09/06/2024

16 July 2024 / Market-related

An overview of the South African residential property market

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* Screenshot of website as company closed and website was taken down.

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Estate agents faced the challenge of trying to do the best they could for their sellers, but with a distressed market, found themselves having to explain to sellers that their homes would likely fetch significantly lower prices than they would have five years ago due to the economic downturn. It was hard to bring enough potential buyers through to satisfy sellers, because although it was a buyer's market, there were fewer people who could afford to buy. Negotiations to reach a price all could be satisfied with added a further layer of complexity.

Many people who bought new homes during the preceding two years unfortunately found that they could no longer keep up with payments due to interest rate and inevitable levy, electricity and rates and taxes increases which were adding thousands of Rands to their already inflated monthly expenses. There was an influx of homes that needed to be sold into the market, and those sellers, because they'd bought just a few years before, were facing losses on their sales, as opposed to turning a profit.

In PWC's South African Economic Outlook 2024, they confirmed how difficult 2023 had been for South Africans, stating that people were "buying less food as their spending power declines", and that "household spending was reprioritised as home loan repayments were at least 40% higher compared to three years ago due to elevated interest rates."

It isn't all negative though. The bulk of sellers sold due to semigration (21%), as well as for downscaling for lifestyle change (21%) which could include reasons such as a desire to travel more, so a small lock-up-and-go is favoured, or retirement or your children leaving the home. Downscaling for financial difficulty was at 17% and emigration at 14%. The 2.52% drop in house prices was mainly influenced by the high-value, and luxury segments. Prices in the low-value segment however grew consistently throughout 2023 and the mid-value segment also saw positive growth – though with a lower increase than the low-value segment. Houses along the coast also fetched better prices than inland properties.

Looking at the FNB Residential Property Barometer for 1Q24 and May 2024, their "base case view suggests that the house price cycle has bottomed, and that the gradual decline in inflation and borrowing costs from 2H24, combined with some employment gains, should modestly stimulate demand in the interest-rate sensitive segments over the medium term, which would support a moderate uptrend in house prices. surveyed data shows that buying activity has trended higher in the last few months, which has seen a reduction in the time it takes to sell a property. However, there is still a great deal of uncertainty around the sustainability of these improvements."

FNB's report went on to say that "The recent trend in activity rating suggests that home buying activity bottomed out between 2Q23 and 3Q23 and is now on the recovery. On the back of improved activity, the average time that properties are on market for sale was shorter in 1Q24, averaging 10 weeks and six days (76 days), from 11 weeks and four days (81 days) in 4Q23".

There has also been a significant increase in demand for investment or buy-to-rent properties in the first quarter of 2024, particularly by higher net worth individuals buying investment properties in the Western Cape.

Importantly, the banks have continued to be supportive of buyers, pricing has improved, and higher loan-to-value ratios were achieved in Q1 2024, while approval rates remained elevated. First-time buyers, who accounted for 38% of all transactions in 2023, spent an average of R1.17m, up +4.8% in quarter one 2024 than they did in quarter four 2023.

So, while the market may still be muted, there is some optimism, with many agencies citing the potential reduction in interest rates later in the year which might help on the affordability front. Interest by foreign investment buyers in certain areas is also looking promising.