

South African property feels economic drivers

Economic drivers seem to have a big impact on South Africa's property market.

So says Prof Francois Viruly of Viruly Consulting, who adds that we have a changing environment around us from a property perspective.

"Our inflation rate is 6% and our gross domestic product (GDP) growth is 4% to 5%. But that's not that interesting. Stoep talk is interesting or anything you can't find on Google."

On an economic level, Viruly says a few large institutional investors previously determined what happened in the property market but that that has changed fundamentally.

He also points out that the new cities of gold are not places that people would normally associate with a booming property market, but that that is where they go wrong. "With the way the platinum market and commodity prices are going at the moment, the cities of gold are critical and do matter."

Viruly is of the opinion that South Africa could lose most of its economic activity to China. "It has happened in the textile industry and it may well happen to the car industry. We may well find ourselves back to being a mining country for China.

"When it comes to competitive advantage, China is effectively better at everything except mining. Mining could therefore be our game for quite some time.

"So follow the commodity price and see what happens. Coal powered stations and Eskom power stations are coming up. These stations and a few other things should be looked at carefully."

Viruly also advises that the different cities should be scrutinised.

"Generally, my argument is that an analysis of the property market needs to go beyond looking at GDP figures. What's important is to look at the performance of individual cities in South Africa, and in particular it means looking at the balance between economic growth and population growth in the metropolitan areas. For example, Pretoria is growing big time," he says. "Cities are where the growth is."

Viruly elaborates by explaining that 12m people in South Africa currently receive social grants.

"This means that former small town South Africa, which was characterised by a lack of income, now has income," he says.

"Many people with social grants in smaller rural towns now have buying power. A family living there could well have R1k to spend, which gives scope for a small shopping centre. Add to that the Financial Charter whereby banks also have to open up in these types of places and you have a little development on the go.

"These are the economic factors that we have to look at. And when looking at them the question that comes to the fore is whether we will be doing business in the same way. My answer is probably not.

"For the first time I heard talk of the possibility of sectional title shopping centres in those areas, i.e. for people with capital and who are willing to buy. The Oriental Plaza works on that basis, so it's not a new concept."

Viruly says some property commentators don't believe this type of sectional title shopping centre is viable and nor do they believe that inclusionary housing is viable in South Africa. "People tend to forget that every high income house in South Africa has a low income component, i.e. the domestic worker's room."

Viruly also points out that spatially South Africa's cities are changing.

"The big question I'm asking myself is when we'll have the first call centre in Soweto," he says. "If we can have call centres in Malaysia or India, why not in Soweto?"

"There is a good chance that people who are potential call centre employees live in Soweto. This means a call centre in Soweto would bring work closer to where people live, thereby playing a role in the spatial changes South Africa's cities are undergoing.

"The idea makes total sense. Get broadband working there and Bob's your uncle."