

Property sector under pressure due to low levels of confidence

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Low business and consumer confidence are placing the property sector under pressure.



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Construction activity is concentrated in upper-market business hubs, as the rising costs of building prompts property developers to scale down or concentrate on projects abroad.

The value of recorded building plans passed in SA was down 8.5% (down R2.19bn) in the first quarter of 2017 compared with the first quarter of 2016.

Planned non-residential building fell by a dramatic 31.2% (down R2.5bn). There were also large year-on-year decreases in plans passed for shopping space in KwaZulu-Natal (which was down R1.4bn), Gauteng (down R730m) and the Western Cape (down R717m).

The value of buildings reported as completed rose by 23.7% (up R3bn) in the first quarter of 2017 compared with the first quarter of 2016.

However, all three major building categories recorded an increase in value. Non-residential buildings were up 32.3% (up R1.1bn), followed by residential buildings, which increased in value by 23.4% (up R1.6bn); additions and alterations recorded an increased value of 12.2% (up R292m).

Growth in the flats and townhouse sector was up 28.8% year on year in the first quarter, while plans passed for houses, as well as other residential buildings, such as hostels and guesthouses, fell by 11.5% and 87.7% year on year respectively.

According to Investec economist Kamilla Kaplan, "These dynamics could indicate that the comparative increased demand for flats and townhouses stems from affordability constraints, amid a higher interest rate environment, tighter financial conditions and high levels of consumer indebtedness."

"With GDP growth expected to recover only modestly, from 0.3% [year-on-year] in 2016 to 0.8% in 2017, and with persistently depressed business and consumer confidence, activity in the building sector is likely to remain suppressed," she said.

This comes after the FNB-sponsored Bureau of Economic Research (BER) Building Confidence Index survey which, at the end of March, indicated that building activity could decelerate in the coming quarters.

The index rose for the third consecutive quarter to 43, remaining under the neutral 50-mark with almost two-thirds of survey respondents dissatisfied with prevailing conditions.

Source: BDpro

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