SA homes market cycle set to turn

The South African residential property market moves in three-year cycles - and 2015 could mark the topping out of the most recent cycle, according to luxury home specialist Ronald Ennik, Principal of Christie's International Real Estate-affiliated Ennik Estates.

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"The momentum of the cycle change will be largely driven by how and when Eskom comes to grips with its power generation crisis," he adds.

"I have tracked the national homes market closely for the past 25 years, and indications are that the next cyclical downturn will probably manifest around mid-2015 - after the usual New Year holiday season uptick in buy/sell activity has come and gone.

"Following the financial crisis-driven dip and subsequent flat line in residential property from 2008 through 2010, the market has been on a steady, if unspectacular, growth path that is now close to topping out," says Ennik.

"It is likely to be another low-incline downcycle, unlike the steep decline of 1982 to 1985, which followed the extraordinary boom that drove house prices to a then growth peak of almost 40 per cent.

"I know my forecast for 2015 conflicts with the more positive predictions of some prominent market commentators. But property market history has a habit of repeating itself ... and this time should be no different," he says.

"While unfolding news and events - both positive and negative - may hasten or slow down the tempo of the upcoming downcycle, they are unlikely to reverse it.

Development market

"Ironically, it is the impending large increase in supply in the development market - particularly in the townhouse category - that will probably lead the process...in much the same way as it did in the last downturn in 2007/8," he adds.

Ennik notes that early signs of this trend are evident in Bryanston where, in the year to November 2014, there were 263 new registrations of sectional title homes, compared with registration of just 36 new cluster homes and only seven new freehold residences.*

"This is a significant indicator, given that Bryanston is the most evenly weighted higher-end suburb in Northern Johannesburg/Sandton, with a virtually equal three-way split of its 12,000 properties into cluster, sectional title (townhouse) and stand-alone freehold homes.

"While the take-up rate of new development stock will be good initially - as Bryanston has shown - it will be unsustainable if overdevelopment takes hold (as it did in 2007/8)," says Ennik.

Having said that, the 2014 year-end improvement in confidence among residential building contractors is clearly a good sign. So, too, is the slightly more relaxed grip banks now seem to have on the flow of mortgage finance, he adds.

"Furthermore, the plunge to five-year lows in global oil prices has positive implications for SA economic growth - at least in the nearer term. Its initial impact is already reflecting in nationwide fuel price reductions."

He says another helpful sign is that South Africa's credit ratings were left unchanged by global rating agencies at the end of 2014 - in spite of the sentiment-sapping economic indicators and developments the country continues to face.

Turning tide

"Counterbalancing this," adds Ennik, is a mix of negative market factors - led by the abominable reappearance of Eskom power blackouts, which are now predicted to stretch over the next three years."

Others include persistent weak GDP growth; the prospect of rising interest rates; a national trade deficit of R21-billion (the largest in four years); and sustained weakness of the rand.

"The fact that home prices have not only held their ground well in these circumstances, but have also achieved significant growth in some areas, underlines, once again, the South African residential property market's durability in the face of economic adversity.

"An example is Cape Town, where prices rose 10% year-on-year in 2014.

"Looking ahead, I nevertheless remain convinced that the market's cyclical tide will start to turn in 2015," concludes Ennik.

*Source: Lightstone