

The real estate market, 2013 and beyond

By [Jan le Roux](#)

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As the end of 2012 approaches buyers and sellers are looking to industry leaders to predict what is to happen in the residential property market in 2013. At present, market analysts from both Absa and FNB predict more of the same: the same stability, the same low growth rates.



Jan le Roux, CEO, Leapfrog Property Group

There are a number of factors that explain why this prediction is most likely correct, many of them are obvious, some not so much. The first culprit to come to mind is the economy - both local and international - due to the current economic downturn businesses and the prices of commodities, like food and fuel, have been affected around the globe. As such, there are fewer jobs, more insecurities and higher prices on consumables, none of which bodes well for the residential property market.

Home loans

Contributing to the situation is the fact that South African banks have very stringent criteria when it comes to approving mortgages. These days one out of every two applications is successful whereas up to 75% were granted during the heydays of 2007. Whilst the banks have lessened these requirements somewhat it is still difficult for people, especially for first-time buyers, to obtain home loans. Indications are that the current status quo will prevail for some time to come.

Household debt vs saving

Possibly of greatest concern going into 2013 and beyond is the issue of household debt versus disposable income and savings. At present, South Africans live with a high amount of indebtedness and a worryingly low rate of household saving. Household debt currently stands at around 74.4%, which is admittedly lower than the 82.7% in 2008 but, still worryingly high.

The fact is that many households are still spending more than they're earning, which, of course, leaves little to no room for savings. The Savings Institute indicates that consumers are currently quite exposed in terms of pressure on their cash flow and that that pressure is mounting - lower income groups, those with high debt-to-income ratios as those paying high interest rates with high debt ratios are particularly affected.

Municipal rates and Eskom

Added to the high levels of debt and lack of savings are the high municipal rates that many property owners are being challenged with. Property valuations undertaken over the past four years have led to increases in municipal rates that many deem exorbitant. Added to these costs is the fact that Eskom will be raising its electricity tariffs by 16% yearly, for the next five years. In effect, a household making use of R600 worth of electricity will be eventually be paying; $R600pm + 16\% =$

R696pm, reaching R1260 pm in five years' time. That's basically double the amount currently owed.

Residential construction

According to John Loos, a household and property sector strategist at FNB, the latest residential building statistics released by Stats SA, continues to "show a very 'settled' picture, with square metreage of residential buildings completed hovering around levels similar to the pre-boom late-1990s. Over the past year we have seen only minor fluctuations above and below zero in terms of year-on-year percentage change in square metres completed. All in all, therefore, things look fairly settled."

Clearly, the current economic climate and the high debt-to-income ratio that many South Africans are battling with are not conducive to much residential building activity. Loos believes that the current well-supplied, existing property market is also stunting the construction industry somewhat.

Urbanisation and transport

South Africa is well known for its wide-open spaces and properties with large yards. The fact that our neighbourhoods are so sprawling is now becoming a part of the problem. According to UNICEF, South Africa is the most urbanised nation in Africa and recent statistics from Stats SA reveal that Gauteng and the Western Cape have seen the highest levels of migration into the areas, with 1 440 142 and 432 790 people moving to these provinces, respectively.

More and more people are migrating into urban areas for work; however there is an increasing shortage of suitable accommodation in these cities, which means that people either settle for sub-standard housing (like shacks) or they have to travel further and further between their affordable housing and their place of work.

Whilst inroads have been made regarding public transport with the MyCiti buses in Cape Town and the Gautrain in Joburg, public transport is still woefully inadequate, expensive and often unreliable. People in the lower income brackets are forced to spend the bulk of their income on food and transport, which makes it considerably more difficult to improve their living conditions.

I believe that with co-operation between the authorities, developers and entrepreneurs there is a huge opportunity to supply lower-income housing closer to city centres. This is the only way, in the medium and long term, to address the discrepancy between transport and housing costs for people in the lower income groups. It is a step that is really necessary to negate the negative impact of the apartheid years.

The long and the short of it is that the residential property market faces a number of challenges. There are, however, also a few positive counter points.

Better wages and more education

According to Stats SA, household income has doubled in the last decade. Whilst a large percentage of the population still lives in poverty, there are indications that more people are earning better incomes than during the 2001 census.

The results also indicate that more people now have higher levels of education than ever before. The number of people aged 20 and older with no primary school education has halved from 18% in 2001 to 9% in 2011. Those 20 years old and over who have finished school increased to 28%, whilst those who achieved a higher education increased to 12%. Overall, more people are being educated, which bodes well for the job market and, as such, for the general economy.

An education and a job are a good start in terms of giving people the means to purchase a home. However, these measures will need time to bear fruit and still benefit a minority of the population.

The government's Breaking New Ground housing policy

The South African Government's website indicates that it has built more than 3 million homes between 1994 and 2011, providing accommodation to around 13 million people. People need to be made aware that all of these homes need to be registered at the Deeds Office so that they can be mortgaged, bought and sold. They are not just an asset to pass on to your descendants, but an asset you can work with now to improve your situation. Whilst a number of these properties have been registered there is still a significant backlog at the Deeds Office. The government needs to take every action possible to clear up the log jam, as these properties cannot be used as assets unless they are registered.

FinMark Trust's housing finance co-ordinator, Kecia Rust, indicates that if these houses were to be registered with the Deeds Offices in their respective municipalities, they would now account for around 39% of the residential property market. Research by the trust reveals that a small percentage of housing beneficiaries use these properties to attain finance. "Between 1994 and 2010, 120 000 mortgage loans were issued against subsidised housing, and 90 858 have even sold their homes and purchased second properties," said Rust.

Clearly, more can be done to inform beneficiaries of the possibilities, possibilities that could make a significant contribution to the residential property market.

We all need somewhere to live

Mark Twain once quipped that we should all "buy land, they're not making it anymore" and the quote remains true; everyone needs a home. Whether the market is up or down properties will still be bought and sold, and, as such, they remain one of the best investments anyone can make. It would be wise to hold on or to buy a property in the current market, if possible, as its value will ultimately increase over time.

The road ahead

I agree with analysts: 2013 will probably see more of the same in terms of the residential property market. I do predict a slight improvement towards the end of 2013 and more growth thereafter. It is important to remember that we as South Africans did not suffer the loss that people suffered overseas, which is good news. If you are a normal individual and not a small group of investors, it is always a good time to buy a house as that is the only way to build wealth and safeguard your future.

ABOUT THE AUTHOR

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