

Empty Spaces

THE RESIDENTIAL SECTOR IS NOT ALONE in the current depressed market. Certain segments of the commercial market have followed the dip as year-end approaches.

After starting the year on an upward trend, the growth in office rentals waned in the second quarter and there are warning signals flashing for the industrial market, which also had an encouraging start to the year.

Second quarter growth in office rentals dropped to 5% from 9% in the first quarter. Comments the current Rode Report : " Weaker economic activity must be reflecting business confidence and must be making firms think twice about expanding their premises or hiring new employees. The implications of this might naturally be continued lacklustre demand for office space to rent. Thus for now, moderate growth in rentals remains the most likely outcome."

The report says that for now no improvement in the demand for office space is detectable, adding: "Discouraging for the vacancy rate outlook must be the deceleration on the year-on-year growth in the output produced by the FIRE (finance, insurance and real estate) sector. Besides being the largest sector in terms of its contribution to overall GDP, this sector is also the largest user of office space." On a national basis, actual office vacancy rates are hovering around 8%.

One reason for concern on the industrial side is the recent sharp slide in the Kagiso Purchasing Managers' Index (PMI), which is a reliable



forecasting source of manufacturing production. This fall was ascribed to the high incidence of strikes, but Rode suggests the downward movement might be for real, caused by high production costs (electricity, transport and high wage increases), not to mention the uncertain global economic conditions.

An exception to the downward trend appears to be the Cape Peninsula, which experienced 8% rental growth in the second quarter. Trailing the Cape were Durban, the Central Witwatersrand and Port Elizabeth, recording rental growth rates of 3%, 2%

and 1% respectively.

Not surprisingly, there does not appear to be much relief on the horizon for the building industry. The Building Confidence Index slipped in the third quarter, as did the Civils index. Both indices report that not even one in four respondents is comfortable with current economic conditions. However, on the brighter side, fewer non-residential building contractors are reporting that activity is down compared to last year.

Building input price inflation, as measured by the Haylett Index, has been more or less trending sideways and accepted tender prices are roughly at the same levels they were a year ago. Industry analysts ascribe the gap between input prices and accepted tender prices to lower profit margins. Contractors are being forced to accept lower margins in order to receive any tenders at all.

Meanwhile, listed property chugs along. The SA Listed Property Index recorded a total return of 2,55% in October. The historic 12-month rolled yield of the market ended the month at 7,87%, slightly down on September's 7,94%. According to Catalyst Fund Managers, assuming income distribution growth of 6% over the next 12 months, the forward rolled income yield should be approximately 8,34%. ■■■

