State of the property market in quarter 2 of 2017

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

- No vigour in the office rental market
- Contractions in spending on durables do not augur well for the manufacturing sector – a support pillar of the industrial property market
- The key drivers of the mortgage and house markets continue to be lifeless

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 2017:2) with that collected a year earlier.

Office rentals

Office-rental growth continues to be subdued by weak demand-side conditions.

In the second quarter of 2017, market rentals in Durban decentralized mustered yearly growth of 5%, followed by Cape Town decentralized, where rentals were up by a meagre 3%. In the Johannesburg decentralized market, office rentals remained — on average — at roughly their previous-year levels, while Durban decentralized rentals (-1%) contracted slightly. In the reporting quarter, building-cost inflation (as measured by the BER BCI) is expected to have shown yearly growth of roughly 6% – implying that new office developments are becoming progressively less viable.

Table 1
The property market at a glance at quarter 2017:2*
% growth on four quarters earlier (on smoothed data)

	Nominal	Real**
A-grade decentralized office rentals		
Sandton CBD	1,9	-4,7
Randburg Ferndale	5,0	-1,9
Brooklyn/Waterkloof (Pta)	8,6	1,5
Hatfield	-4,5	-10,6
Berea (Durban)	4,3	-2,5
La Lucia Ridge	4,8	-1,9
Claremont	1,7	-4,8
Tyger Valley	-2,4	-8,6
Century City	7,3	0,4

* 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 2017:2*
% growth on four quarters earlier (on smoothed data)

	Nominal	Real**
Prime industrial rentals (500-m² units)		
Central Witwatersrand	6,7	-0,2
East Rand	4,9	-1,9
Durban metro	2,4	-4,2
Cape Peninsula	9,4	2,2
Flat rentals (standard quality, all sizes)		
Johannesburg metro	5,9	0,9
Pretoria metro	6,0	1,0
Durban metro	6,9	1,8
Cape Town metro	3,7	-1,2

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

Industrial market

The continued contractions in spending on durables remain a bad omen for the manufacturing sector, one of the support pillars of the industrial property market.

Despite now showing smaller yearly contractions, in the second quarter of 2017, final consumption expenditure by households on durable goods yet again contracted by a yearly rate of 2%, thereby recording its ninth consecutive quarter of falling spending on durables. For now, low levels of consumer confidence and contractions in real credit extended to households do not bode well for the household durable-spending outlook. This, arguably, would also not augur well for the demand for locally manufactured durable goods and manufacturing production.

Nonetheless, in the second quarter of 2017, nominal market rentals for prime industrial space in the Cape Peninsula showed growth of 9%. This was followed by the Central Witwatersrand (7%), the East Rand (5%) and Durban (2%).

The house market

Important drivers of house prices remain timid. Therefore, a continuation of low single-digit growth in house prices countrywide – barring Cape Town for now – is therefore most likely.

An important driver to consider is the nominal value of residential mortgages granted, which for the whole of 2016 contracted on a year-on-year basis. The good news, however, is that for the first two quarters of 2017, modest growth in the value of mortgage loans granted was again observed. Nonetheless, there remains strong headwinds that are likely to continue to confront effective demand for mortgage loans (from borrowers) and mortgage lender sentiment. This, in turn, will adversely affect the growth in the value of mortgage loans granted.

As for recent growth in nominal house prices, modest (sub-inflation) growth is the order of the day in all of the country's major cities, barring Cape Town. In Cape Town, however, growth seems to be cooling.

Flat rentals

Nationally, flat rentals were in the second quarter of 2017 up by a yearly rate of just 5%.

A look at the country's major cities, shows that nominal flat rentals in Durban (+7%) showed the strongest growth, followed by Pretoria and Johannesburg (+6%), and Cape Town (+4%). In the second quarter of 2017, consumer prices (excluding owners' equivalent rent) grew by roughly 5%, implying that in Cape Town alone flat rentals were unable to grow in *real* terms.■