State of the property market in quarter 3 of 2016

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

- Office rental performance not too shabby, thanks to a services sector that hasn't collapsed
- Signs of continued weakness in manufacturing , a bad omen for rentals
- Nominal values of new residential mortgages granted, are contracting
- Flat-rental growth not too bad, but prospects remain daunting

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 2016:3) with that collected a year earlier.

Table 1
The property market at a glance at quarter 2016:3*
% growth on four quarters earlier (on smoothed data)

	Nominal	Real**
A-grade decentralized office rentals		
Sandton CBD	7,7	-1,1
Randburg Ferndale	1,0	-7,4
Brooklyn/Waterkloof (Pta)	6,8	-2,0
Hatfield	19,3	9,5
Berea (Durban)	0,5	-7,7
La Lucia Ridge	6,9	-1,9
Tyger Valley	6,8	-2,0
Claremont	4,9	-3,8
Century City	2,2	-6,1
Prime industrial rentals (500-m² units)		
Central Witwatersrand	7,6	-1,3
East Rand	8,0	-0,9
Durban metro	7,7	-1,1
Cape Peninsula	7,6	-1,2
Flat rentals (standard quality, all sizes)		
Johannesburg metro	7,0	0,7
Pretoria metro	7,6	1,2
Durban metro	7,7	1,3
Cape Town metro	6,3	0,0

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

Office rentals

Despite moderating slightly, office market rentals were ─ on a national decentralized basis ─ up by a satisfactory 7% in the third quarter of 2016.

A look at the market rental growth at the regional level, shows the strongest growth in Johannesburg (+9%) and Durban (+9%) decentralized where nominal rentals were in 2016Q3 able to show growth in line with the expected growth in building-cost inflation. This was followed by Pretoria and Cape Town decentralized, where nominal market rentals showed growth of 7% and 5% respectively.

For now, some optimism for office demand comes in the form of the strong rebound in overall business confidence during the third quarter of 2016. It's unlikely that this is the start of a sustained recovery in sentiment; the reason being that the majority of respondents to the business sentiment survey still rate current conditions as unsatisfactory. Add to this the prevailing economic and political uncertainty, then a sustained turnaround in the Index cannot be expected.

Industrial market

Despite the prevailing poor demand side conditions in the third quarter of 2016, industrial market rentals in the country's major industrial agglomerations still managed to show decent growth. In the reporting quarter, nominal rentals on the East Rand, Central Witwatersrand, Durban and the Cape Peninsula were all up by just below 8%. This growth was, however, still not good enough to beat the growth in building-costs (as measured by the BER BCI), which over the same period is expected to be roughly 9%.

For now, prospects for the manufacturing sector remain far from being rosy, which poses the biggest threat to prospects for the industrial property market.

The house market

Important indices of house prices have converged, and are now showing modest growth in nominal house prices. This comes on the back of sharp contractions in the value of new mortgage loans granted.

In October 2016, the yearly growth in nominal national house prices – as measured by Absa, FNB and Lightstone ─ ranged between 2% and 5%. One explanation for the weak growth in house prices seems to be lenders that have now become more risk averse and, as a result, have tightened their mortgage lending criteria. This is seen in the sharp contractions in the nominal values of new residential mortgages granted. In September 2016, the yearly contraction was as large as 17%.

Flat rentals

In the third quarter of 2016, nominal flat rentals were on a national aggregated level able to show yearly growth of about 6%.

Amongst the country's major cities, Johannesburg and Durban were during the quarter under review able to show the strongest growth of roughly 8%. This was followed by Cape Town and Pretoria where rentals were up by 7% and 6% respectively. In the third quarter of 2016, consumer prices (excluding owners' equivalent rent) again recorded growth of around 6%, implying that in all of these cities (barring Pretoria) flat rentals were able to grow (albeit marginally) in real terms.

Affordability remains the most crucial short-term determinant of the demand for residential space to rent. Therefore, from an affordability point of view, the rise in the unemployment rate to a 13-year high of 27,1% in the third quarter of 2016, and the current contractions in *real* disposable salaries – as measured by BankservAfrica – do not augur well for residential rental demand.■