Current trends in the residential property group

Over the past few years, there's been some dramatic changes in global property trends. But where does that leave us in South Africa today? What is today's buyer's approach to purchasing a home, and more specifically, what is the current state of the market in relatively stable and sought after property markets in the upmarket suburbs of Durban North and La Lucia in Durban, KwaZulu-Natal?

Carol Reynolds, Pam Golding Properties' area principal in the above areas, says in recent years we've seen the property market plummeting to a low and then gradually re-emerging to a stable but slow pace.

"The US housing crisis is finally coming to an end, as economists note a small but positive rise in house prices and general, renewed buyer confidence in the marketplace. South Africa's residential market has been through some troughs, but on the whole, we have managed to buffer ourselves somewhat from much of the travesty on the global front."

Conservatism is the 'new normal'

Reynolds says market sentiment is a key driver in market activity and 2012 has been embraced by a more positive outlook than was the case in 2011.

"However, conservatism is the 'new normal' and both buyers and developers are adopting a conservative approach to purchasing property. The banks are tightening their lending criteria in regard to developments, and there is still a pervasive air of caution in regard to risk assessment. Perhaps the most notable trend is the increase of activity in the rental housing market.

Rise in rental returns

"As a comparator, while house prices have stagnated with very little year-on-year growth, rental returns on residential property have risen notably. In 2008, returns were sitting at around 4-5%, while we are now seeing an increase in demand for rental stock, and a consequent rise in rental income. Today's landlords can expect a return in the region of 6%, and depending on the area, some nodes will generate returns of 7 or 8%.

However, with new municipal regulations regarding utilities - and the onus now being placed firmly in the landlord's camp, the latter are opting for managed leases rather than procurement leases because the administration involved is becoming so onerous.

"We are seeing an increase in the installation of meters for utilities as landlords try and alleviate the burden of liability vis-à-vis their municipal accounts. Indeed, we are recommending that investors who have a portfolio of properties on the rental market equip each unit with an electricity meter. Companies have also started offering water meters, and this too is going to become a growing trend."

Security a key priority for home buyers

Reynolds says the best properties from a return on investment perspective are still units in complexes and security estates. Security continues to play a substantial role in influencing price trends in the market. Most corporate tenants will not even consider freestanding houses - and prefer to sign leases in secure estates and upmarket complexes. Investors should therefore look to purchase homes in estates and complexes that offer solid prospects from a rental income perspective.

Says Reynolds, "Although the banks have loosened their lending criteria this year, there are still large numbers of unqualified purchasers who are unable to secure home loans, and are therefore forced into the rental pool. This in turn drives house prices down and rental income up. The reduction in the lending rate has certainly been welcomed and we hope that this will facilitate more market activity. We are certainly starting to see signs of renewed activity, and whether this is driven by the current low interest rates, or by a seasonal shift into the summer months, the spirit of optimism is noticeable.

"In the perennially popular suburbs of Durban North and La Lucia, we are seeing a lot of buyer activity between R1.5 million and R3 million. This sector of the market is buoyant and we are even experiencing stock shortages in certain nodes. However, finance is the 'Achilles heel' in this sector of the market.

Upper end attracting interest

"An encouraging sign is that for the first time in two years, the upper end of the market is also beginning to recover. Homes over the R5 million mark are attracting interest at last, and this is a very positive indicator, given that this end of the market has been stagnant for some time now. It is interesting to note that the upper end of the market is driven by cash sales or sales with smaller bonds, so finance is not an issue. The big issue in this tier of the market is unrealistic pricing. Sellers are still expecting high prices for their homes, and the market at this level is extremely astute and educated in regard to current market trends, so only homes that are correctly priced are selling."

Adds Reynolds: "To summarise, while house prices have remained relatively flat this year, the rental market has shown noticeable growth. We anticipate more activity in the latter half of the year across the board, but particularly in terms of demand for rental properties."