

Strong Demand for Lower-End Property

The lower end of the residential property market, particularly houses valued below R600000, appears to be experiencing the strongest demand from prospective buyers.

But this strong demand, together with rising building costs and a lack of serviced land for developments, will fuel price increases and potentially force prospective entry-level buyers into being permanent tenants.

Justin Clarke, executive chairman of Private Property Listings, which facilitates private sales between home sellers and buyers, says the company's website, www.privateproperty.co.za, is experiencing a lot of demand from would-be buyers in the lower end of the market.

Clarke says that of the 160000 registered buyers on the company's database, about half are looking for properties under R600000.

Clarke says there is a "distinct ceiling" for properties. "After R1,5m, there is very little interest. Only 14% of our buyers are looking for properties above R1,5m.

"The affordable housing market is where demand is. There is a shortage of stock in this segment but that developers are entering this segment, Clarke says. "There is also a shortage of serviced land sites and that adds to the cost of developing because land is more expensive. This is adding to the challenge of delivery."

Clarke says the property values in the lower end of the market will continue to grow. "There were 300000 jobs created last year and probably the same number of informal jobs, which can only add to the demand for lower-end housing. We also have increased costs on the building supply side. That will also increase values. "Entry level buyers should enter the market as quickly as possible, otherwise they will become tenants forever."

Chris Renecke, MD of commercial and residential property developer Renprop, says the group is focusing on the under-R600000 residential market. Renecke says this is “very difficult” because developers in this segment have to have high densities to be viable.

He says construction prices are also increasing, fuelled by the Gautrain development and other 2010 Soccer World Cup projects, as well as the recent demand for commercial property including offices, industrial and retail property.

A lack of skills in the construction industry is also a challenge.

Renecke says the skills shortage is “massive” in areas such as project and construction management, and engineering.

He says there is “strong demand” for property in the under-R600000 bracket. “That is pretty much part of the property cycle. When the residential market starts turning down, demand comes in at the lower end of the market. What is abnormal now in the cycle is the lack of services from local authorities and high prices of construction.”

Rudolf du Plessis, MD of Trustgro Projects, a development company that specialises in the first-time buyers’ market, confirms that demand has been “strong”. “For the last 15 to 20 years, delivery has never been able to satisfy demand.”

Du Plessis says the main factor that contributes now to this problem is the shortage of land. All financing is in place for these types of properties, with banks “very keen” to lend money in this sector, Du Plessis says. “We have a terrible shortage of land. The local authorities don’t play a role in supplying land in our market.”

Herschel Jawitz, CE of Jawitz Properties, says the residential market priced between R200000 and R500000 is dominated by entry-level and first time buyers.

“That is where most of the emerging market buying is taking place. Largely from an affordability point of view and also being able to accumulate enough cash for a deposit and transfer fees, buying at these price levels is not too onerous,” says Jawitz.

Jawitz Properties is “seeing very strong demand from buyers” looking for property in this bracket. “This market is very much driven by the necessity to own a home and may not be as heavily affected by increases in interest rates.”

Jawitz says these buyers are buying properties to live in and are not involved in the buy-to-let market or looking to upgrade.

These other arenas are more affected by interest rate increases.