What to expect from property in a Covid-19 world

By Schalk van der Merwe

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As we all band together against the Covid-19 virus and the inevitable economic chaos that will be left in its wake, information sharing has never been more important.

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Having several countries ahead of our own curve in dealing with the virus has provided invaluable perspective on the safest routes forward as a nation. It has also begun to shed some light on what we can expect to see from our property market as we fight back against the spread.

A drop in real estate transactions

The first, and most obvious thing we are expecting is a drop in real estate transactions. People simply aren't willing to put lives at risk to go house hunting at the moment, even if they could during a national lockdown.

Data coming in from China, South Korea and Italy confirms that a drastic drop in real estate transactions is highly likely. So, too, does historic data from the 2003 SARS outbreak in Hong Kong, compiled by American real estate database company, Zillow.

What's important here is not the drop, however, it's the fact that there is always a rebound once the crisis is over. In all recorded cases to date, once the epidemic – or pandemic in this case – was over, real estate snapped back to normal.

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Poor growth but good equity

Entering this pandemic in a buyers' and tenants' market with an oversupply in both sectors will put additional strain on the South African market, however.

Property price growth is already under pressure, and the 114-day time on market is a concern for urgent sellers. However, for most property owners in the Western Cape – particularly those who bought pre-2016 – we are still better off, with more equity in our properties, than in 2008.

Tough times for retirees

Indeed, 44% of current sellers in Cape Town have owned their properties in excess of 11 years, implying healthy growth and plenty of cash available after a sale. However, 33% of sellers are over 65 – the age group potentially hardest hit by Covid-19 and the resulting decimation of global stock markets.

It is going to be difficult for those having to cash out investments to be able to pay for a retirement property. Our hope is that most retired sellers will have enough equity in their current homes to cover their next purchase, but affordable retirement properties in the Western Cape are notoriously hard to come by.

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Crashing stock market good for property

The stock market crash will doubtless have far-reaching effects for almost all of us. When it comes to the property market, however, some of those effects could actually be positive.

During times of economic turmoil, a lot of investors tend to seek 'safe harbour' in brick and mortar assets. With interest rates as low as they are at present, the net yield on properties has increased, making this even more attractive. We're hopeful that this trend will help the market rebound once the Covid-19 crisis is over and we are able to resume transactions as normal.

Opportunities for first-time buyers

This return to normality, paired with low interest rates, eager lenders, and the flood of properties expected to hit the market will create very favourable conditions for most buyers. These opportunities are compounded for first-time buyers whose rental instalments could soon be neck and neck with their potential bond repayments.

For those who can afford it, the post-Covid-19 period is going to be an excellent time to snap up bargain properties at record prices. That said, it's not the time to overreach. As the economy recovers, interest rates will climb again. You don't want to be at the edge of your affordability at that point.

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Get ready to act fast when the time is right

For now, there is little for buyers, sellers, landlords and tenants to do but wait for Covid-19 to be brought under control. Now is not the time to test the market. Rather regroup and get ready for the rebound that comes next.

ABOUT THE AUTHOR

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