2017 – still money to be made in property

By Gary Palmer

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2016 was a year many people would like to forget. Both local and global politics increased investor caution as the winds of change continued to stir up uncertainty. Macro economic data painted a gloomy picture for South African investors and consumers alike. Inflation passed the Reserve Bank's 6% benchmark, unemployment hit a 13-year high and GDP growth slid to a negligible 0.1% according to IMF figures.

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South African banks managed to deliver fair results for the year, despite the chaos rained on them by our politicians. However, the ever increasing regulatory burden and growing loan defaults saw them retreat further into their conservative lending shells, which is likely to continue well into the new year.

The wealth management sector certainly had a torrid time of it in 2016. Not only was it far more difficult to acquire new clients, but established clients were redeeming investments to offset the rapidly rising cost of living. This too is likely to remain the trend for 2017, as inflationary pressure continues its vice-like grip on consumers.

The alternate lending space, meanwhile, saw a marked increase in interest from entrepreneurs and even established investors, looking to access finance for the opportunities which presented themselves. Finding suitable investment partners, accessing short- and mid-term finance and securing bridging finance for business owners taking advantage of the economic downturn, has resulted in one of the busiest years the sector has had.

Moving into 2017, we can see the following trends emerge:

Location is still king, but beware the bubble

With a few pockets of exception, the Gauteng property market will continue its stall. Rosebank office space and some residential areas in Tswane are still showing some steady growth, but property is taking longer and longer to move in Gauteng and this is likely to continue well into the new year.

Banks in Cape Town, meanwhile, had one of their best years yet, but even they are cautioning a property bubble which is set to burst. Property in the Mother City remains a firm favourite for investors who are looking to capitalise on the wave of up-country families moving to the coast. This is largely driven by Cape Town's reputation of being Africa's tech hub with digitally orientated families and youngsters alike leaping at the work-life balance the city offers.

However, we have heard of upwards of 3000 units becoming available in Woodstock and Green Point in the first few months of the new year alone, and an oversupply will surely take its toll on the market.

Hotels are attracting attention

The IDC and other public lenders have, thanks to government directives, been keenly focused on developing tourism in the country. Added to this, section 12J of the Income Tax Act (which allows an investor to put money into a venture capital company and receive tax exemption on that investment) has been exploited by some astute early investors to fund hotel acquisitions and expansions. Hotels as an investment, as well as backpackers and other hospitality investments are really picking up as a result.

Ownership costs will become a real issue

The costs of property ownership will begin to take its toll in 2017. Industry analysts we engage with have pegged the current cost of owning a property to be double that of renting! Increases in maintenance costs, collection fees, servicing interest, levies and municipal rates and taxes will become a real liability for the average property owner. A sudden increase in any of these, coupled with a tenant who suddenly loses their job, or a business which goes bust, will make property ownership a lot less attractive to the average investor looking to spread their asset classes. It will also give new investors pause for thought and our partners have told us they are expecting much longer sale times – an uncomfortable position for someone pinning their hopes on property as a capital asset.

No such thing as passive property investments

The property market has changed over the past two to three years. You can't make money out of yield compression anymore. You can't expect returns by simply holding the property, you must add value if you want decent returns. You might need to build, re-model and even change the use of the property (AirBnB, storage, co-working space and other alternate uses would be examples). Unless you buy very cleverly, or tap into a distressed deal, the traditional returns will simply not materialise. Added to this, there are also costs to get out of property transactions. These include the tax implications when you want to sell, accounting and auditing costs of deals and, of course, you need available finance to ensure you can cover all of these costs.

Abandon tradition and embrace reality

Despite the lackluster economy and fairly gloomy outlook, property still offers great opportunity for the astute investor. The key to success for this year, and beyond, will be a willingness to abandon traditional thinking and expectations. Investors who are willing to see new uses for property, who are willing to tap into the new way of living and working (where people are only willing to pay for what they use), will still be able to take advantage of great deals. For this, they will need to find partners and investors who are able to see the business case beyond the traditional property valuation, and who will back the individuals and their acumen as much as the deal they are presenting.

ABOUT THE AUTHOR

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