State of the property market

State of the property market in quarter 3 of 2018

The property market is under pressure, as reflected by the dire performance of the listed sector. The threat of land expropriation without compensation is not helping, although the situation appears to be somewhat calmer now as it seems the government is not going to go the whole hog.

The industrial property market remains the best performer among the different property types, but here growth is also starting to slow, with vacancies creeping up from low levels. The good news is that rental growth is still outpacing building-cost inflation (as measured by the BER BCI). However, the same can't be said about office rentals and house prices.

Let's not forget that the economy is in recession, which can be expected to hold back the demand for space. The new administration in the Union Buildings is trying to prop up the economy through its foreign investment drive and a domestic stimulus package, but time will tell whether this will bear fruit as all the immediate remedies are politically unpalatable, not to mention that many constraints are structural (long-term problems) that cannot be rectified in the short term. Thus, in the short term the economy will need all the support it can get without endangering the long-term prospects. A good example of this caveat is that more government debt will be the road to ruin. Whiffs of Italy.

Therefore, tough times are probably here to stay for a while.

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 2018:3) with that collected a year ago.

Office market

In the third quarter of 2018, the office market failed to build on the better second-quarter performance. Nevertheless, national rentals still managed to grow (+4%) in line with building-cost inflation, but this is mostly thanks to continued stellar growth in Cape Town (+10%). Rentals in other major cities mostly disappointed – a symptom of an oversupply.

Johannesburg decentralized rentals rose by about 4%, on par with building-cost inflation. Rental rates in Pretoria decentralized increased by 1%, while they fell by 1% in Durban.

Industrial market

Industrial property continues to be the shining light in the property market due to its superior rental growth and lower vacancy rates. However, Rode's latest data indicate the market is starting to cool somewhat, with third-quarter national rental growth slowing to 6% from 7,5% in the previous quarter.

Table 1
Rental performance in quarter 2018:3
% change from four quarters ago (on smoothed data)

	Nominal	Real*
A-grade decentralized office rentals		
Sandton CBD	2,1	-2,0
Randburg Ferndale	4,2	0,0
Brooklyn/Waterkloof	3,5	-0,7
Hatfield	-3,1	-7,0
Berea (Durban)	-2,4	-6,3
La Lucia/Umhlanga Ridge	-1,5	-5,6
Claremont Upper	22,7	17,8
Tyger Valley	12,4	7,9
Century City	16,5	11,8
Prime industrial rentals (500 m² units)		
Central Witwatersrand	4,8	0,5
East Rand	3,1	-1,0
Durban metro	3,9	-0,3
Cape Peninsula	14,9	10,3

* Nominal values deflated by BER Building Cost Index

Nationally, industrial rental growth was largely driven by the Cape Peninsula, where nominal market rentals grew by an incredible 15% year on year. This sharp growth is in line with Rode's vacancy-factor data, which indicate the region has the least amount of vacant space in the country.

Rentals in the Central Witwatersrand, Durban and East Rand grew by 5%, 4% and 3% respectively. Rentals in the West Rand declined by 3%. This implies that rentals managed to grow in *real* terms only in the Cape Peninsula and the Central Witwatersrand.

Housing market

In the first eight months of 2018, national nominal house prices grew by 3,5% year on year as the market remains under pressure from weak demand. This implies that house prices are still declining in *real* terms.

By metro, Cape Town still stands out, with growth of 8,7% in the second quarter of 2018, although growth has slowed over the past two years. In comparison, prices in Johannesburg, Ekurhuleni and Pretoria all grew by around 3%. ■