SA residential market remains resilient

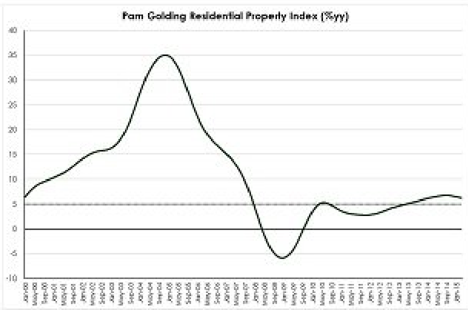
21 May 2015

Despite an unexpectedly weak start to the year for the SA economy, the loss of momentum in local house price inflation has been limited and continues to compare favourably relative to global markets.

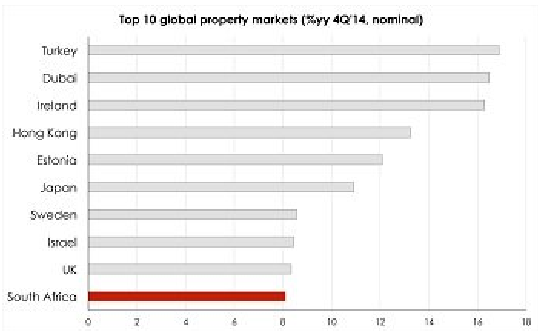
"The disappointing performance of the South African economy in early 2015 – due largely to the impact of nationwide load-shedding – is being reflected in a weakening momentum in national house price inflation."

Dr Andrew Golding, CE of the Pam Golding Property Group

According to the Pam Golding Residential House Price Index (PGP Index), national house prices have essentially trended sideways since peaking at a modest 6.7% in late-2013, with an annual increase of 6.2% recorded in March 2015.



While this performance may be a little disappointing given the optimistic forecasts which prevailed in the market at the start of the year, it is useful to compare local house price inflation to the price performance in other global property markets as this reveals that South Africa remains one of the better performing housing markets internationally. The global property market has become a “two-speed” market as house prices in some markets gather momentum while in others they slow or even decline.

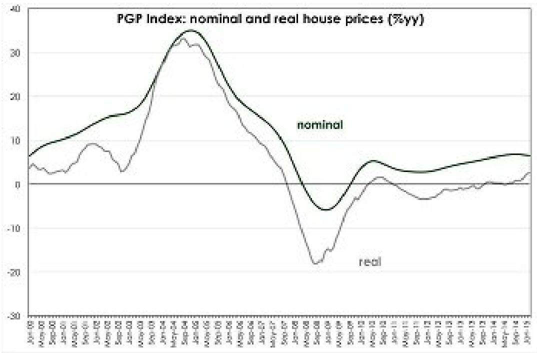


According to the Global Property Guide, the international housing boom continued last year, with nominal house prices rising in 32 of the 41 markets which have published housing statistics for 2014. There is a growing divergence in performance between the various global property markets – with approximately half these housing markets recording stronger upward momentum in prices, while the balance showed weaker momentum or, in some cases, outright decline last year.

Europe’s property markets are surging ahead, with 17 European markets recording rising prices.

Three of the five strongest housing markets last year were European, with Ireland leading the way as its housing market – and economy – roared back to life. Ireland remains the fastest-growing economy in the European Union.

Other European housing markets – including Spain and Portugal – registered weaker performances, while the housing markets in the crisis-torn European countries of Ukraine and Greece are struggling, registering sharp price declines from year-earlier levels. In contrast, house prices have continued to rise in the United States, Dubai and Australia - but the upward momentum in these markets has weakened. Asia has also generally weakened, with China and Singapore’s housing markets entering a downturn.



According to the Global Property Guide, South Africa was the 10th top ranking global property market in the final quarter of 2014, with nominal housing inflation of 8.1%. However, in real terms, South Africa is only 22nd with a real (inflation-adjusted) increase in prices of 2.6% in the final quarter of 2014. While this is relatively low when compared to other global markets – reflecting South Africa's relatively high inflation rate – it is a marked improvement on the final quarter of 2013, when local real house prices fell by 1.3%.

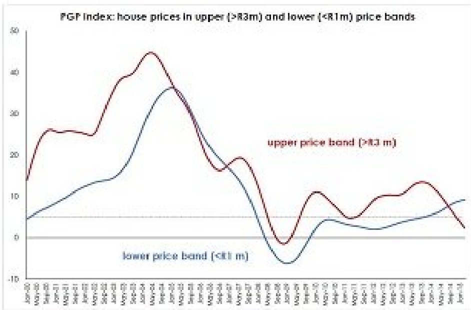
Trends in both the lower and upper price bands appear to be losing momentum, suggesting a turning point may be imminent.

The latest release of the PGP Index shows a continuation of the national trends evident during recent months, namely a gradual moderation in the pace at which house prices are increasing on a national basis.

The underlying trends previously identified within the various price bands remain largely unchanged – with the lower price band (under R1 million) recording the strongest growth at 9.1% in March from year earlier levels, while the upper price band (over R3 million) continues to lag, with an increase of just 2.3% in March. However, these trends in both the lower and upper price bands appear to be losing momentum – suggesting that they may be approaching a turning point.

There are a number of factors pointing to a potential recovery in the performance of the upper price band. PGP Gauteng reports that there has been a recovery in activity in the upper price band in recent months, reflecting growing confidence among homeowners in the outlook for the local housing market.

In the Western Cape, PGP agents report that there is a growing resistance amongst homeowners to rising utility costs. This is resulting in a growing trend towards "upscale downsizing" with homeowners increasingly favouring smaller homes, in a similar or higher price band, with lower overheads and improved security. The upper price band is also likely to benefit from renewed interest among ultra-high net worth individuals (UHNWI) in tangible assets, including property.



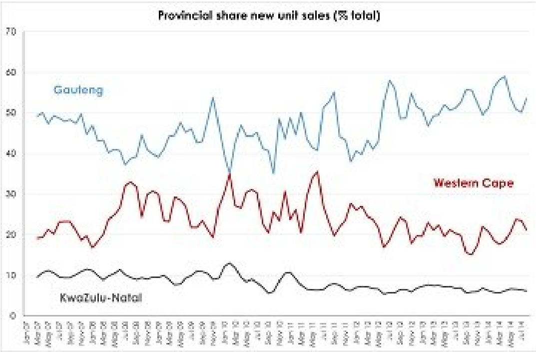
According to the 2015 Wealth Report, luxury leisure homes are once again popular with the well-heeled, with investments in vineyards and equestrian estates particularly favoured by UHNWI in emerging markets. Rand weakness has apparently made South Africa a more popular property investment destination, with local luxury homes costing a fraction of their equivalent in more traditional global luxury markets. The Wealth Report highlights Cape Town and Johannesburg as being among the best-performing global housing markets in 2014.

The deterioration in local economic conditions in early-2015 appears to be weighing on buyers in the lower price band.

While activity in the upper price band looks set to benefit from improved local confidence and renewed foreign interest, the price performance in the lower price band - which has been the strongest performer of late – appears to be losing momentum.

The pace at which prices are increasing is clearly slowing and it seems that buyers in this price band may be starting to feel the impact of the recent deterioration in the economy. The housing market in the lower price band is often the first to weaken when interest rates are increased and when discretionary income is eroded by rising food and energy prices. With less financial wiggle room than higher income brackets, these households are typically more sensitive to changes in the economic environment. This does also mean, however, that this price band is often quick to recover when economic conditions improve.

The local economic environment has clearly deteriorated in recent months. While interest rates remain low by historical standards, and a hike remains some way off, Rand weakness is forcing a reversal of recent petrol price cuts, the 2015/16 Budget included an array of higher tariffs and food prices are under upward pressure. Ongoing deterioration in the local economic conditions suggests that price inflation in the lower-end of the market is likely to continue to soften during the months ahead.



An easing in stock shortages could explain Gauteng's price underperformance relative to other major provinces.

Looking at the performance of the three major regions – Gauteng, Western Cape and KwaZulu-Natal (KZN) – house prices in KZN have outperformed in recent months. As noted in the previous PGP Index (Summer 2015), the strengthening momentum in house prices in this region is attributable to the lifestyle offering, the spatial distribution of economic nodes within the region, which lessen congestion, the value proposition offered by the region and, in particular, the severe stock shortage experienced in recent months. This trend is evident when looking at new unit sales in KZN, which remain on a gradual declining trend.

In 2007, KZN accounted for about 10% of all new unit sales but this has dwindled to just 6% during the first eight months of 2014 (see chart below). In contrast, house prices in Gauteng have underperformed relative to the other two major provinces (the Western Cape since mid-2013 and KZN since mid-2014). This could be at least partially attributable to the fact that Gauteng's stock shortage is easing at a more rapid pace than in KZN or the Western Cape. After a long absence in the wake of the 2007 global financial crisis, property developers have returned and Gauteng saw a healthy recovery in the number of new units being sold in 2012 and 2013. This was accompanied by a loss of momentum in regional price increases.

The growing share of new unit sales in Gauteng is reflected by the fact that during the 2007 boom Gauteng accounted for just 48% of total new unit sales but during the first eight months of 2014 (most recent data available) this had risen to just over 56% (see chart above). The rebound in building activity weakened in early-2015, although building material retailers remain upbeat.

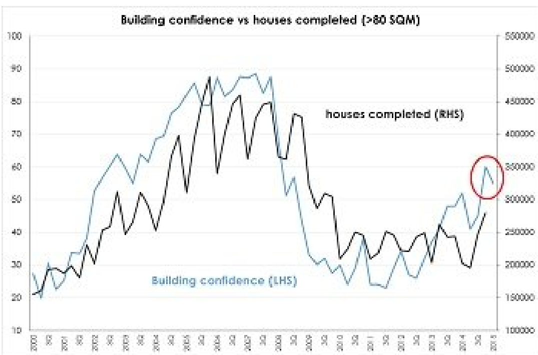
Despite this residential building activity has revived considerably over the past year or so, current data show that the gloss has gone off the marble. Latest figures from StatsSA show that both planning and construction phases declined in the first quarter of this year. In January, the number of new houses for which plans were approved dropped by almost 12% from year earlier levels.

Construction wasn't so bad; housing units built declined by only 1,6% and, conversely, the number of flats and townhouses built jumped by just over 30% from year earlier levels – confirming the downsizing trend throughout the country.

According to current data compiled by the Bureau for Economic Research, building confidence slipped in the first quarter to 55 points on the 100-point scale of the BER/FNB index, particularly that of residential building contractors.

This particular component of the index slumped to 49 points from 66. This has also impacted on the confidence factor of manufacturers of building materials and of quantity surveyors. However, there is a ray of sunshine in that this gloomy outlook has not spread to building material retailers, whose confidence sub-index has improved by 17 points.

Lower inflation and improving household incomes appears to have given a boost to home renovators and improvers – coupled with the DIY market. However, according to Steve Botha, merchandising manager of Builders, a division of Massmart which has 84 outlets throughout the country, many house owners doing home improvements are not submitting plans.



This tends to impact on the accuracy of the number of building plans passed. Botha comments that presently the industrial sector is strong and growing faster than the retail and residential sectors, adding that looking at the BMI index, the Cement Report, KRIG Meyer Report (focussed on timber) gives a pretty solid overview of the industry. His overall prognosis is a decline of between 0 and -2% in physical terms and an increase of 7% in value for 2015.

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