SA's property developers and buyers under pressure

By Jacques van Embden

24 Jul 2017

South Africa has been downgraded to junk status by two ratings agencies, meaning that an even weaker rand, higher inflation, mounting petrol and food prices as well as interest rate hikes are on the cards. In addition, it has recently been announced that the economy has slipped into a recession, which may result in tax increases, job losses and failing businesses. These factors will put further pressure on the housing market, particularly property developers and buyers.

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Even before the downgrades and recession, developers had to contend with rising land acquisition and building costs.

ABSA's most recent Housing Review revealed that the average value of vacant residential stands in the middle and luxury segments of the housing market have increased by 14.1% year-on-year. Factors that contributed to the substantial upward pressure on land prices for new residential green-field and/or brown-field developments in major metropolitan areas of the country included location, demand and supply of suitable and serviced land for development, the condition of available land as well as proximity to places of work, schools, shopping centres, medical facilities, etc.

Increased cost of building

In addition, the Review showed that the cost of building new properties increased by 10.3% year-on-year. This was attributed to expenses incurred when developing land for residential purposes which included finance costs, land values, the cost of rezoning, the price of preparing land for construction and property holding charges in general. Added to this were the costs of building material, equipment, transport and labour.

As a result, property prices increased, with the average nominal price of a new house rising by 16.1% year-on-year – a contrast to the 3.5% year-on-year price increase of existing (pre-owned) homes. The increase in prices of new properties, coupled with the latest developments related to the country's economy, could see fewer buyers and reduced sales of brand-new homes.

For developers wanting to attract buyers, this may mean dropping their prices or spec, throwing in value adds such as appliances to sweeten the deal or shrinking home sizes to better fit budgets. The last option has been implemented in countries such as Singapore, India and China by developers facing similar land acquisition and building cost challenges. In Singapore for instance, a global property consultancy's analysis of 40 private suburban condominium projects found that the average apartment size has shrunk by as much as 34% since 2008. Many developers in these countries are targeting first-time buyers who've basically given up hope of affording larger apartments, thinking that it's better to own a shoebox, than rent a decent-size apartment forever.

Buyers, regardless of whether they consider purchasing a new or existing property, will have to factor in elevated bond levels (the highest seen in the past few years), the rising cost of living and earnings remaining the same. Furthermore, this will impact first time buyers whose numbers are already declining and whose ages are increasing due to affordability deterioration, with John Loos, household sector strategist at FNB, revealing that the average age of a first-time home buyer in South Africa is 44.4 years old.

New developments remain attractive

However, new developments are an attractive option in the current climate as buyers will not have to pay any transfer duty. Plus, with statutory guarantees, they will probably have to spend very little on maintenance and repair in the critical first few years of ownership, which bodes well for South Africans' uncertain financial future.

Real estate experts are saying that, as a result of the current economic situation, it is now a buyer's market. Developers will therefore need to work closely with their customers to ensure that they can remain competitive.

ABOUT THE AUTHOR

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