

Why the property market growth is sustainable

 By [Andrew Golding](#)

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We now have - at long last, you might sigh - a residential property market which has thrown off the burden of a long recessionary period while defying obstacles to growth such as a dismal economic performance, rising inflation, high household debt, massive utilities bills and an alarming degree of labour and social unrest.

If you toss into the pot the strictures in obtaining mortgage finance, the beginning of an upward turn in the interest rates cycle, and the often onerous costs in buying and owning a home, you might ask yourself why?

Why has housing transformed from a buyers' paradise into a sellers' market?

The turnaround has accelerated over the past year or so, but the improving trend has been due to a combination of factors, some of them relatively long term. These include the gradual accumulation of pent-up demand, dramatic demographical changes, a weakening currency which encourages consumers to seek what they perceive to be more solid investments (linked to profit-taking in the equities markets realised into property), and a return of confidence.

A relatively recent factor in improving confidence and the appetite for property has been greater access to bond finance. Banks have taken time to recover from the losses incurred by the market collapse - reducing their default book from around 12-13% in 2009 to below 5% today. Partly as a result of this, bond finance has become easier. In fact, in the first half of the year banks have lent some R12-billion worth of mortgages - more than any other category of private sector lending.

The market over this past year has reflected this, both in numbers of sales and values. For example, the Pam Golding Property group's sales in July were in excess of R1.4-billion - 20% higher than July 2013. Brisk sales have led to a shortage of stock and a situation where buyers are chasing sellers. And, surprisingly, this situation has heightened during our winter, when residential property sales are normally sluggish.

Will this situation last?

The answer to the question of sustainability lies, to a great extent, in the socio-economic patterns which have developed, and will continue to develop, in South Africa since its democratic birth in 1994. Demographics have changed. Black economic advancement has helped create a new, relatively wealthy middle class.

According to the Unilever Institute of Strategic Marketing, the number of people making up South Africa's black middle class had last year grown to 4.2-million and enjoys a combined spending power of more than R400-billion a year; this is substantially more than the R320-billion attributed to the white middle class group. Soula Proxenos, MD of International

Housing Solutions, a global housing investor, avers that this meteoric growth will rise to even higher levels this year. Moreover, Efficient Group economist Merina Willemse comments: "Within the group we call the (black) middle class there is a small group who maintain a very high standard of living."

A considerable number of middle class employees are in the public service, many earning substantial salaries. Over the past decade public service employment grew by 22%. According to Stats SA, there are close to one and a half million people employed in the national and provincial governments with a further quarter of a million working for local governments. There are also hundreds of thousands working for public institutions such as parastatals. The extension of the country's provinces to nine has had a major impact on public service employment.

To put it into perspective, the public service wage bill accounts for at least a third of all government spending.

Of course, the private sector has also played its part in the creation of wealth. Young educated black people hold down top grade jobs in business, in sectors such as finance, insurance, law, mining, medicine and many and varied industries. SMEs have burgeoned, helping to create a new, successful body of entrepreneurs.

The earning power of the black middle class has also brought about another factor which impacts on their spending power - access to credit. This alone has had a major impact on the growth in the residential property market.

This acceleration in employment and earnings has helped create yet another phenomenon - the rapid spread of urbanisation, and this is closely linked to the demand for homes which in turn has led to the current shortage of stock the industry is facing.

According to the Institute of Race Relations, two-thirds of South Africa's population now lives in urban areas. The most rapid growth has taken place in smaller cities such as Polokwane, Rustenburg, Vanderbijlpark and Nelspruit. Gauteng, geographically the smallest but economically the busiest province, has the largest and fastest-growing population, double the national average.

This explosion of urbanisation and the increasing numbers and earning powers of South Africa's previously disadvantaged citizens is helping to swell the growth we are currently seeing in the residential property market. These patterns are set to continue and in doing so will surely underpin its sustainability.

ABOUT ANDREW GOLDING

Dr Andrew Golding, chief executive of the Pam Golding Property group, was originally in private practice as a General Practitioner on the Atlantic Seaboard from 1991 to 1996, after which he joined the family business as MD in 1996, followed by his present position.

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