State of the property market

State of the property market in quarter 4 of 2018

The property market is finding itself in a tough space, as evidenced by the terrible performance of listed property. Property companies are struggling to deliver distributions that are comparable to previous years as weak economic growth and over-the-top new developments in the past now negatively impact rentals and vacancy rates.

Industrial property is one sector that is standing out due to its superior rentals and lower vacancy rates. We ascribe this to South Africans' predilection to consume, creating an ever-growing demand for warehouse space and freight logistics, as well as the near absence of speculative developments.

A summary of the main findings per property type follows.

Quantitative overview of the property market

Table 1 on the next page provides a snapshot of how the property market has performed over the past four quarters by comparing the latest information (quarter 2018:4) with that collected a year ago.

Office market

The office market continued to perform poorly in the fourth quarter, with national decentralized nominal rental growth slowing further to 3%. This uninspiring performance is not a surprise, as the average vacancy rate for the sector is still at about 10%. Nominal rentals did not change much from the third quarter and in most major cities stayed either constant or declined slightly. However, Cape Town remains the standout compared to the fourth quarter of 2017, with rental growth of 9%. Claremont was by far the best-performing node in the Mother City.

Despite national rentals growing by only 3%, *real* growth was still observed as the latest available figures show that building-cost inflation (BER BCI) has moderated significantly to only about 1%.

Industrial market

In the fourth quarter, nominal industrial market rentals grew by 6% on a year earlier – the same pace as in the third quarter of 2018. This implies that rentals continued to increase in *real* terms, after adjusting for building-cost inflation.

National rental growth in the fourth quarter was largely driven by the Cape Peninsula, where nominal market rentals grew by 10% on a year earlier. Nevertheless, rental growth here has slowed for the second consecutive quarter. Market rentals in the Central Witwatersrand, Durban and East Rand grew by 5%, 5% and 3% respectively, roughly on par with growth rates in the previous quarter.

Housing market

The housing market remains under pressure, with prices in the first eleven months of 2018 up only 3,7%. This growth rate is about 1 percentage point less than consumer inflation, implying that house prices continue to decline in *real* terms. This makes it likely that house prices for the full 2018 will have grown at a slower rate for a fourth consecutive year. ■

Table 1
Rental performance as at quarter 2018:4
% change from four quarters ago (on smoothed data)

	Nominal	Real*
A-grade decentralized office rentals		
Sandton CBD	-3,4	-4,3
Rosebank	2,7	1,7
Randburg Ferndale	2,1	1,1
Centurion	4,8	3,9
Hatfield	-1,2	-2,1
Berea (Durban)	-2,5	-3,3
La Lucia/Umhlanga Ridge	1,5	0,6
Claremont Upper	23,2	22,1
Tyger Valley	12,0	11,0
Century City	11,0	9,9
Prime industrial rentals (500 m² units)		
Central Witwatersrand	5,4	4,5
East Rand	2,8	1,9
Durban metro	4,9	4,0
Cape Peninsula	10,3	9,3

* Nominal values deflated by BER Building Cost Index