State of the property market

State of the property market in quarter 2 of 2019

The property market is indeed facing dark times as evidenced by the terrible financial results of listed property. This comes as no surprise given the high vacancies and below-inflation rental growth generally experienced by the market. However, industrial property still stands out with its inflation-beating rentals due to low vacancy rates and firm demand for logistics.

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 2019:2) with that collected a year ago.

Office market

The office market continues to record below-inflation rental growth as landlords are finding it increasingly hard to push up rentals due to an oversupply of space amid weak demand. The national vacancy rate is anchored at close to 10%. Not helping is that new unlet space is coming onto an already saturated market. However, a relief for the market is that new developments under construction and plans in the pipeline have slowed in many parts of the country.

Nationally, nominal market rentals for grade-A office space grew by 3% in the second quarter of 2019 compared to the second quarter of 2018 – slowing slightly from the 4% growth rate at the beginning of 2019. This implies that rentals continued to decline in real terms, even after accounting for weaker building-cost inflation, which slowed significantly to about 3,5%. The last time office rentals beat inflation was in the fourth quarter of 2016.

Nominal rentals in Pretoria again performed the best, with growth of 10%. We won't read too much into this increase yet as the increase can largely be explained by the low base of rentals a year ago. Rental growth in Cape Town slowed further to 5%, while increasing by 3% in Durban and staying at roughly the same level in Johannesburg.

Industrial market

Nominal market rentals of industrial properties are – amazingly – still growing at a decent nominal rate of 6%. However, this was slightly slower than the 6,5% pace of the first quarter, as all major industrial regions recorded weaker rental growth and vacancy rates picked up somewhat. This implies that rentals increased by about 2% in real terms, beating building-cost inflation for the second consecutive quarter.

Regionally, Cape Town has been ousted from its position as the best performer by the Central Witwatersrand, where nominal market rentals for prime industrial space of 500 m² grew by 7% on a year earlier. The better rentals are linked to the area's low Rode vacancy factor of 2,5, which denotes a vacancy rate of less than 5%. This was the first time any major industrial area outgrew the Cape Peninsula in a quarter since the third quarter of 2017.

Rental growth in the Mother City also grew at a strong rate of 6%, but has slowed for the fourth consecutive quarter after growth of 16% in the second quarter of 2018. Market rentals in Durban and the East Rand grew by 6% and 3% respectively. This implies that all regions, except the East Rand, managed to record rental growth in excess of building-cost inflation.

Residential market

The residential market remains weak, with national nominal house prices growing by only 3,4% over the first five months of 2019 compared to the same period in 2018. This implies that prices have continued to decline in real terms. A year ago the headline of the *Rode Report* was "Cape Town is still the light in the tunnel, but ...", which referred to cracks emerging in the Cape Town housing market. These cracks have indeed become bigger, with house prices in the Mother City slowing drastically over the past year. We discuss this in detail in **Chapter 10**.

The flat market is still under pressure due to high vacancy rates. Good news is that vacancy rates have improved from the beginning of the year as it seems landlords or their managers are keeping rentals steady to retain tenants. However, vacancy rates remain higher than a year ago, with notable increases in Durban and Cape Town. The high-end rental market is particularly under the cosh, evidenced by relatively higher vacancy rates compared to properties with cheaper rentals. ■

Table 1
Rental performance as at quarter 2019:2
% change from four quarters ago (on smoothed data)

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

*Nominal values deflated by BER Building Cost Index