BIZCOMMUNITY

Why a recession is actually a good time to buy property

Now on Level 1 lockdown, it is hopeful that South Africa is on the path to economic recovery, however, there is still some way to go, with the economy anticipated to shrink by 7.8% this year.

In terms of the property sector, the knock-on impact is that buyer confidence is low - something that cannot be attributed solely to the pandemic. Says John Loos, economist at FNB Commercial Property Finance, “South Africa already had a recession and a mildly correcting property market prior to 2020. Covid-19 merely made this recession deeper.”

Jacques van Embden, MD, Blok

Yet despite the economic climate, Jacques van Embden, MD at urban property development firm Blok, predicts a manageable impact to residential property: “If there’s one thing history has taught us, it's that the economy will eventually recover and that property is one such asset class that shows stability over the long term.”

If we look to international shores, CNBC has reported that property continues to offer investors a ‘safe haven’ in volatile climates, as the risk-reward ratios remain reassuringly linear, while an article published in the *Global Property Guide* analysing the 2007 economic crisis reiterated that residential property was generally far more stable than non-residential real estate - regardless of country.

“Property is extremely resilient, offering less volatility than the stock market, says Van Embden. “Ultimately, people will always need a place to stay, which provides buyers with a sense of security, even in times of turmoil.”

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Unprecedented buyer’s market

And given the prevailing conditions, South Africa finds itself in an unprecedented buyer’s market, thanks to the current supply-demand context.

With the country under massive fiscal pressure, the onus falls on the Reserve Bank to provide assistance to South Africans. Banks are far more amenable to offering 100% home loans, and with the recent slashing of the repo rate for the fourth time this year - from 4.25% to 3.5%, taking it to a 50-year low, the market is well-primed for when recovery starts.

“This makes it a highly attractive time to purchase, says Van Embden, “and buyers can expect fantastic value.”

Another advantage is that buyers will have increased access to highly desirable locations, which may have previously been unobtainable due to price.

“Suburbs such as Sea Point, which remain perennially attractive from an investment point of view, are now within reach.”

Van Embden says that he is increasingly seeing buyers prioritise apartments located in sought-after areas over a larger square meterage, as these apartments show a sustained ROI over long periods.

Emphasis on lifestyle

“Adding value to consumers through an increased emphasis on lifestyle - for example, an attractive neighbourhood and various serviced offerings - means that developers are able to keep apartments compact in order to improve affordability for buyers."

Van Embden notes that developers are looking at new ways in which they can entice would-be-investors, and consumers can therefore expect to see a great deal of innovation in the space. “These past few months have shown us the importance of agility and that we need to be able to design products that respond well to market conditions.

“I would advise buyers to take advantage of the exciting opportunities this market affords. The gap between owning and renting has grown significantly smaller, and it makes sense to invest in a property that will show return for years to come,” he says.