State of the property market in quarter 4 of 2015

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

- Tighter credit standards will further dampen the outlook for the housing market
- Low business sentiment undermining prospects for industrial-rental growth
- Cape Town office rentals playing catch up
- Cape Town flat rentals beating inflation handsomely

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 2015:4) with that collected a year earlier.

Table 1
The property market at a glance at quarter 2015:4*
% growth on four quarters earlier (on smoothed data)

	Nominal	Real**
A-grade decentralized office rentals		
National decentralized	2,9	1,1
Sandton CBD	12,2	10,2
Randburg Ferndale	11,9	10,0
Brooklyn/Waterkloof (Pta)	9,8	7,9
Hatfield	4,1	2,3
Berea (Durban)	8,6	6,8
La Lucia Ridge	0,7	-1,0
Tyger Valley	12,6	10,7
Claremont	5,3	3,5
Century City	12,2	10,2
Prime industrial rentals (500-m² units)		
Central Witwatersrand	4,1	2,4
East Rand	7,0	5,2
Durban metro	-1,2	-2,9
Cape Peninsula	3,7	1,9
Flat rentals (standard quality, all sizes)		
National	6,0	1,0
Johannesburg metro	5,2	0,3
Pretoria metro	5,8	0,9
Durban metro	5,0	0,1
Cape Town metro	9,6	4,5

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

Office rentals

The growth prospects for market rentals of office space remain modest. This as prospects of even weaker economic activity, low business confidence and soft labour market conditions will most likely continue to place a damper on the demand for office space.

In the fourth quarter of 2015, market rentals for decentralized office space were up by only 3% nationally. At a regional level, the strongest growth was recorded in Cape Town decentralized, where market rentals were — on the whole — up by an impressive 10%. A boon to market rentals in Cape Town decentralized must have been office vacancy rates which have for quite some time now been trekking south. Cape Town decentralized was followed by Johannesburg decentralized, where rentals were up by 9%. In Pretoria (+2%) and Durban (+1%) decentralized more modest growth in market rentals was observed. In the fourth quarter of 2015, building-cost inflation (as measured by the BER BCI) is expected to have shown growth of roughly 2%. This implies that Cape Town and Johannesburg decentralized were the only regions where — on average — rentals were able to grow relative to building-construction costs.

Industrial market

In the fourth quarter of 2015, prime industrial rentals could again only muster growth of about 4% nationally. A look at some of the country's top industrial complexes shows fairly impressive growth in industrial market rentals on the East Rand (+7%). This was in contrast to the Central Witwatersrand and the Cape Peninsula, where market rentals grew by a modest 4%. In Durban (-1%), market rentals were slightly lower than what they were a year ago.

For now, however, the persistent weakness in the manufacturing and retail sectors does not augur well for the demand for industrial space to rent, and consequently the growth in market rentals.

The house market

In February 2016 national house prices still showed yearly growth of about 6%. Factors that will most likely — over the short to medium term — adversely affect affordability, the demand for houses and, consequently, the growth in prices, are:

- Slower economic activity
- Rising interest rates (which directly impact on affordability)
- Tighter credit standards
- Soft employment conditions and slower growth in disposable incomes due to fewer appointments in the public sector and low salary adjustments in the private sector.
- Low levels of consumer confidence

Of course, most of the above-mentioned factors are intertwined and they really boil down to failing economic growth. A partial exception to this statement is the path of interest rates which are, to a degree, determined by the Fed's interest-rate policy, which is beyond SA's control.

Flat rentals

Nationally, in the fourth quarter of 2015, market rentals for flats were still up by a yearly rate of 6%.

A look at the performance across the major cities, again shows strong growth in flat rentals in Cape Town (+9,6%; y-o-y). Cape Town was followed by Pretoria, where rentals were up by 6% and by Johannesburg and Durban where flat rentals grew by 5%. With regard to Cape Town, in the Tygerberg (northern suburbs) the demand for residential space to rent remains very robust. There is some anecdotal evidence that this may be due to semigration from Gauteng and KwaZulu-Natal.

In the same quarter, consumer inflation (excluding owners' equivalent rent for flats) showed yearly growth of just below 5%. This implies that Cape Town was the only city amongst those mentioned above where flat rentals grew in *real* terms. In the other cities, the growth in nominal rentals was at least on a par with the growth in consumer prices.■