State of the property market in quarter 1 of 2016

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

- Vitality in some Johannesburg suburban offices nodes
- Slump in spending on durables does not augur well for manufacturing sector
- Drivers of house prices showing no vigour
- Johannesburg and Cape Town producing inflation-beating flat rental 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 2016:1) with that collected a year earlier.

Table 1
The property market at a glance at quarter 2016:1*
% growth on four quarters earlier (on smoothed data)

	Nominal	Real**
A-grade decentralized office rentals		
National decentralized	4,9	3,1
Sandton CBD	14,1	12,2
Randburg Ferndale	14,3	12,4
Brooklyn/Waterkloof (Pta)	10,2	8,2
Hatfield	3,7	2,0
Berea (Durban)	10,3	8,5
La Lucia Ridge	1,9	0,2
Tyger Valley	3,3	1,6
Claremont	13,0	11,1
Century City	1,2	-0,5
Prime industrial rentals (500-m² units)		
Central Witwatersrand	2,6	0,2
East Rand	7,5	5,0
Durban metro	2,3	-0,2
Cape Peninsula	5,2	2,7
Flat rentals (standard quality, all sizes)		
National	5,9	-1,0
Johannesburg metro	9,3	2,1
Pretoria metro	6,2	-0,8
Durban metro	4,4	-2,4
Cape Town metro	7,8	0,7

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

Office rentals

In the first quarter of 2016, market rentals for grade-A office space in Johannesburg decentralized started the year off on a good note. Here rentals were able to grow at an impressive aggregated yearly rate of roughly 10%.

Johannesburg decentralized was followed by Cape Town decentralized, where market rentals were on the whole up by about 6%. In Pretoria and Durban decentralized, nominal rentals could only muster growth of 3%. In the reporting quarter, building costs — as measured by the BER BCI — are expected to have shown growth of only 2%. This implies that in all of these office regions rentals were — on average — also able to grow in *real* terms.

Industrial market

At the moment, persistent weaknesses in the retail and in particular the manufacturing sectors do not augur well for the demand for industrial space to rent and therefore not for market rentals, either.

Thus, in the first quarter of 2016, nominal prime industrial rentals were — on a national basis — up by a yearly rate of only 4%. A closer look at the regional level shows the strongest growth on the East Rand, where rentals were up by 7%. This was followed by the Cape Peninsula, Central Witwatersrand and Durban, where market rentals showed growth of 5%, 3% and 2% respectively.

The house market

According to Absa, FNB and Lightstone, in May 2016 yearly growth in national nominal house prices ranged between 5% and 7%.

Thus, the modest growth in house prices continued, which is unsurprising given that key drivers of house prices are showing no vigour. The most obvious, of course, is economic activity and its resulting impact on employment and the disposable incomes of households. In fact, the impact of weak economic activity on employment and disposable incomes was made very evident during the first quarter of 2016. During the quarter, the official unemployment rate (narrow definition) jumped to 26,7%, its highest rate in more than 12 years, while nominal disposable income showed yearly growth of only 2%. This compared to a year ago when disposable incomes were growing at a robust — but utterly unsustainable — pace of 12%.

Flat rentals

In the first quarter of 2016, nominal flat rentals in Johannesburg joined Cape Town in producing inflation-beating growth.

During the quarter under review, nominal flat rentals in Johannesburg recorded yearly growth of 9%, while rentals in Cape Town were up by 8%. These are compared to consumer inflation (excluding owners' equivalent rent) of 7% and the national aggregated flat-rental growth rate of 6%. In Pretoria and Durban more moderate growth rates of 6% and 4% respectively were achieved.■