

Challenges and opportunities for the residential market

 By [Paul Stevens](#)

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Paul Stevens, CEO of Just Property, shares his thoughts on some of the challenges and opportunities that lay ahead for the local housing market and industry during 2023.

Consolidation and shrinkage in the real estate workforce

With increasing pressure on the real estate market from several sides, I anticipate that there will be consolidation and shrinkage in the real estate workforce and the agencies that employ them.



Paul Stevens, CEO of Just Property

Despite efficiency efforts, the Property Practitioners Regulatory Authority (PPRA) continues to show inadequacies. It has failed to provide workable examinations or issue Fidelity Fund Certificates (FFCs) efficiently and accurately to enable property practitioners to comply with the Property Practitioners Act (PPA).

This looks set to continue into 2023 and beyond. The result will be that fewer property practitioners will be able to operate within the law and will be forced to take chances or find other work.

A depressed property market

When the property sales market slows, we usually see that the rental market improves. That's not what's happening now and not what I expect in 2023. Both are under pressure from the impact of rising interest rates, the rising cost of living and high levels of poor creditworthiness.

The South African economy needs a boost, and the Sarb's Monetary Policy Committee (MPC) is acting responsibly in this regard. We saw aggressive increases in interest rates last year - 3.25% in total - taking our current prime

lending rate to 10.5%. It is expected to be raised again by between 0.5 and 0.75% at the next monetary policy meeting in January 2023 as they make efforts to curb inflation.

Recovery will take time and I expect property inflation to continue to be slow for both property prices and rental rates.

Rising interest rates make buyers nervous and I expect the market to slow further next year. Buyers will need to ensure that they take into account potential future increases in interest rates – hopefully, the worst-case scenario is 1% over the next year. This impact will be felt more at the lower end of the market than at the top. We will not see a property crash but we are heading into a tougher trading environment.



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Lack of good-quality tenants

From a rental perspective, one of the biggest issues we face is the lack of good-quality tenants as, in general, 50% of our tenants across the country are in some way credit impaired and we are not able to place them as strict tenant vetting is designed to protect the rental income of our landlords.

This trend will continue through 2023, putting extended pressure on the rental market as the economy and consumers continue to be under pressure. Landlords will need to be realistic about the rentals they can charge, as rental inflation is expected to be under pressure in the coming year.

On a good note, rental collections and vacancies have certainly improved vastly over this past year. Property practitioners must work hard to continue adding value to landlords through their property and tenant management.

With an increased focus on management reporting and data analysis, our franchise owners and property professionals have a better handle on potential problems and early indicators that busy landlords may miss. For example, when tenant payment behaviours become risky (late payments or part payments), an astute property manager can take swift action. Understanding that being a rental agent/ portfolio manager is about risk management will become increasingly important.

Opportunities remain

Despite interest-rate hikes, the lending environment is still good, with interest rates not being excessively high and banks still aggressively loaning up to 110% of the value of the property to the right buyers.

Properties in new developments can be purchased with no transfer costs, offering buyers the lowest cost of acquisition. There is a great opportunity to save thousands of rands when buying into high-quality developments.

Whether the market will swing in favour of buyers or sellers depends very much on local conditions – there is no “one-size-fits-all” answer. Looking at inland municipalities, Ekurhuleni has the highest property inflation rate and Nelson Mandela Bay tops the coastal metros.

Freehold properties have consistently outperformed sectional title properties (in terms of property inflation) for the past four years but the gap has narrowed significantly since June 2022 so this is something for investors to watch. We may be seeing the tail end of the Covid-related buying patterns where larger properties offering work-from-home spaces were in high demand.



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A good crisis should not be wasted

I anticipate that movements in the property market will be driven more by life events, e.g., work- and school-related transfers, stage-of-life, than by short-term financial opportunities. Areas that have seen surges from a semigration perspective have been in the Western Cape particularly, followed by the South and Eastern Cape. Coastal towns like Mossel Bay have seen unprecedented growth. I expect to see this trend continue if these area municipalities can provide the municipal services required to accommodate this growth.

South Africa is in crisis (it appears to be our “normal”), and a good crisis should not be wasted. The municipalities that operate well, collect taxes and invest in infrastructure, and those that rally local businesses and communities to help provide

manpower and advisory services will be the places to invest in.

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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