

## State of the property market

# State of the property market in quarter 4 of 2019

The property market is trading water amid continued weak fundamentals, such as above-average vacancy rates and subdued rental growth, in the wake of a stalling economy. The office, retail and, to a lesser extent, the residential market, are still in oversupply. Our latest survey results also point to a weaker industrial sector.

A summary of the main findings by 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 2019:4) with data collected a year ago.

#### Office market

The office market remains worst placed of all the property types due to its significant oversupply, with vacancy rates staying at elevated levels. For landlords, a positive is that office space under construction is at its lowest since the end of 2005, while building plans passed are falling sharply.

The market is still battling to record above-inflation rental growth, with nominal rentals even declining in some nodes. Nationally, nominal market rentals for grade-A office space grew by 4% in the fourth quarter of 2019 compared to the fourth quarter of 2018. This implies that rentals continued to decline in real terms, after accounting for building-cost inflation (BER BCI) of about 6%.

Over the period, grade-A Cape Town rentals were the best performer (+7%). Rentals grew by around 4% in Durban and Johannesburg, while growth weakened to 2% in Pretoria. This implies that of the major

cities only Cape Town managed to record above-inflation rental growth.

#### Industrial market

Nominal industrial market rentals in South Africa grew by 4% in the fourth quarter of 2019. This is slower than the 6% growth rate in the third quarter of 2019, perhaps as rentals are now finally impacted by the weaker performance of the manufacturing and retail sectors. Rode has also noted rising vacancies in some industrial conurbations. This implies that rentals grew at a slower rate than building-cost inflation.

Nationally, nominal rental growth for prime industrial space of 500 m<sup>2</sup> was the fastest in the Central Witwatersrand for the third consecutive quarter, but only marginally, as growth slowed significantly to 5% from 11% in the previous quarter. We did mention in the previous *Rode Report* that the 11% rise was likely due to base effects, which proved to be the case. Rentals in Cape Town and Durban also grew by 5%, while staying at about 3% on the East Rand.

#### Residential market

The housing market is still slightly oversupplied. The market is being supported by somewhat lower interest rates and aggressive competition between banks for home-loan business. But overall, the market is still struggling. Indicators of this are the number of days houses stay on the market and the falling number of serious viewers per show house.

National house prices, as measured by FNB, grew by 3,8% in nominal terms in October 2019 compared to October 2018. Prices grew by 3,6% over the first 11 months of 2019. This implies that prices have continued to decline in real terms, after adjusting for building-cost inflation. To put the year-to-date growth into

perspective, it is similar to last year's growth, but significantly lower than the 5,5% average price growth in the five years between 2013 and 2018.

In the flat market, vacancy rates have stabilised at between 5% and 6%. In its

historical perspective, this is still a relatively high void, as a consequence of which rental growth is still decelerating. A welcome sign for the oversupplied market is that new completions are slowing, while developers are also planning to build less. ■

**Table 1**  
**Rental performance as at quarter 2019:4**  
**% change from four quarters ago (on smoothed data)**

	<b>Nominal</b>	<b>Real*</b>
<b>A-grade decentralized office rentals</b>		
Sandton CBD	4,3	-1,8
Rosebank	3,1	-3,0
Randburg Ferndale	0,7	-5,2
Brooklyn/Waterkloof	-3,5	-9,1
Menlyn	7,1	0,8
Berea (Durban)	-1,3	-7,0
La Lucia/Umhlanga Ridge	2,6	-3,5
Claremont Upper	0,7	-5,3
Tyger Valley	12,9	6,2
Century City	3,7	-2,4
<b>Prime industrial rentals (500-m<sup>2</sup> units)</b>		
Central Witwatersrand	5,4	-0,8
East Rand	2,7	-3,4
Durban	5,2	-1,0
Cape Peninsula	5,3	-0,9
*Nominal values deflated by BER Building Cost Index (2016 = 100)		