Residential property market promising despite recession

By Harry Hattingh

18 Aug 2017

The effects of the ratings downgrades are beginning to hit home, throwing the country into an economic recession. A significant contributor to the decline was the 2.3% fall in household expenditure, an indicator of just how much consumers are feeling the pinch. This could have a dampening effect on home selling and home buying for the rest of the year.

© Stephen Griffith – 123RF.com

However, there are three important factors that are likely to mitigate the effects of the decline, making the residential property market - worth R3.9tn and growing, according to research by the Property Sector Charter Council - an attractive investment prospect.

Potentially more affordable home loans

The first of these is the outlook for inflation and therefore interest rates. They determine how much bondholders repay to financial institutions each month. Consumer price index inflation has been on a downward trajectory, creating the possibility, some economists say, that the Reserve Bank might reduce interest rates later in the year.

Combined with a stronger rand, this will bring much needed relief to under-pressure households. And it could also make home loans more affordable to those that were on the borderline, giving a boost to activity at all levels in the market, whether looking to buy or sell your home.

Housing shortage

Then there is the chronic shortage of housing, particularly in urban centres. There simply isn't enough housing stock overall to meet demand – and there hasn't been for a while. When you drill down into the detail, it becomes clear that the shortage is most pronounced in low- to middle-income suburbs in metropolitan cities such as Johannesburg and Pretoria. This means it is more of a mismatch in certain segments than an overall shortage.

More people than ever before are living in cities and looking for homes. But the market is struggling to supply at the prices clients are willing to pay in these segments, keeping both home prices and rentals up. There is a 'sweet spot', which has ranged from monthly payments of about R7,000 to R12,000 or so, where there is the greatest mismatch and therefore demand.

At the top end of the market, areas such as the Sandton in Johannesburg and Pretoria's eastern suburbs continue to be in demand no matter the price.

Fourth industrial revolution

And finally, there is technology.

The world is experiencing what some have dubbed a fourth industrial revolution. New technologies are emerging and combining in new and exciting ways, leaving no sector unaffected by the disruption. The property sector is no exception.

Companies like AirBnB are at the cutting edge of the disruption. Reports are that in cities like Durban, AirBnB is allowing bondholders to pay off their home loans in record time – 18 months by some estimates. It's only a matter of time before other companies find ways to apply the explosion of new technologies to the property sector to deliver better value and services to homeowners and tenants.

Technologies such as solar power and efficient building materials are making their way into new housing developments, making them slightly more attractive. Efficient 'green' technologies continue to make their way into the market. South Africa is reputed to be among the fastest-growing when it comes to developing new buildings with these technologies. Buyers and tenants are becoming increasingly aware that more energy efficient homes mean lower long-term costs for utilities and maintenance.

On the whole, the residential property market is still looking promising. Opportunities abound for developers, agents and financial institutions to meet changing demands and win new clients, even in this difficult economic environment.

ABOUT THE AUTHOR

Harry Hattingh is co-founder and principal at Leadhome.