

Politics to have key influence on SA property market in 2018

 By Paul Stevens

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There is still very much uncertainty regarding the outlook for the South African economy in 2018 with so much hinging on what might or might not happen from a political point of view. This will have a key influence on what will happen in the property market during the course of this year.



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Our economy this past year has been under pressure, showing very little growth at all and the likelihood of this improving much in the year ahead are very slim. The macro economics are not looking very good, where our government debt is very high and continuing to grow while their revenue is not growing. On a positive note though, inflation has been kept under control.

No drastic changes in interest rates

Consumer debt to income ratios dropped from highs in 2008 of 87% to 72% last year, showing good signs of consumers starting to handle their finances more appropriately along with lending institutions taking a more cautious approach to lending.

Interest rates over the past few years have been low, which has been able to sustain the property market at a steady pace and even though we saw a rise last year, it has not been significant enough to affect the property market in a negative way. During 2018, I do not feel that there will be any drastic changes in interest rates and, at worst, we could see an increase of no more than 0.5% to 1% basis points. The one remaining factor that is affecting the property market is the political situation which leaves many people rather waiting to see how things pan out in the near future before making decisions that could affect them financially. This is clearly seen when you look around at the amount of building activity that is nowhere near what it was 10 years ago.

The property market has followed very much the same path as the economy with very little growth and, in most cases, negative growth when taking inflation into account. According to FNB, the average price growth across South Africa has been 4.3% and while taking inflation into account, property has been in decline by -0.9%. My opinion is that we will not see this change much during the course of 2018 or if we do, it would only be in the latter part of 2018.

Drought impacting Cape Town semigration trend

Growth figures across the country have varied and, in particular, the Western Cape has shown higher growth than the rest of the provinces. This “semigration” trend seems to be on the slow down though where Cape Town is becoming an area that is beyond most peoples’ reach from a housing affordability point of view. I believe the current drought is also having its effect on people's decision to move to Cape Town due to the seriousness of the water shortage and what effect this could have on the future of the city. Another statistic by FNB shows a significant drop of buyers in the Western Cape, dropping from 15.7% of national buyers in 2016 to 12.8% in 2017 and, given the above information, I see this downward trend continuing into 2018.

The sentiment of foreign buyers in the Western Cape is also weakening, and I think this is in particular because of the political situation in which we find ourselves.

With the Western Cape becoming unaffordable for many, and in particular the first time buyer, people are looking at alternatives that offer similar lifestyles along the coast, like Durban, Ballito, Port Elizabeth and George. Many people moving to these areas are either younger families or older retirees who are looking to downsize. According to FNB, 26% of the property sales occurring are people that are downsizing due to their age.

I see the year ahead continue very much along the same path as 2017 where there are still good opportunities for buyers if they are patient and prepared to shop around.

Low rental gross yields

The buy-to-let market has remained steady for the past few years and, according to FNB, these buyers have made up around 8.25% of the market since 2010, which is a considerable drop off from the highs in 2004 of 25% of the buyer market. The main reason for this being the obvious tightening of the financial institutions criteria for lending to investors and, along with this, the tough economic climate and growing political uncertainty. The rental gross yields that investors are achieving nationally are sitting around 7% for a freehold property and just over 9% for a sectional title property (TPN) which is not bad for an investor, but there certainly are better returns available for the prudent investor that is prepared to do his homework.

Rentals have followed a similar trend to the sales environment with slow rental growth across most of South Africa and very often and on average only performing slightly above inflation. The Western Cape is still seeing the highest rental growth rates of 10.2% (PayProp Rental Index) which is now starting to see a slight downward trend which I see continuing into 2018 to a more realistic single digit growth rate. The only other province to stand out was Limpopo that has seen a significant drop from a growth of 11.9% to 1.1% which has been due to mining activity in this region.

Average rental growth to remain stable

In general, the remainder of the provinces have shown an average decrease in rental growth from 7% in 2015 to 5.9% in

the third quarter of 2017 (PayProp Rental Index). I would see the average rental growth across the country in 2018 staying stable around the 6% mark. Investors coming into the market need to take cognisance of this slow rental growth when purchasing and try and buy in areas that are showing stable growth and occupancy rates. In these times, it is also imperative for investors to ensure that they do thorough checks on their prospective tenants or utilise the services of a professional company to do so as, according to TPN, 5.54% of tenants nationally are defaulters.

I would not be overly optimistic about the outlook for 2018, but along with this it is certainly not a case of doom and gloom, as we are merely in a property cycle that will pass. If things remain stable on the political front, we are sure to continue into 2018 on a similar path that we have seen throughout 2017 with stable interest rates, house price growth remaining below inflation on average, while rental growth remaining slightly above inflation.

ABOUT PAUL STEVENS

Since 2013, Paul Stevens has been the CEO of Just Property Group Holding (Pty) Ltd which controls an international group of property franchises specialising in residential sales, rentals and management. He joined as a franchisee in 2003 and now, as CEO, drives the strategic direction of the Just Property brand with his charismatic optimism. He is also actively involved in the evolution of the South African property landscape, working closely with high-level industry stakeholders.

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