rentals remains modest. Of course, given the financial pressure under which most tenants are, pedestrian growth in rentals should be expected. It's all about affordability, stupid.

In the third quarter of 2013, growth in nominal market rentals on flats, houses and townhouses ranged between 4% and 5%. Given consumer inflation (excl. housing) of about 6,5% over this period, this implies that in real terms residential rentals were still contracting.

The house market

House prices are still able to show reasonable growth in the face of some of their important value drivers losing steam.

One such driver is economic activity. In the third quarter of 2013, real GDP slowed to a yearly growth rate of 1,8%. Naturally, slower economic growth points towards the possibility of slower growth in employment and disposable incomes. In fact, the number of people employed on a full-time and permanent basis is contracting. According to Adcorp, in October 2013 the number of full-time and permanent workers was down by roughly 2%, when compared to the same month a year earlier. The yearly growth in nominal household disposable income has also been losing some of its vigour. In the second quarter of 2013, disposable income showed yearly growth of 7%; this compared to a year ago when it was growing at a robust — but utterly unsustainable — pace of 11%. ■