Tears and fears as reality hits Cape property

Building frenzy creates a lot of beds for only a few heads

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● You can’t swing a crane in central Cape Town these days without hitting a new rooftop penthouse.

But a series of high-profile disputes involving builders and investors has prompted fears that cracks are showing in SA's flagship property market — with too many beds and not enough heads.

Investors headed by Jacob Wiese, son of former billionaire Christo Wiese, have been drawn into a dustup over one of several new residential developments that will collectively add around 7,000 new beds to the market.

Another payment dispute in Observatory has taken some of the sheen off a just-com- pleted 310-unit development.

There are similar tensions in the commercial market where a huge new foreshore building overlooking the harbour has been delayed by business liquidations.

Wiese and co-investors in the 135-unit Docklands building in trendy De Waterkant are frustrated by a commercial dispute between builder JLK and developer FWJK. This culminated in JLK stopping work and "confiscating" the building site earlier this month. A new constructor is now doing the work. JLK Construction boss Johan Louw said the Docklands dispute related to payment certificates.

FWJK is one of the market's biggest players, with projects totalling R2.5bn countrywide, including R1bn in Cape Town. CEO Dave Williams-Jones confirmed "delinquent contractors" had caused some delays, but denied any property crisis.

“We’re in recession. Contractors’ margins are tight,” he said. Contractors were cutting costs, “resulting in insufficient construction site management and painfully slow progress on certain affected construction sites”, he said. Several property stakeholders say the increase in building disputes is because of saturation, particularly in the upmarket apartment sector, which has already seen a significant drop in rents.

The oversupply stems from a five-year building boom in the city bowl and the area between Sea Point and Camps Bay, driven partly by an influx of foreign investors and “semi-gration” from Gauteng. But a perfect storm of market-unfriendly factors, including recession and land expropriation jitters, has led to reduced property demand, leaving many investors and their cranes hanging in the wind.

“The market near to the mountain was a bit frothy — people got over-excited,” said FNB property analyst John Loos. “There are mutterings of too many apartments on the market and not enough demand ... It suggests the situation is deteriorating.”

Basil Moraitis, Pam Golding Properties branch manager for the Atlantic seaboard (Sea Point to Camps Bay), said: “There is definitely a price correction taking place on the Atlantic seaboard, which was inevitable. Every asset class that is freely traded has cycles, and pricing on the Atlantic seaboard is no exception.

"It has also become clear that this price correction is not unique to the Atlantic seaboard and seems to be taking place across all asset classes worldwide, with few exceptions. The overheated markets in Sydney, London, Vancouver, Shanghai are all experiencing the same phenomenon, as are many stock markets around the world."

Dexter Leite, Pam Golding Properties rental manager in the Cape, said the rental market was similarly affected.

"It has been widely reported by many that the rental market has softened this year ... and that as demand has waned, rentals achieved have been under pressure."

Wiese, who is following in his father's footsteps and has a keen interest in property, was reluctant to comment on the Docklands dispute. He referred queries to FWJK.

"As a property investor in general, I believe in the future of our fair city and the ability of our residents to create a world-class place to live," he said.

Some property stakeholders fear the Cape Town residential market could be heading for a crash rather than a correction, thanks to increased building costs and lower rental returns.

"It will be spectacular," said one prominent player, himself an investor. "Investors never considered the oversupply of property which would have impact on rentals, and they never expected the cost of operation [levies and rates] and an oversaturated Airbnb market. One can't

have a lag between the capital cost and the rental that is achievable."

But other stakeholders believe Cape Town has proved its worth over and above periodic downward cycles. Williams-Jones said investors might opt to hold on to their stock until the market turned again.

"That is why we just have to carry on — we are not going to stop developing. Each new development is worth about 5,000 jobs," he said.