Investment in residential property in SA continues to shine

By Dr Andrew Golding

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To say that it's been a tumultuous year for the planet is definitely an understatement, and yet in the face of a sluggish and uncertain domestic and global growth environment and ongoing socio-political challenges, the residential property market in South Africa continues to exhibit extraordinary resilience and remains one of the few bright spots in an otherwise relatively lacklustre economy.

This is despite five consecutive years of subdued economic growth, a severe drought and repeated bouts of rand weakness, which have ignited renewed price pressures and prompted the Reserve Bank to gradually, but repeatedly, raise interest rates before stabilising them.

The strength of the housing market is attributable to the continued vibrancy of the country's major metro areas coupled with an ever growing preference for property as an asset class at a time of extreme financial market volatility.

However, signs are now emerging that the national housing market is beginning to lose some momentum in the face of these persistent economic headwinds.

After registering an average house price inflation rate of 5.5% last year, the Pam Golding Residential Property Index (PGP Index) reached a cyclical peak of 5.7% in March this year and now appears to be slowing.

The gradual slowdown in national house price inflation is occurring at a time when rand weakness and higher food prices have driven the consumer price index above the Reserve Bank's 6% upper inflation target limit.

While the PGP Index has averaged 5.6% during the year to date, the consumer inflation rate has averaged 6.2% during the same period. This would suggest that, after adjusting for inflation, real South African house prices have fallen by an average of 0.6% compared to the same period last year.

However, this picture is actually misleading since the national house price index is a weighted average of house prices across the country. As a result, this national average includes a wide range of divergent performances evident in the different regions, metros, price bands and unit types – all of which make up the national housing market.

When one begins to examine the overall housing market in greater detail it becomes clear that - even though national house price inflation is beginning to slow - there are still several sectors within the local housing market which continue to flourish and register positive real growth rates.

For example, during the year to date, house price inflation in the Western Cape has risen by 10.35%. Adjusting for inflation, this translates into a real increase in house prices of 4.2% during the first nine months of the year.

Location, not economy, a key determinant of time to sell

Furthermore, the importance of location when selecting a property to purchase was highlighted by recent research released by Lightstone that revealed that the suburb in which a property is located is a relatively more important factor in determining how long a property takes to sell than the state of the economy.

To illustrate this, the Western Cape may have experienced the highest overall growth in homeowners due to the well described and most significant semigration trend, but the suburb at the top of the pile from an activity perspective is not in the Cape but in Pretoria – with homes in Garsfontein selling within 2.8-months of listing. In contrast, a property in Parkhurst typically stays on the market for 7.4-months.

Generally speaking, however, the other the major trends in the national housing market during the past nine months remain unchanged:

Western Cape property market stays on top

The outperformance of the Western Cape housing market relative to both Gauteng and KwaZulu-Natal began in mid-2013 - which more or less coincides with the start of the semigration of buyers to the Cape. Factors fuelling movement to the Cape - the appeal of a proven record of service delivery, access to excellent schooling and the attractive lifestyle - are showing no signs of slowing down. There is still real growth in the property market.

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A significant proportion of buyers relocating to the Western Cape are choosing to settle in the greater Cape Town area – which remains the top performing major metro housing market in South Africa. House price inflation in the Cape metro averaged 11.9% during the first half of the year (latest available data) nearly 5% ahead of the second strongest metro housing market of Durban.

Cape Town remains a niche property market, robust despite economic pressures. With more investment on the cards for the city of Cape Town, with projects totalling R16bn anticipated during the next few years and at least R1bn earmarked for example just for Claremont, one of the city's commercial nodes beyond the CBD, the demand for high-end properties remains strong and above average house price inflation is likely to prevail.

The buoyant house price inflation on the Atlantic Seaboard shows no signs of abating, with top-end sectional title units being snapped up. The severely constrained supply caused by the unique geography of this market, which adds to its desirability, has resulted in unprecedented demand, which in turn continues to push up sales prices. It's not uncommon for apartments to attract multiple offers on the day of listing and for buyers to compete for property.

The result of this pent-up demand is that, whereas in the past a sale in excess of R100,000 per square metre was a rarity, we now regularly see prices exceeding this benchmark in Clifton and the V&A Waterfront, and as a further example in the landmark Aurum luxury development in Bantry Bay sea-facing presidential apartments are selling at prices from R110,000 to an eye-watering R140,000 per square metre.

Several new upmarket residential developments in the city centre will in some part deal with the demand from people wanting to live close to the bustle of the CBD and the amenities of the nearby V&A Waterfront, Cape Town Stadium and natural attractions such as Table Mountain and beaches.

Many of these buyers are from Gauteng and KwaZulu-Natal and actively compete for the limited residential homes, which has resulted in the average selling price on the Atlantic Seaboard, for a free standing house, escalating to R14.4m for the calendar year to 31 October 2016.

With more than 7,000 people living in the city centre, the demand for inner city residential units remains high. The mixed-use 117 on Strand development is sold out, with a 40m^2 studio apartment in this block selling from R2.255m, and there's little doubt that other residential developments planned for the CBD will be as popular. People are paying up to R55,000 per square metre for an apartment in a well-positioned, sophisticated development.

Moving across Table Bay the Western Seaboard property market remains steady, with a strong demand for stock. Agents are finding the 'push down' effect is having a positive impact on their sales, as buyers who can't afford property on the Atlantic Seaboard look to Blouberg and the West Coast for similar coastal living options. Three new developments, all no more than 300m from the beach, are being launched in the next six months. Sales are also robust in the South Peninsula, especially in the higher price band.

Sales trends in the Southern Suburbs remain firm as families move to the area to be close to schools and the university. Upper Constantia is performing well, especially with buyers coming from upcountry, and agents have recorded sales of R56m and upwards.

Suburbs such as Woodstock and Walmer Estate are also benefiting from the 'push down' effect as investors who can't afford the Atlantic Seaboard or CBD opt for these areas where they can still enjoy the benefits of living close to the city.

In addition, Hout Bay's residential property market has been buoyant in 2016, with the area's total sales during the calendar year expected to near the R1bn mark.

Over and above this Cape Town metro trend, buyers relocating to the Western Cape are also settling in other urban areas such as Paarl, Somerset West and Stellenbosch, and along the coastline. This was highlighted by the recent New World Wealth report, which identified both the Garden Route and the Winelands – notably Stellenbosch, Franschhoek and Paarl – as emerging wealth towns, each with an estimated dollar millionaire population of 2,500.

The most popular towns along the Garden Route for South Africa's ultra-wealthy, according to New World Wealth, are George, Knysna, Plettenberg Bay and Wilderness, and we are seeing this in sales results.

Pam Golding Properties Boland and Overberg regions have also performed exceptionally well over the past year, with the most notable increase in sales in Paarl and the estates of Val de Vie, Pearl Valley (now part of Val de Vie) and Boschenmeer.

There is extraordinary high demand for secure estate living with its all-inclusive lifestyle offered, from schooling to restaurants, gyms and various outdoor activities like running and cycling trails to horse riding and game viewing, all in the heart of the Winelands.

A further noteworthy trend is an ongoing increased demand for agricultural property for lifestyle as well as for commercial use. Most sought after among lifestyle buyers are small scale (8-20ha) farms in the Elgin and Grabouw valley priced between R7m and R20m, while we recently sold two commercial citrus farms just outside Paarl to the total value of R118m, and an exceptional lifestyle property in Franschhoek for R23.5m.

In Hermanus, Benguela Cove Lagoon Wine Estate offers a rare commodity along the Whale Coast – north-facing waterfront properties and luxury homes in a secure eco and wine estate with properties ranging from R2.75m to R17m.

Seafront vacant land is like hen’s teeth, compelling buyers to purchase older seafront properties and either demolish or substantially renovate, which also makes Benguela Cove even more attractive and cost effective as an option to live along the coast, between the vineyards, in a secure lifestyle estate that offers residence access to the second largest lagoon in the country for kayaking, skiing and kite surfing. This is over and above the breathtaking views, mountain biking and trail running options.

Indicative of the desirability of top end property in Hermanus PGP recently sold two luxury homes for R26m and R19m respectively.

Apart from also experiencing an ongoing trend as a result of semigration to the Western Cape, the Whale Coast towns of Hermanus, Onrus and Kleinmond are seeing an ongoing trend from buyers looking to acquire holiday homes with a view to retirement in the future.

From a greater Cape Province perspective, in Cape Town’s ever-popular Northern Suburbs demand for smaller gated community remains high. As a result of the shortage of stock in the Cape Metropole and therefore access to good schools, we have seen a higher demand for property from buyers previously looking in the Cape Metropole in the city’s Northern Suburbs such as Plattekloof, Welgemoed and Durbanville.

Massive investment underpins Gauteng housing market

But the story of the residential market this year is certainly not only about the Cape.

House price inflation in Gauteng has underperformed the national index in recent years, as the subdued economic environment takes its toll on South Africa’s industrial heartland.

But despite the relative underperformance of the overall Gauteng housing market, this region is still South Africa’s economic power-house and remains home to half of the country’s high net worth individuals.

According to the recent *New World Wealth* report, Johannesburg has a high net worth population – dollar millionaire population of 17,600, while Pretoria has a wealthy population of 2,600. As a result, Gauteng is home to exactly half of South Africa’s 40,400 ultra-wealthy individuals (US dollar millionaires).

In addition to being home to the largest ultra-wealthy population, Gauteng also attracts the majority of South Africa’s first-time buyers – many of whom move to the region in search of economic opportunities at the early stages of their careers.

This provides a solid underpinning for the Gauteng housing market since, even though the tough economic climate is taking its toll on household finances, first time buyers remain a significant presence in the South African housing market. According to ooba, first-time buyers remain the most significant contributor to home loan volumes, accounting for 53% of all ooba’s bond applications in the third quarter.

Given South Africa’s relatively young population profile – with the majority of South Africans still under the average age of the typical first time buyer (34 years according to ooba) – demand from the growing number of first-time buyers will continue to provide a positive fundamental underpinning for the South African housing market for the foreseeable future.

It is this robust demand from first-time buyers which helps to explain the continued strong price performance of the lower price band (below R1m) housing market in all three major regional markets.

The dominant role of first-time buyers is also providing a key driver in the rapid transformation of South Africa's housing market. During the third quarter of 2016, 61% of all ooba's applications were from Black home buyers, while among first-time buyers this rose to 73% of all applications received by the bond originator.

Sectional title properties continue to outperform freehold homes

One possible explanation for Gauteng's relative price underperformance is the fact that the region is better able to meet growing demand for new housing. Unlike Cape Town, where the geographic limits created by the coastline and mountains hamper the creation of new housing stock, creating a persistent shortage of stock in prime areas, Gauteng has been able to expand outwards in order to meet housing demand.

There are currently several major infrastructural, commercial and residential developments in numerous growth nodes such as Fourways, Midrand and Menlyn in Pretoria East, while we continue to see high levels of investment and growth in Sandton.

Secure estates such as Steyn City and Dainfern remain resilient and popular even in tougher trading conditions, while we are noting an increase in the number of renovations and rebuilds in some of the more established estates. With its convenient airport access, avoiding considerable traffic congestion, Lanseria is experiencing significant land sales.

Rapid development across Tshwane

Although house price inflation in Pretoria has slowed in the past few months, development across the Tshwane municipal region continues at a rapid pace, and many residential areas retain highly active property markets.

Easy access to amenities and a secure lifestyle are of prime importance to residents, which helps explain why townhouse complexes, apartments and homes within security and golf estates are in particularly high demand in much of the region. The rental market has continued to do well and has benefitted from an ongoing demand from corporate, embassy and foreign mission staff.

Pam Golding Properties in the Pretoria region has had a record year enjoying a 49% increase in turnover and a 42% increase in unit sales over 2015.

To meet the expected future demand for accommodation within Menlyn, one of the fastest growing regions in Gauteng, new luxury high-rise apartment developments such as Menlyn Maine Towers, the impressive residential component of the ground-breaking Menlyn Maine mixed-use development, and The Regency, are proving popular and units have been rapidly sold off-plan. Investors are being attracted by the cosmopolitan 'work-play' urban lifestyle that is now on offer at these developments.

Gautrain extension to spark new growth nodes

One major infrastructural investment which is likely to have a significant impact on the housing market in several Gauteng suburbs in the year ahead is the planned extension of the Gautrain.

The Sandton and Rosebank Gautrain stations have very clearly boosted the development impetus in these suburbs. Companies are often willing to pay a premium for premises near a Gautrain station, while residents are attracted by the transport alternative the service offers to Gauteng's congested highways.

The Gautrain Management Agency is planning to extend the rail route by 150km and the Gautrain could soon extend its travelling routes to Soweto, Mamelodi and the West of Johannesburg. It is anticipated that the extension to the west of Johannesburg will have a similar impact on the local property market as was experienced in Sandton and Rosebank, with some big corporates opting to relocate there.

Construction on the new lines could start in five years' time. In the meantime, it is estimated that 45 new train coaches are needed to keep up with growing passenger demand.

Robust activity on KwaZulu-Natal North Coast prompts housing rebound

In contrast to the cooling house price inflation in both the Western Cape and Gauteng, KwaZulu-Natal (KZN) is experiencing a modest rebound – with growth in prices rallying from 5.4% in late-2015 to a level of 7.5% in September 2016. There is no sign as yet that the rebound in prices is losing momentum.

Housing demand appears to be particularly buoyant along the northern KZN coastline, with buyers showing a strong preference for properties within secure estates. With its prime location and beautiful beaches, there is significant demand in uMhlanga – with numerous new secure estates and beachfront complexes proving to be extremely popular, with new estates like Izinga, Hawaan Forest and beachfront complexes such as the Oceans and the Pearls experiencing high demand.

Further north towards Umdloti, the new Sibaya precinct is the hotspot in KZN. Sibaya will be a controlled precinct with security, well-run retail and office components and prime residential nodes that rest above forest and sea.

The new Signature Estate promises to be the best address in KZN, with only 45 exclusive stands in a prime residential security estate with panoramic sea views and direct beach access.

The stands are selling from R4.95m up to R10.5m and people are buying from across the country, most notably Johannesburg and KZN, and we have also had foreign interest in this estate.

Major investments behind soaring North Coast housing market

Further fuelling interest from property investors on the North Coast is the increase in economic activity at the Dube TradePort which, together with King Shaka International Airport, forms part of the regional aerotropolis.

International travel was significantly bolstered last year by the addition to Durban's network of four new international airlines, in addition to the daily Emirates flights and regional services to Zimbabwe, Mozambique and Mauritius.

Official statistics show that total international arrivals have risen by 60% since King Shaka opened in 2010 due to direct international flights.

To extend the transport network with the TradePort, local authorities are planning a rapid rail system which will connect King Shaka with Durban, Pietermaritzburg and Richards Bay. The increase in economic activity and improved employment opportunities generated by developments at King Shaka and Dube TradePort are undoubtedly contributing to the revival in the property market in the region.

Eastern Cape rallies as buyers relocate to South Africa's coastline

Moving down the coast the Eastern Cape housing market has lagged behind the other major regional markets in recent years. However, much like KZN, house price inflation in the province is currently gaining momentum as massive infrastructural and property investments in the region bolster activity in the local housing market.

Nelson Mandela Bay has registered average house price inflation of 5.4% during the first half of the year, making it the third highest performing metro area in South Africa.

During the past five years, freehold properties have risen by an average of 22.1% in Port Elizabeth and 29.2% in East London.

A variety of major infrastructural and property developments are currently underway in the Eastern Cape. These include the recent announcement by the Department of Energy (DoE) that the Coega Industrial Development Zone (IDZ) would be one of the locations for a R25bn gas-to-power programme, along with the record-breaking R11bn investment by the Beijing Automobile International Corporation (BAIC) in a vehicle manufacturing plant and the ongoing development in the Bay West area. These investments, along with several other property developments in the region, are likely to significantly bolster economic activity and employment creation in the province.

The massive new wave of economic investment, coupled with a new local government, suggests that the Eastern Cape housing market will experience a renewed bout of growth in the months ahead.

As one of the least congested cities in the country and with an offering of its own version of the high quality lifestyles found in other coastal destinations, Port Elizabeth is increasingly well positioned to attract wealthy buyers from across South Africa.

Potential buyers are likely to be attracted by the opportunity to participate in the region's economic revival and to take advantage of its relatively affordable real estate, international airport and coastal lifestyle. Local agents are already experiencing increased interest in prime properties (above R3m) as professionals relocate from other provinces.

A little further down the coast the Garden Route enjoys a steady demand which should continue into 2017 with a wide selection of homes, improved hospital and shopping facilities which makes it a perfect work-from-home lifestyle choice.

Knynsa and Plettenberg Bay and the areas through to Mossel Bay are benefiting from the push down to the coast and a sense of movement to secure locations which offer an attractive lifestyle and sense of community as well as still being reasonably priced.

In the inland regions of the country the interest in farms continues, for both lifestyle as well as commercial, while second home buys, particularly inland for weekend getaways, enjoy a slow but constant demand.

We suggest the economic drivers will emanate from the mining sectors such as coal, gold and platinum, as the job creation would bring stability and property growth to many towns inland which have been struggling.

ABOUT DR 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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