Residential property is still a business avenue

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According to a recent report by global property group Savills, Covid-19 and ensuing lockdowns have severely disrupted the global economy with few sectors unaffected, with leisure, hospitality and retail particularly hard hit by lockdowns and social distancing measures.

However, the residential real estate industry has so far proven to be one of the more resilient sectors as has been the case to date in South Africa where the residential property market has seen an earlier than expected rebound with momentum continuing, underpinned by 50-year low interest rates. This is particularly evident in the price bands between R700 000 and R3 million, with additional encouraging signs of increasing activity at the top end of the market.

Positively, affordability has improved on the back of the significantly reduced interest rates, with serious sellers responding to the current economic environment with realistic, market-related pricing. While house prices have continued to show positive growth this year, on a real or inflation adjusted basis they remain in negative territory, reflecting an ongoing price correction in line with the persistently subdued national economic growth rate.

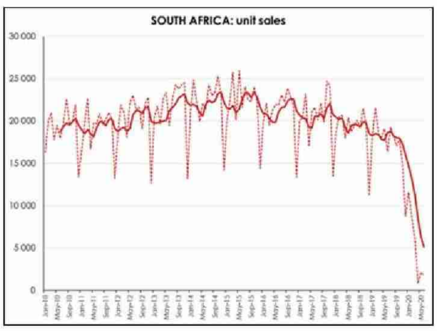
In addition, the rent vs purchase equation has shifted to favour buyers, which is having a significant impact on activity in the local housing market.

Homeowners around the world have unquestionably re-evaluated their lifestyles and in particular, their living spaces. According to Lightstone, many countries from the USA to Australia, are seeing a reverse migration as remote working becomes a permanent option across many job sectors and industries. This is resulting in a steady increase in movement to smaller cities and towns where quality of life, family and affordability are highly valued. Lightstone also points out that in South Africa, the trend is more about the more balanced lifestyle, with home buyers in their late 20s and 30s and early retirees leading the coastal buyers.

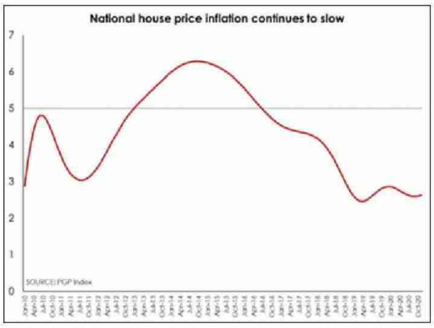
Not surprisingly, the significant reduction in the interest rate has made home ownership an appealing proposition for many tenants.

The year 2020 in review

As expected, given South Africa's hard lockdown and Covid-19 restrictions, Lightstone data (June 2020) shows a sharp drop off in unit sales in South Africa in 2020. After averaging around 22 000 units per month each year between 2013 and 2015, this slowed to 21 148 (2016) and 20 644 (2017) as well as 19 003 (2018) and 17 328 (2019). This, as the sluggish economy took its toll on the market. During the first half of 2020, just 5 178 units were sold (although repeated closures of Deeds Offices across the country resulted in a longer delay than usual in transfer of properties sold during this period). Nonetheless, activity, particularly since June, (2020) has surprised analysts in terms of its resilience.



Similarly, house price inflation has surprised on the upside. In the initial months of lockdown, there were numerous forecasts suggesting that prices would decline by between 5% and 15% this year (2020). And yet house price inflation, as measured by the Pam Golding Properties Residential Property Index, remains positive (at least in nominal terms) averaging +2.7% in the year to November (latest available data).



By comparison, house price inflation averaged -2.4% in 2009 during the recession following the global financial crisis (PGP Index registered a decline of -1.8% in 2008).

One of the initial reasons offered for the unexpected resilience in both price and activity as the lockdown regulations were eased was pent-up demand following the severe lockdown and the closure of the Deeds Office. However, it is apparent that something beyond pent-up demand is contributing to the unexpectedly buoyant conditions in the market.

This unexpected buoyancy in the market is a global trend, and a recent article in The Economist suggested that it was attributable to a combination of factors including:

- Interest rates are at historic lows.
- Governments and banks are supporting households and businesses to help offset the impact of the loss of income during the lockdown.
- Lifestyle changes have been triggered by the pandemic.

Combined, these three factors have created an unexpected 'sweet spot' for the market. However, unlike global markets, the local market is not experiencing rising house price inflation (except for the lower price bands).

An additional factor in South Africa is the large pool of potential first-time buyers who have been encouraged by the current low interest rates to forego renting and are opting to purchase a property instead. This is providing a solid underpinning for the local housing market, although perhaps not regarding house prices as the bulk of activity is taking place at the lower to middle end of the market (mainly up to R2 million).

With a second wave of infections upon us, the need to work remotely where possible is likely to continue to enable the ability to move away from traditional urban and suburban areas to small towns and villages offering more affordable housing and a more relaxed lifestyle.

SOURCES Pam Golding