State of the property market in quarter 2 of 2014

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

- How Pretoria's office rentals caught up with the rest
- Manufacturing sector's underperformance does not bode well for industrial rentals
- Smaller houses showing the strongest growth

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 2014:2) with that collected a year earlier.

Table 1
The property market at a glance at quarter 2014:2*
% growth on four quarters earlier (on smoothed data)

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

Table 1 (continued) The property market at a glance at quarter 2014:2* % growth on four quarters earlier (on smoothed data)		
	Nominal	**Real****
Prime industrial rentals (500-m² units)		
National	4,1	-0,8
Central Witwatersrand	2,5	-2,4
East Rand	6,3	1,2
Durban metro	2,9	-1,9
Cape Peninsula	6,2	1,2
Flat rentals (standard quality, all sizes)		
National	4,5	-2,0
Johannesburg metro	1,6	-4,7
Pretoria metro	1,4	-4,9
Durban metro	0,8	-5,4
Cape Town metro	3,3	-3,1

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

Office rentals

Nationally, lacklustre economic activity coupled with low business sentiment continues to undermine the demand for office space to rent; the result of which has been vacancy rates that are unable to drop and market rentals that are showing sub-CPI growth.

In the second quarter of 2014, market rentals for prime office space could — on a national basis — only show yearly growth of about 3%. A look at the regional picture shows no growth — on average — in market rentals in Durban decentralized, while in Johannesburg and Pretoria, decentralized rentals recorded growth of 2%. Cape Town decentralized was the star performer, with its growth in market rentals of 5%. In the reporting quarter, building costs are expected to have shown growth of about 4%, implying that Cape Town was also the only region where *real* rentals were — albeit only marginally — able to show growth.

Industrial market

The prevailing underperformance of the manufacturing and retail sectors of the economy does not bode well for the demand for manufacturing and warehouse space to rent. The likely outcome of this is, naturally, continued modest growth in industrial market rentals.

During the second quarter of 2014, market industrial rentals in the Cape Peninsula and on the East Rand were still able to show fairly decent yearly growth of 6%. On the Central Witwatersrand and in Durban, however, rentals could only put together growth of roughly 3%.

The house market

Low economic growth and the uncertainty it brings to household finances, coupled with stringent credit policies by banks, seem to be forcing new home buyers to scale down. The outcome of this practice is accelerating and stronger growth in the prices of smaller houses.

In fact, in the second quarter of 2014, full-title homes with 2 bedrooms showed yearly growth of 10%, while full-title homes with 4 or more bedrooms showed growth of only 5%. Over the same period, the prices of sectional-title houses with fewer than 2 bedrooms showed robust growth of 11%, while the prices of those with 3 bedrooms showed growth of 8%.

Overall, we believe house prices are at the moment being buoyed by a softening in banks' credit standards. Regarding the outlook for house prices, the cooling in economic growth during the second quarter of 2014 brings with it the likelihood of slower growth in disposable incomes. In fact, during the quarter under review, the growth in nominal disposable incomes already slumped to just below 4% – this after disposable incomes had grown at an unsustainable rate of about 11% p.a. over the 5-year period between the start of 2008 and the end of 2013. Naturally, another headwind in the path of growth in house prices must be interest rates that are slowly on the rise.

Flat rentals

In the second quarter of 2014, nominal market rentals of flats and houses showed growth of 5%, while rentals on townhouses grew by 3%. Given consumer inflation (excluding owners' equivalent rent) of just shy of 7%, these figures imply that in *real* terms, residential rentals continued to contract.

As for flat rentals in the major cities, in the reporting quarter flat rentals in Cape Town (+4%) showed the best growth. This was followed by Johannesburg where rentals were up by 2%.
In Durban and Pretoria, flat rentals could only manage growth of 1%.■