

Could Cape Town's property prices have finally hit their ceiling?

While the Cape Town property market showed seemingly limitless price growth during difficult national conditions that caused stagnation in many other markets across the country, trends over recent months suggest this meteoric rise may be coming to an end.



© Nolre Lourens – 123RF.com

Many have questioned whether Cape Town property prices have finally reached their limit.

“There’s no doubt that the first half of 2018 has been uncharacteristically slow for Cape Town property,” says Schalk van der Merwe, franchisee for the Rawson Properties Helderberg Group. “Time on market has increased significantly, asking prices are being dropped, and although online activity remains strong, far fewer prospective buyers are actually going to view properties.”

Top four influencing factors

According to Van der Merwe, this evidence suggests that buyers and investors remain interested in Cape Town property (hence the online activity), but are reluctant to take the next step because of current market conditions. He attributes this reluctance to four main influencing factors: political uncertainty, the water shortage, a decrease in semigration, and of course, affordability.

“On the political front, it seems that ‘Ramaphoria’ has waned into a kind of cautious optimism that hasn’t quite solidified into real consumer confidence as yet,” says Van der Merwe. “This isn’t unusual – unstable times always trigger some level of market hibernation as investors wait for the dust to settle, it’s understandable that people are a bit cautious.”

The extent to which the water crisis has dampened sentiment in Cape Town’s property sector, on the other hand, is a little more difficult to quantify.

“The economic impact of the drought is undeniable,” says Van der Merwe, “particularly when it comes to the agricultural and manufacturing sectors and their employees. That said, it’s tricky to separate the effects of this, and any uncertainty it may be causing, from the effects of the widespread affordability problems caused by several years of very high price growth.”

Slowing semigration

The combination of affordability and water crisis concerns has impacted more than just local buying power, however. The previously strong inward-bound semigration trend that bolstered Cape Town property prices for many years appears to be slowing.

“We’ve always had a reputation as a well-run and affluent province, and have traditionally attracted a steady stream of semigrants from all over the country as a result,” says Van der Merwe. “Of course, fewer people want to spend top dollar to move to a city with no water, so we’re not surprised to see that particular driving force behind Cape Town price growth take back seat for now.”

While non-residents may be temporarily hesitant to relocate to the Western Cape, Van der Merwe says most Capetonians seem positive about the stability of the province’s future.

“The property market may not currently be as active as previous years, but sales are still happening and properties are still appreciating,” he says. “If we look at the sectional title market – a sector that makes up 59% of all Cape Town property sales – average year-on-year growth is at 8.8%, which is actually very healthy. The problem is we’ve become used to averages like the 18.8% we enjoyed leading up to 2017, but that kind of growth is simply unsustainable in the long term.”

Adjusted expectations needed

Continued expectations of double-figure appreciation may, in fact, be partly to blame for Cape Town’s market slow-down.

“Sellers need to adjust their expectations to account for current market conditions,” says Van der Merwe. “A lot of the properties lingering on the market are doing so because they’ve been overvalued based on outdated figures and aren’t competitive enough for today’s cautious buyers.”

So, does that mean that the days of sky-high property appreciation in Cape Town are over?

“I highly doubt it,” says Van der Merwe. “We may go through a period of price normalisation, but with the good rains that we’re having, and plans in place to guide us through the water crisis, it’s only a matter of time before Cape Town is back to being South Africa’s most desirable city.

“As long as there are no serious political faux pas, and the global economy remains steady, the market could start trending upwards again as early as the third or fourth quarter this year. I have no doubt that there will be plenty of opportunities for outstanding property investments in the greater Cape Town region in the coming months and years.”

For more, visit: <https://www.bizcommunity.com>