Home-building sector in decline

It is always worrying when the home-building sector goes into decline, says Bill Rawson, chairman of the Rawson Property Group, since construction, and especially residential construction, is a major creator of employment and ultimately also of housing demand.

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“And the latest available figures from StatsSA show that although there are pockets of strong activity, the overall picture is deteriorating at the moment, with levels of activity in both the planning and construction phases of private-sector housing having shrunk considerably in the first seven months of the year,” says Rawson.

Overall 8.4% year-on-year decline

According to the report, he says, the number of plans passed for new homes showed an overall year-on-year decline of 8.4% during this period to just over 32,000, while the total real value of those plans showed a 1.9% year-on-year decline to R28,4bn. Three regions, KZN, the Northern Cape and the Western Cape, actually recorded increases in the number of plans passed, but these were eclipsed by huge declines in Limpopo, North West and the Free State and falling numbers in the other regions too.

In addition, while the number of new homes completed showed a 2.6% year-on-year increase at end-July, the total real value of those buildings fell by 1.3% to some R17,3bn. Once again, however, the picture was not homogenous, with certain regions actually recording increases in completions while others recorded substantial declines.

Increase in the ‘flats and townhouses’ sector

“It is also important to note,” Rawson says, “that the only reason there was an overall increase in the number of buildings completed was the 24% increase in the ‘flats and townhouses’ sector, where developers were most likely finishing off projects that they had planned up to two years ago – which is how long it takes to get most multiple-unit developments from the drawing board to the building stage.

“The scale of these projects means that once building has started, it is much more difficult - and costly - to halt them than it is to decide not to build a single dwelling, which is why one will often see construction work continuing on flat and townhouse developments even after an economic downturn.

“In other words, there is a lag in this segment, which is only corrected when the number of plans being passed declines, as it has this year, and signals that we can expect much fewer housing starts of any kind for at least the next 18 to 24 months.”

Bolster prices

The silver lining in this scenario, he says, is that it will tend to bolster prices in the pre-owned sector of the residential market. “With affordability being a major issue in the property market at the moment, many prospective buyers are in any case concentrating on pre-owned homes, which are considerably less expensive than newly-built units.

“According to Absa, the cost of stands in the middle and luxury segments of the housing market showed a year-on-year increase of 21% in the second quarter of this year, while the cost of having a new house built increased by 8.5%, and as a result of these and other factors, it is currently 28.6% more expensive, on average, to buy a newly-built home than to buy a similar pre-owned property.”

Limited new stock

Then on top of this, says Rawson, the fact that there will be a limited amount of new stock coming on to the market means that the overall supply will start to diminish relative to ongoing demand. “This will see buyers starting to “compete” once more for the available homes, and driving prices up again in the process.

“And eventually, that will restore developers’ confidence and encourage them to start planning new projects once again, but with the economy in its current slow mode, I expect the construction recovery process to be a lengthy one,” he concludes.