State of the property market

State of the property market in quarter 3 of 2019

The property market remains under pressure, with the office, retail and, to a lesser extent, the residential market, still in oversupply. Let's not forget that the economy is struggling to grow. The industrial property remains the star among the different SA property types, largely due to 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 2019:3) with data collected a year ago.

Office market

The office market is worst placed of all the property types due to its significant oversupply. The market is still struggling to record rental growth higher than building-cost inflation (BER BCI) amid high and rising vacancy rates. A positive is the sharp slowdown in the construction of new space.

Nationally, nominal market rentals for grade-A office space grew by 4% in the third quarter of 2019 compared to the third quarter of 2018. This is somewhat better than the 3% growth recorded in the second quarter of 2019. This implies that rentals continued to decline in real terms, after accounting for building-cost inflation of about 6%. The last time rentals beat inflation was in the fourth quarter of 2016.

Nominal rental growth was the strongest in Pretoria and Cape Town at about 6%, while rentals grew by 4% and 2% in Durban and Johannesburg respectively. This implies that no major city managed to record above-inflation rental growth.

Industrial market

The industrial market continued to perform well in the third quarter of 2019, which is surprising given the generally weaker performance of its support pillars, namely the manufacturing and retail sectors. However, when we talk of 'industrial' property it mainly means warehousing and distribution centres, which are in high demand.

Nationally, nominal industrial market rentals increased by 6,2% in the third quarter of 2019, in line with the growth recorded in the first half of 2019. This implies that rentals grew at the same rate as building-cost inflation. In other words, rentals stayed constant in real terms.

Nominal rental growth was the fastest in the Central Witwatersrand for the second consecutive quarter. Here nominal market rentals for prime industrial space of 500 m² grew by 11% on a year earlier – up from 7% in the second quarter. The higher rentals can largely be explained by the low base of rentals a year ago, while the area also has a low Rode vacancy factor. Rentals in Durban also accelerated, growing by 8%.

Rentals in Cape Town increased by 4% – the fifth consecutive quarter of slower growth. Vacancy rates worsened significantly in the third quarter, although they remain relatively low. This implies that only Central Wits and Durban managed to record rental growth in excess of building-cost inflation.

Residential market

Nationally, the housing market is still slightly oversupplied, most significantly in the high end. Prices grew by 3,5% in nominal terms over the first nine months of 2019 compared with the same period a year earlier, according to FNB. This is slightly slower than the 3,9% of 2018. However, year-on-year growth picked up in the third quarter to 3,7% compared to 3,4% in the second quarter as banks' battle to gain market share by relaxing credit standards is having a slightly positive, but non-sustainable, influence on house prices. Nonetheless, even with this slight acceleration, price levels are still declining in real terms, that is after adjusting for consumer inflation.

In the flat market, vacancy rates worsened somewhat to a high 5,9% in the third quarter of 2019, according to Rode's residential survey data. This is weaker than the 5,2% of a year ago. The higher vacancy rates have led to slowing nominal flat rental growth, which came to about 4,5% in the third quarter of 2019. The high-end rental market remains under the most pressure – a story similar to that of the housing market. ■

Table 1
Rental performance as at quarter 2019:3
% change from four quarters ago (on smoothed data)

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

*Nominal values deflated by BER Building Cost Index (2016 = 100)