State of the property market

# State of the property market in quarter 1 of 2019

The property market is facing dark times as the weak domestic economy, now also under severe threat by unstable electricity supply, is increasingly impacting negatively on vacancies and rentals. Worryingly, global economic growth is also slowing, perhaps feeling the impact of the trade war and Brexit. There is even recession talk in the US. Locally, the outlook is clouded by uncertainty over further rating downgrades, the May elections, land/property expropriation, the ongoing Resilient-stable investigations and Edcon.

In the first quarter of 2019 no property type managed to show rental growth that beat building-cost inflation (BER BCI) of about 7%. Industrial property continues to be the best performer, as you will read in our summary of the main findings per property type that follow.

## 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 2019:1) with that collected a year ago.

## Office market

The office market continues to record below-inflation rentals due the oversupply and low business confidence. The good news for landlords is that the new supply coming onto the market is continuing to slow as fewer building plans are passed. However, demand also needs to pick up before the market can recover.

Nationally, nominal market rentals for grade-A office space have not changed much from the end of last year. First-quarter 2019 rentals grew by 4% compared to the first quarter of 2018. This implies that rentals declined in *real* terms after adjusting for building-cost inflation of around 7%.

Nominal rentals in Pretoria decentralized performed the best, with stellar growth of 14% – the only major decentralized area to outpace inflation. This increase can largely be explained by the low base of rentals a year ago. The Brooklyn/Waterkloof and Menlyn nodes stood out with strong rental growth of above 10%. Nominal rental growth in Cape Town slowed to 7% in line with slightly worsening vacancy rates. This was the first time rentals failed to outpace inflation in four quarters. Rentals in Johannesburg were in line with those of a year ago, while rentals grew by 3% in Durban.

## Industrial market

Nominal industrial market rentals grew by 6,5% year on year in the first quarter of 2019, on par with the growth rate achieved over the full 2018, indicating that the market is still on a solid footing amid low vacancy rates. However, rentals fell slightly in real terms, after adjusting for building-cost inflation.

National rental growth continues to be driven by the Cape Peninsula, where nominal market rentals for prime industrial space of 500 m² grew by 8% on a year earlier. However, rental growth in the region has slowed for the third consecutive quarter, after growth of 16% in the second quarter of 2018. The strong, but slower rental growth implies that the affordability factor is at play.

Market rentals in the Central Witwatersrand, Durban and East Rand grew by 7%, 6% and 4% respectively. This implies that rentals managed to grow in real terms only in the Cape Peninsula and the Central Witwatersrand. Both these regions recorded better Rode vacancy factors during the first quarter.

## Residential market

The residential market remains weak, with national nominal house price growth slowing further to 3,7% in February 2019.

This implies that prices have continued to decline in real terms. In the light of the economic headwinds coming South Africa's way, do not expect real growth in house prices and flat rentals any time soon. ■

**Table 1**
**Rental performance as at quarter 2019:1**
**% change from four quarters ago (on smoothed data)**

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

*Nominal values deflated by BER Building Cost Index