RODE'S REPORT 2014:1 – Press Release

A few pockets of decent growth

A few premier office nodes in some of the country's major cities are showing decent growth – this according to the latest *Rode's Report on the SA Property Market*.

In the fourth quarter of 2013, Menlyn (+12%) in Pretoria, Century City (+10%) in Cape Town and the Sandton CBD (+8%) in Johannesburg were examples of nodes where nominal rentals were able to beat building-cost inflation (+6%). CEO of Rode & Associates, Erwin Rode, says that the rental growth in Sandton might, however, not be sustained in light of the node's high vacancy rate — 14% for grade-A^{+}, A and B combined — and the huge amount of additional office space that is in the pipeline. "Besides being the country's financial hub, another explanation for Sandton's popularity among developers is its Gautrain station," notes Rode.

Zooming out to the regional level, shows that rentals in Durban decentralized were during the fourth quarter of 2013 able to show the strongest growth of 5%. Cape Town and Pretoria decentralized recorded growth of 4% while in Johannesburg de-centralized, rentals were up by about 3%.

As for industrial rentals, the growth in Durban has been heating up, so much so that in recent quarters this city has been showing the strongest growth amongst the major industrial regions. During the fourth quarter of 2013, prime industrial rentals in Durban were up by an impressive yearly rate of 9%. This can be compared with rentals on the East Rand, which showed growth of only 5%. In the Central Witwatersrand and the Cape Peninsula, rental growth of 2% was recorded, while in Port Elizabeth there was no growth.

For now, conditions in the manufacturing sector remain "challenging". This naturally places a lid on the demand for industrial space and might keep rentals growing at moderate rates. Notes Rode: "Rand weakness has the potential of making S.A. goods internationally more competitive – but only for the time being, until inflation catches up."

Regarding house prices, the report notes that prices have been able to show reasonable growth during the start of 2014. Rode cautions that "the sustainability of this must be tempered when considering important value drivers that are in negative territory." Examples are still-high household debt-to-disposable income levels, slumping consumer confidence levels, the continued rise in property running costs, lacklustre economic growth and its likely damper on growth in employment and disposable incomes.

During the fourth quarter of 2013, rentals of townhouses were able to show the best yearly growth of roughly 5%, albeit from a low base. This was followed by flats and houses, where rentals were up by about 3% on a national basis. "For now," adds Rode, "a lacklustre economy and the damper it places on the growth in employment will most likely continue to be unsupportive of households' financial position. The outcome of this will be continued modest growth in residential rentals. It's all about affordability."

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