

# Government's cutback in spending will increase demand for property

Paul Henry, managing director of Rawson Developers, has drawn attention to an analysis published by the FNB Property Economist, John Loos, an underlying message of which is that house prices in the urban areas, although undoubtedly affected by the recession, will be enhanced by one unfortunate trend in the coming years - a noticeable decline in government spending on the infrastructures of South Africa's big cities.



This trend has resulted in a serious shortage of land zoned for development and a consequent increase in the demand for existing property - despite the difficulties the economy is going through.

The FNB analysis shows that the decline in infrastructure spending, which includes water and sewerage networks, as well as electrical supplies and telephones, dates back to the early 1970s, when the government of the time, having grown infrastructural spending in previous years at a very satisfactory  $\pm 4\%$  per annum, began to cut back as it found itself isolated from and boycotted by the Western world. By 1997 the growth in infrastructural spending had dropped to a mere 1% per annum and since then it has hovered around 2% and is likely to be cut back again in the next few years.

## Rural exodus led to informal settlements

Unfortunately, the cutbacks in big city infrastructural outlays coincided with the massive increase in urban population ever seen in South Africa. In 1960, 46% of South Africans were living in cities. By 2012 the figure has risen to 65%.

City authorities throughout South Africa responded to the rural exodus and the move to urban areas by trying to formalise and organise informal settlements so that they became acceptable - and accepted - in South Africa. They also opted for densifying the existing residential areas, in most cities allowing developers to halve the size of new freehold plots (to  $\pm 500\text{m}^2$ ), to cut down the size of houses (to an initial average of  $150\text{m}^2$ ) and to build upwards in two, three or four storey blocks. This, in turn, was accompanied by a big increase in sectional title developments, which are now responsible for some 25% of all residential space coming on stream in South Africa.

## Declining birth rates

The FNB survey said that declining birth rates have also had their effect. They have allowed developers to reduce the number of bedrooms per unit, the national average now being only 2,4. Previously three and four bedroom homes were far more prevalent than they are now, but large homes are popular in poor areas because they can house two families or more.

While it may be true, as the FNB survey has indicated, that home prices did become overvalued and that the current low growth in house prices is essential to bring about a more realistic pricing scenario, it is also true that the scarcity of land zoned for housing - due, in turn, to the cutback in infrastructural spending - will ensure that the values of existing urban homes will tend to stabilise from here on. Price rises may continue to be unspectacular, but in the long term residential property, due to the huge scarcity, is bound to remain a very safe investment.

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