State of the property market

State of the property market in quarter 2 of 2018

The property market performed slightly better in the second quarter of 2018. Industrial property and flat rentals managed to again beat inflation, while the office market came surprisingly close. The housing market is also picking up, according to monthly house price data.

However, looking at the sharp fall in total returns of listed property for the first five months, a bleaker picture emerges, which is probably more reflective of the state of the property market. Regionally, Cape Town is still the light in the tunnel, but some cracks are emerging, especially in the upmarket suburbs.

The fact remains that a stronger property market requires a sustained pick-up in economic growth, which thus far has been absent. We still agree with most economists that 2018 will be a better year for economic growth, but don't see a significant improvement as several structural issues and cyclical problems (notably the fiscal crisis) remain. The chance of higher domestic interest rates is also increasing – the rand hit a 7-month low on 20 June due to the stronger dollar and concerns about domestic economic growth as "Ramaphoria" has faded. The dollar is on the rise due to higher interest rate in the US, which could translate into domestic rate hikes down the line, especially if inflation picks up as expected.

A summary of the main findings per property type follows.

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 2018:2) with that collected a year earlier.

Office rentals

The office market surprised on the upside in the second quarter of 2018, with national rentals increasing by 6% – the fastest growth since the end of 2016. However, growth was still lower than building-cost inflation (as measured by the BER BCI) of around 7%. This is no surprise as oversupply, reflected by double-digit vacancy rates, continues to characterize this market.

Nominal market rentals for grade-A office space in Cape Town decentralized outshone the other major office regions, growing by 8%, in line with its low vacancy rate of 4%. No other major region managed to beat inflation: Johannesburg decentralized rentals (+6,5%) continued to accelerate, while rentals in the Pretoria suburbs (+4%) recovered somewhat. Rental rates in Durban decentralized did not change.

Industrial market

Industrial property continued to perform well in the second quarter of 2018, with nominal market rentals just beating building-cost inflation of around 7%. Nominal rentals for prime industrial space of 500 m² in the Cape Peninsula again performed the best of the four major industrial regions in South Africa, with growth of 16% year on year. Rentals in the Central Witwatersrand, Durban and the East Rand grew by 10%, 8% and 5% respectively. This implies that rentals managed to grow in *real* terms in all the major regions, except the East Rand.

Table 1
The property market at a glance in quarter 2018:2
% change from four quarters ago (on smoothed data)

	Nominal	Real*
A-grade decentralized office rentals		
Sandton CBD	5,4	-1,3
Randburg Ferndale	2,2	-4,3
Brooklyn/Waterkloof	3,6	-3,0
Hatfield	2,2	-4,3
Berea (Durban)	0,6	-5,8
La Lucia/Umhlanga Ridge	-1,9	-8,2
Claremont Upper	17,4	9,9
Tyger Valley	9,9	2,9
Century City	13,4	6,2
Prime industrial rentals (500m² units)		
Central Witwatersrand	9,6	2,7
East Rand	4,5	-2,1
Durban metro	8,0	1,1
Cape Peninsula	15,8	8,4
Flat rentals (standard quality, all sizes)		
Johannesburg metro	3,6	-0,8
Pretoria metro	8,1	3,5
Durban metro	16,1	10,6
Cape Town metro	6,7	2,0

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

Flat rentals

Flat rentals across South Africa grew by 6,8% in the second quarter of 2018 compared to the second quarter of 2017, comfortably beating consumer inflation.

During the reporting quarter, nominal flat rentals in Durban (+16%) showed the strongest increase of all major cities for the fourth consecutive quarter. Rentals in Cape Town grew by around 7% over the past year. However, the rental performance differs considerably between the different Cape Town areas. The more expensive areas have seen much slower growth recently, with some even recording drastic declines, such as the Atlantic Seaboard. Johannesburg's rental rate did pick up somewhat, but still managed to grow by only 4%. The high vacancy rate in Johannesburg, mostly in the CBD where rentals have declined year on year, played a role in this low growth rate. In contrast, rentals in Pretoria grew 8%. This implies that all major cities, barring Johannesburg, managed to outpace consumer inflation.

The housing market

Nationally, house prices grew by 2,6% over the first five months of 2018, significantly slower than building-cost inflation (about 7%) and consumer inflation (about 4,5%). This implies that house prices have continued to decline in *real* terms.

However, monthly house price growth has been slowly accelerating since February, reaching a pace of 4,6% in May. Cape Town remains the only major city, and KwaZulu-Natal the only province, where house prices are beating inflation. ■