State of the property market in quarter 1 of 2017

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

- Cape Town office rentals showing the strongest growth
- Subdued business sentiment keeps industrial rentals at bay
- Modest growth in flat rentals

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 2017:1) with that collected a year earlier.

Office rentals

Office rentals in Cape Town decentralized are showing the strongest growth – benefiting from very low vacancy rates in the city's top suburban office nodes.

In the first quarter of 2017, nominal market rentals in Cape Town decentralized nodes showed growth of 7%, slightly in excess of the expected growth in building-cost inflation of 6%. Cape Town decentralized was followed by Durban and Pretoria decentralized, where rentals were up by 6% and 2% respectively. The weakest performance came from Johannesburg decentralized, where rentals — on average — remained at roughly their previous-year levels.

Table 1
The property market at a glance at quarter 2017:1*
% growth on four quarters earlier (on smoothed data)

	Nominal	Real**
A-grade decentralized office rentals		
Sandton CBD	-1,9	-7,8
Randburg Ferndale	4,9	-1,4
Brooklyn/Waterkloof (Pta)	3,9	-2,4
Hatfield	2,3	-3,8
Berea (Durban)	4,3	-2,0
La Lucia Ridge	6,1	-0,3
Tyger Valley	2,0	-4,1
Claremont	4,0	-2,3
Century City	8,8	2,3

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

Table 1 (continued) The property market at a glance at quarter 2017:1* % growth on four quarters earlier (on smoothed data)		
	Nominal	Real**
Prime industrial rentals (500-m² units)		
Central Witwatersrand	3,8	-2,4
East Rand	3,4	-2,8
Durban metro	3,6	-2,6
Cape Peninsula	3,9	-2,3
Flat rentals (standard quality, all sizes)		
Johannesburg metro	4,3	-2,2
Pretoria metro	6,1	-0,5
Durban metro	5,1	-1,4
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 current weak and low levels of business sentiment are set to keep the demand for industrial space at bay, the result of which could be continued sub-inflation growth in market rentals for industrial space.

A look at the major industrial regions shows all-round modest growth in nominal market rentals. In the first quarter of 2017, industrial market rentals on the Central Witwatersrand, Durban and Cape Town were all up by yearly rates of about 4%, while on the East Rand growth of 3% was recorded. These growth rates were again unable to beat the estimated growth in building costs (as measured by the BER BCI) of 6%. Hence, in all of these regions, industrial rentals contracted in *real* terms.

The house market

An economy less reliant on manufacturing and hard commodities, a lower unemployment rate and "pull" factors attracting households from the country's other regions, have in recent years resulted in continuing strong demand for houses in Cape Town – the result of which has been significantly better growth in house prices relative to the country's other major cities.

In the first quarter of 2017, nominal house prices in Cape Town were (on the whole) still up by a fairly impressive yearly rate of 8%. This is in contrast to the major cities in Gauteng (Tshwane, Johannesburg and Ekurhuleni), where growth ranged between 2% and 4%, and eThekwini (Durban), where prices remained at roughly previous-year levels. In the Nelson Mandela Bay Municipality (Port Elizabeth and Uitenhage) prices were on average down by 1%. The General Motors pull-out will only worsen this trend in Port Elizabeth.

Flat rentals

Households remain financially stretched as evidenced by the modest growth in the market rentals of flats.

In the first quarter of 2017, rentals of standard-quality flats in Cape Town performed the best, growing by a yearly rate of 6,5%. This was followed by Pretoria (+6%), Durban (+5%) and Johannesburg (+4%). Over the same period, consumer prices (excluding owners' equivalent rent) showed growth of 6,6%, implying that flat rentals were over the past year unable to grow in *real* terms in any of the cities mentioned above.

In all of the cities — barring Cape Town — flat rentals were again able to grow in excess of house prices. This, of course, implies that over the past year, the initial yields on buy-to-rent flats have been improving (except in Cape Town).