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PROPERTY

An overview of the property market – where the value lies

An analysis of economic and property trends reveals insights into the effects of migration, economic confidence and the post-Covid world.

As in many other countries, the residential property market is a key component of the economic health of the nation. As such, the dynamics of residential property give an important picture of the financial and demographic trends driving the economy.

These trends were the focus of a recent seminar hosted by Investec for Intermediaries. Key speakers were David Gracey, head of fixed income at Investec, and Prenil Sewmohan, lead data scientist at Lightstone, a firm specialising in data on property, automotive and business assets.

Gracey set the scene on the global economic front, highlighting how central banks have had to tackle decades-high inflation rates in the aftermath of the Covid-19 pandemic. “Central banks were probably slow to act (to the early signs of inflation),” he said, “But they have then had to raise rates rapidly and may have to raise rates further.”

“The big worry by central banks is that inflation may become entrenched, which is a major problem because, over time, inflation destroys wealth,” he added.

Turning to South Africa, Gracey highlighted the problems at Eskom and other state-owned enterprises as the dominant theme, alongside high unemployment and the uncertainty about the political landscape post-2024 as the dominant themes.

Eskom remains one of the biggest areas of concern, said Gracey.



be able to produce more capacity for the next 18 months. We also know that those who can afford it are moving off the grid.”

And with South Africans moving off the grid, this asks the question of whether Eskom in its current form can survive.

Gracey said that there was also a concern that, if there were to be a global recession, this would knock commodity prices and put pressure on SARS's revenue collections.

On the political front, Gracey said there was a strong possibility of a coalition government coming to power after the 2024 elections, which had its own implications, such a rise in populism.

“In short, don't expect growth in South Africa to do anything for a while,” he added.

Sewmohan gave a detailed overview of the trends driving the residential property market, including geography and demographics. Looking at the market as a whole, he highlighted the importance of differentiating between the total number of properties and the total value of housing.

Out of 7 million residential properties (worth R6.6 trillion), freehold (over 80% of properties) dominated in, but represented 65% of the total value. Sectional title homes formed 12% of the number, but about 15% of the value, while estates made up 7% of the total number of homes, but represented 20% of the value.

Most of the value in residential property was made up of a smaller number of homes, he added. “For example, only 18% of residential homes are worth R1.5 million or more, but this segment makes up 54% of the total value,” he noted.

About 42% of homes are valued at below R500,000, or 11% of the total value, while 55% are valued at below R700,000, he added.



doesn't have access to bank financing – in the low value market, only 20% of homes are bonded.”

On a provincial level, Gauteng made up 38% of the total value, followed by the Western Cape at 29% (though only 18% of the volume) – with the latter percentage growing fast, in line with internal migration patterns and urbanisation trends.

Demographic trends

Sewmohan said Lightstone tracked trends in demographics and retail, to see what this implied for the economy, notably in the sense of where the infrastructure and residential property spending is likely to occur.

Looking at migration trends, he noted that these were fairly evenly distributed across income levels when it came to Gauteng. It was a different story when it came to the Western Cape however, where much of the increase in migration to the province was coming at the lower and top

In particular, the numbers indicated that, while there has been a recovery in retail visits since the peak of the lockdowns, these were still only at 80% of what they were in January 2020.

However the pattern was not universal, he noted, with some towns in South Africa at 150% of the activity of previously. This pointed to changes in how and where people were living and working after Covid-19, as well as migration trends. It also highlighted broader issues about where new infrastructure will be needed, including new housing.

Regarding the clear trend of increased migration to the Western Cape, Sewmohan said the bulk was coming from Gauteng and KZN, but he stressed that it was not the case that “everyone is moving to the coast”.

When it came to overall activity in the housing market, South Africa was remarkably stable, said Sewmohan. Apart from a sharp rise in the build-up to the Global Financial Crisis and a falloff thereafter, the number of transactions has stabilised.

“There is a consistent demand for housing in South Africa,” he said. Transaction volumes had recovered after Covid-19 though not to the level that they had been at beforehand.

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the high-end properties have generally held their value over a longer period, we saw this reverse in the last few years of the last decade. Now the mid-value properties are seeing the most growth,” he said.

Finally, looking at commercial, industrial and retail property, he said that there had been a good recovery in prices in most sectors, apart from office, since Covid-19. “There appear to be some big changes afoot in the office sector, such as repositioning for other segments, such as retail and residential,” he said.

Ultimately, said Sewmohan, and returning to the theme raised by Gracey, the overall property market’s fortunes will depend on GDP growth.

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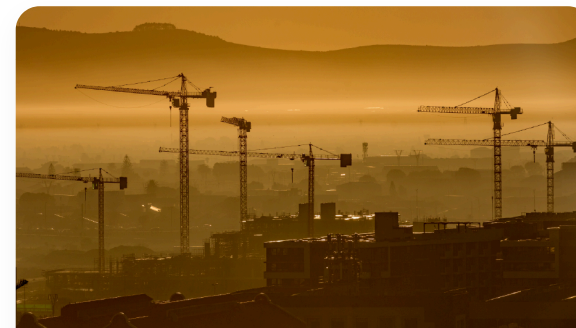
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