State of the property market in quarter 2 of 2015

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

- Claremont having a good run
- The business cycle indicator's loss of momentum does not bode well for industrial property
- Residential landlords find some relief, and Cape Town flat rentals are booming in the wake of apparent large-scale semi-gration.

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 2015:2) with that collected a year earlier.

Table 1
The property market at a glance at quarter 2015:2*
% growth on four quarters earlier (on smoothed data)

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

Table 1 (continued) The property market at a glance at quarter 2015:2* % growth on four quarters earlier (on smoothed data)		
	Nominal	Real**
Prime industrial rentals (500-m² units)		
National	4,9	0,5
Central Witwatersrand	6,0	1,5
East Rand	2,0	-2,4
Durban metro	5,5	1,0
Cape Peninsula	6,5	2,0
Flat rentals (standard quality, all sizes)		
National	5,4	0,8
Johannesburg metro	3,6	-1,0
Durban metro	6,7	2,0
Cape Town metro	10,1	5,3
Port Elizabeth metro	3,4	-1,2

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

Office rentals

Market-related office rentals in the Cape Town decentralized office node of Claremont are showing strong growth.

In the second quarter of 2015, grade-A nominal market rentals again showed impressive growth of 10%. In fact, market rentals in this node have been showing double-digit growth for a number of quarters now. As a result, Cape Town decentralized as a whole recorded growth of 8%. This was in contrast to Johannesburg and Pretoria decentralized where rentals were — on average — up by 3% and 2% respectively. In Durban decentralized (+1%) rentals remained at roughly their previous-year levels.

Industrial market

In the second quarter of 2015, industrial rentals in the Cape Peninsula (+7%) and on the Central Witwatersrand (+6%) were able to show decent yearly growth. This was followed by Durban and the East Rand where rentals were up by 5% and 2% respectively.

Disappointing news from an industrial-property point of view must be the continued loss of steam in South Africa's business cycle indicators. This is so given the robust inverse relationship between industrial property vacancies and the Reserve Bank's coincident business-cycle indicator.

The house market

Since the beginning of 2015, the growth in nominal national house prices, as measured by Absa's middle-segment House Price Index, has lost momentum. In August 2015, the bank recorded growth of only 5% on a year earlier. Month-on-month growth (annualised) is even lower, suggesting the downward trend in growth will continue.

The extent of the moderation in house prices becomes evident when one considers that in August 2014, house prices were showing growth of 10%. Unfortunately, the cards are stacked against the housing market and modest growth in nominal house prices will become the order of the day.

Flat rentals

Since the onset of the financial crisis roughly eight years ago, flat-rental growth in Johannesburg was on average 3,3% per year. Pretoria and Durban were slightly better at 4,6% and 4,9% respectively, whereas only Cape Town (6,8%) and Port Elizabeth (7,3%) managed to keep up with consumer inflation, albeit barely.
However, after moving sideways over the past few years, Durban has broken the mould by growing at a year-on-year rate of 6,7% in 2015:2; Pretoria is also showing signs of some life, but nothing worth mentioning at this stage. Cape Town remains the stalwart, growing in the second quarter at an amazing 10,1% on the same period a year earlier. Anecdotal evidence of large-scale semi-gration to the flesh pots of the Western Cape could explain this phenomenon.

The chances are that consumer strain caused by high debt levels and muted economic growth prospects will continue to weigh on flat-rental growth in most cities. Cape Town may just be the exception.■