Has Covid-19 triggered a fundamental shift in SA's housing market?

By Dr Andrew Golding

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The near-universal lockdown of global economies earlier this year as governments attempted to contain the coronavirus is unprecedented, with the social and economic consequences of the initial lockdown and subsequent gradual easing of restrictions still unfolding, making predictions in terms of the economy - and South Africa's housing market - extremely difficult.

Dr Andrew Golding, chief executive of the Pam Golding Property group

The level of activity in the housing market in the months since real estate agencies were allowed to reopen (1 June 2020 at Level 3) surprised market analysts. For example, FNB recently noted that not only has the volume of new mortgage applications rebounded beyond pre-lockdown levels across the price spectrum, the level of buyer interest seen on property portals has also surpassed levels seen in early-2020, when Covid-19 was but a distant threat.

The resilience of the local market certainly runs counter to initial expectations that residential market activity, already subdued by years of sluggish economic growth, would slump further.

Factors driving residential property sales volumes

However, it would seem that there are a number of factors currently driving significant sales volumes in South Africa's residential property market. These include, among others, the impact of Covid-19 and the ensuing lockdown – including the fact that Deeds Offices were closed for several months, which has created a considerable pent-up demand, and the historically low interest rates, to name but two.

One of the obvious, but significant changes caused as a result of the pandemic has been the Reserve Bank's bold decision to slash interest rates by 300bps this year to date to an almost 50-year low of 7%. For many homeowners, this unprecedented low, coupled with the price correction in the local residential market in recent years to more realistic levels, has resulted in a clear message that this may well represent a 'once in a lifetime' opportunity for buyers.

For numerous purchasers, especially first-time buyers, this is new and appealing territory, and they are taking this message to heart – with bond originator ooba noting the surge in first-time and 100% bond applications in recent months. According to ooba, home loan applications rebounded in June and by July volumes were over 60% above year-earlier levels. In June, 68% of ooba's home loan applications were for 100% bonds, with an approval rate of over 80%.

And first-time home buyers are taking advantage of the cheaper finance to acquire more expensive properties, with such buyers accounting for almost 53% of home loans during the second quarter, according to ooba. As we have noted previously, South Africa's young population, with nearly two-thirds of citizens currently below the average age of a first-time buyer (34 years), provides the market with a solid underpinning.

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No significant increase in new stock volumes

To temper any expectations of an unrealistically buoyant property market, however, it is important to note that there has not been any significant increase in new stock volumes coming onto the market when compared to 'normal volumes'. What we have seen is that the residential property market has come out of the gates very strongly after the restart of real estate activities at the beginning of June and during July 2020, with most of this activity driven by realistic pricing expectations and motivated sellers.

Notably, in the Western Cape and other sought-after locations in South Africa, well-priced properties are now attracting strong buyer interest. There is no doubt that where properties fail to attract good buyer response, an urgent reconsideration of the listing price is required as recent sales activity has demonstrated strong demand from residential buyers and investors.

Against a backdrop of the current buyer's market, coupled with a prime interest rate at a historic low and expected to remain at low levels for the foreseeable future, savvy home buyers seeking access to finance have never been better placed to make sound investment property acquisitions across all price ranges and property types, but perhaps particularly in the price band up to around R3m. People, including investors, have realised that now is the time to buy.

In the residential property market we are currently seeing that the main price bands experiencing the most interest and activity are those up to R2.5m and R3m, followed by the middle market price band between R3m and R8m, and upwards.

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Uptick in successfully concluded sales

During the months of June and July, we experienced a significant activity uptick in terms of successfully concluded sales, which, while partly attributable to the pent-up demand as a result of the lockdown, is also indicative of a tendency among some buyers to reassess their residential 'lifestyle' requirements as a result of the lockdown, as well as an aforementioned strong appetite among first-time buyers to enter the property market.

The latter is partly driven by former renters who prefer to put down roots and gain security of tenure by purchasing their own homes - rather than pay rental, while capitalising on the low interest rates as well as the zero transfer duty payable on properties selling below R1m. Many millennials who used to remain mobile, maintaining flexibility to travel globally, seem to be looking at getting apartments and 'settling down' for now.

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Shift in circumstances, priorities and lifestyles

While the final trajectory of Covid-19 is far from clear, one can imagine that it has sparked a significant shift in circumstances, priorities and lifestyles triggered by weeks and even months spent more or less confined to home, which has prompted homeowners to make either new or long-planned changes to their living conditions. These decisions may in part be prompted by the marked deterioration in economic prospects resulting from the prolonged restrictions in business activity due to the lockdown. Various trends evident in the marketplace include relocation to smaller and/or coastal towns, and downsizing due to financial pressures or upsizing – to satisfy the need for work-from-home space and more outdoor space. In this regard, we are seeing a shift back to freestanding homes with garden cottages and an increasing demand for homes in secure lifestyle estates. There is even talk that the number of separations/divorces has increased after lockdown, which would create activity in the residential property market.

Furthermore, depending on how the pandemic and lockdown impacts, some families are choosing to live together to save costs, namely multigenerational living, others are relocating provincially – perhaps to a more relaxed lifestyle in a second-tier city, while some are emigrating. That said, we are not seeing a specific increase in sellers due to emigration - we have also noted that some sellers who were preparing to emigrate either cannot get to their destinations or, in some cases, the jobs they were going to have been done away with.

Finally, there are still those who are selling and relocating for the usual reasons, namely lifestyle changes, downscaling as adult children have left home, retiring and so on.

Positive wave of change

While questions remain regarding the sustainability of the current high levels of activity in the housing market, particularly as the full economic cost in terms of revenue lost and job losses is still far from clear, the reassessment that many South Africans have made regarding their needs in terms of their homes, and indeed their perceptions of home, is currently seeing a positive wave of change wash through the residential property market.

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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