State of the property market in quarter 4 of 2016

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

- Office rental growth takes a breather as drivers underperform
- Industrial rentals unable to outperform inflation
- Flat rentals are showing better growth than house prices
- House prices tank in Durban but excel in Cape Town

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 2016:4) with that collected a year earlier.

Table 1
The property market at a glance at quarter 2016:4*
% growth on four quarters earlier (on smoothed data)

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

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

Industrial market

The underperformance of the manufacturing and retail sectors continues, which does not bode well for prospects for the industrial property market.

The manufacturing sector underpins the demand for industrial space for manufacturing production purposes, whereas the retail sector underpins the demand for warehouse space.

Nonetheless, in the fourth quarter of 2016, industrial market rentals in the country's major industrial regions still showed fairly good growth. The best growth was in Durban (+7%). The Cape Peninsula, the Central Witwatersrand and the East Rand all showed growth of about 6%. This growth was again unable to beat the expected growth in building costs (as measured by the BER BCI) of 7%.

The house market

The growth in nominal house prices in all of the country's major cities is in serious deceleration mode. In Durban, however, it has happened to such an extent that nominal prices are now contracting.

In the fourth quarter of 2016, nominal house prices in Cape Town were (on average) still up by a fairly impressive yearly rate of 8%. This was in contrast to the other cities where growth ranged from +3% on the East Rand (City of Ekurhuleni) to -3% in Durban (City of Ethekwini). Durban is the second most important manufacturing hub in South Africa after Johannesburg. Hence, the poor performance in house prices might just be reflective of the knock its economy is taking due to the rut in which the manufacturing sector is finding itself.

For now, key drivers of house prices continue to underperform. Hence, one can expect this to continue to place a damper on house prices in Durban, and the rest of the country. Consider here, as an example of an important driver, the nominal value of residential mortgages granted, which has been shrinking (on a year-on-year basis) since the beginning of 2016.

Flat rentals

For now, the growth in flat rentals is at least outperforming the growth in house prices.

In the fourth quarter of 2016, flat rentals in Johannesburg were again the best performer as rentals here showed growth of roughly 7%. This was followed by Cape Town and Pretoria (ca. 6%), followed by Durban (5%). As a reference point, over the same period, consumer prices (excluding owners' equivalent rent) showed growth of 7%. This implies that it was only in Johannesburg that nominal rentals were able to grow at the inflation rate. Elsewhere, rentals were unable to grow in *real* (CPI-deflated) terms.

Another reference point is the growth in house prices over the same period which – as shown in the previous section – rose at rates of between -3% and 8% percent.

This implies that over the past year the initial yields on buy-to-rent flats have been improving.■