BIZCOMMUNITY

Property sector set to grow in 2018 despite economic uncertainty

By Stuart Chait

9 Jan 2018

While the South African business sector is faced with many challenges, there is significant opportunity for growth sectors of the local industry during 2018.

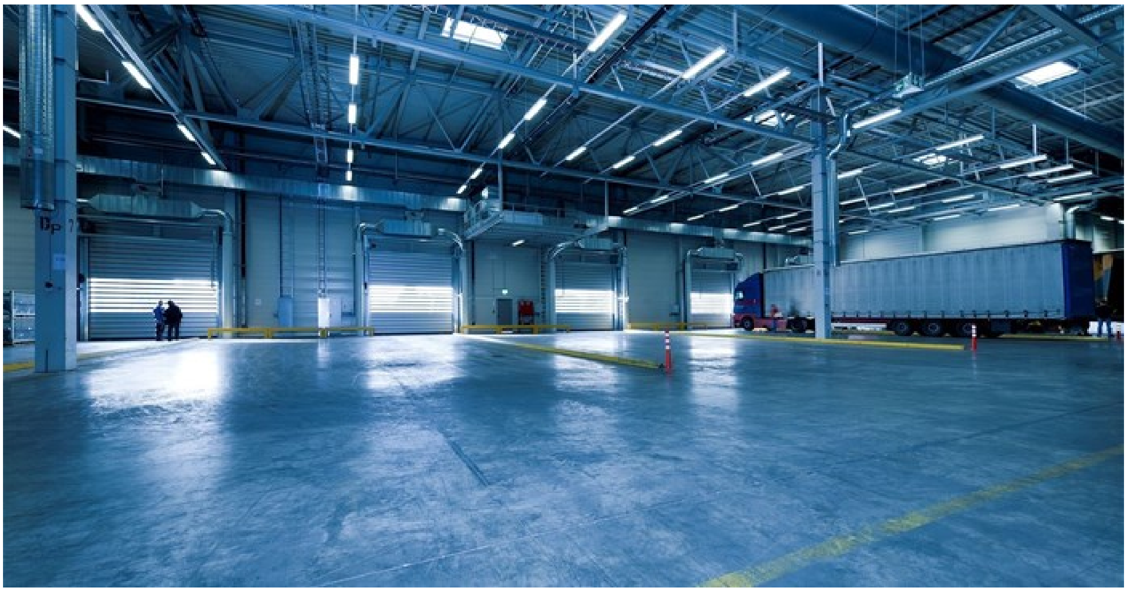

Image source: www.pexels.com

We have an economy with a GDP of approximately $296bn and a population of almost 60-million people to fuel it. Certain tactics need to be changed in order to adapt property businesses and refocus on growth nodes within the sector. My predictions for the property market in 2018 include significant focus and growth in the affordable and gap housing market. People considered too well-off to receive government-subsidised houses, yet do not qualify for bonds with banks, will encounter alternative solutions and funding being introduced to this sector.

Within the urbanised inner-city CBDs, medium-rise and affordable gap housing will be introduced in 2018. This is both challenging and exciting given that the backlog in this sector is estimated to be around 60,000 units per year, with just a 10% delivery rate.

Substantial government budget allocations from the Department of Human Settlement and Department of Housing are in place for the coming year, which will create massive employment opportunities in the struggling construction sector. Another big budget allocation is student housing, where pressure has been placed on government to provide accommodation close to tertiary education campuses. There is still a significant under-supply, returns are great, and exits are easy due to new JSE-specialised student housing REIT listings.

Semigration to continue

Semigration from Johannesburg, Pretoria and Durban down to Cape Town and the Winelands will continue, as the city is seen to be better run, safer to live and work in, and provides good schools, scenery and leisure.

Industrial usage will be driven by export manufacturers and online shopping distribution centres, which are growing faster than most other sectors. Amazon are building distribution centres in South Africa and I believe we will see the likes of Alibaba and others following suit shortly with the weak rand stimulating the export market. However, importers using warehousing will be adversely affected by a weaker rand, and they will require downward rent reversions if it doesn't strengthen over the short-medium term.

Tough economic conditions will see the office market narrow down. Many listed corporates are already focused on streamlining or reducing their fixed costs, which includes the quantum of rented space. This shrinkage of space, as well as retrenchments, creates office vacancies, however, the positive aspect is that these vacancies can be absorbed by converting the voids to serviced offices or increasing the ever-popular co-working spaces.

Decentralised business nodes

Office workers will be pleased to note that traffic congestion will see the rise of more decentralised business nodes. For example, I predict that Midrand in Gauteng will increase in popularity, as it is central and easily accessible with great infrastructure. I also foresee corporates moving away from nodes like Sandton, Illovo and Rosebank to newer nodes and developments that are less congested, have better access, and offer renewable energy, grey water, smart technology and specialised security.

The retail property sector will be heavily affected by the current tough economic conditions, more competition from popular foreign brands such as Zara and H&M, and a weaker rand which affects imports, online shopping, and expensive rentals. There is a trend in the US of older low performing centres being converted into 'china-town' type malls, with cheaper imported goods on sale. Landlords have made significant profits by cutting these centres up and selling them off to owner-operators on sectional title or known as 'condominiumised centres' in the US.

International retailers to impact local market

Shoppers can also expect to see a change in the layout of the newer retail centres, and ones which are due to be built.

Traditionally, South African design has favoured the typical 'H-or figure 8 design'. This describes a pattern whereby the shopper walks around the centre, and is drawn towards the likes of Pick n Pay or Checkers, which are located on one side of the centre, then having Edgars, Stuttafords and Clicks in the middle, and Woolworths on the other side of the centre. I foresee this trend changing as the international retailers make their impact felt on the local clothing retailers, and more grocery retailers like Carrefour, Walmart, and others express desire to enter the Sub-Saharan African market. This will change the dynamic, and make shopping more exciting, more international and certainly more price competitive.

Expected tax hikes in the February 2018 budget will have an impact on all corporates and SMMEs.

Africa - the last frontier

The sub-Saharan continent is completely under-serviced and under-supplied in all sectors of the property market. But Africa is the last 'frontier' with its population of 1.1-billion people. At an average age of 22 years old, the continent is headed for 30 years of strong economic growth. This is not only because of increasing demand from these commodity-rich countries, but largely because the opportunity now exists to supply consumer credit to boost a growing middle class, which in turn will create demand for new homes, cars and businesses, etc.

South African businesses are well positioned to inject capital and expertise, as well as export product and set up manufacturing plants into these new Sub-Saharan African markets.

Businesses who want to succeed must now be focused on the continent, rather than on a single country. We need to look at it as though it is a ‘euro-zone’ in which to expand our businesses into neighbouring countries.

ABOUT STUART CHAIT

Stuart Chait is a South African real estate developer, investor and philanthropist. Currently the executive chairman of Land Equity Group, Chait's experience in the property industry has lasted more than 30 years. Chait works on joint ventures with South Africa's top private commercial portfolio owners in Cape Town and Johannesburg.

- #BizTrends2019: Foreign capital investments through property and 'golden visa' could stimulate the economy - 8 Jan 2019
- #BizTrends2018: Property sector set to grow in 2018 despite economic uncertainty - 9 Jan 2018

View my profile and articles...