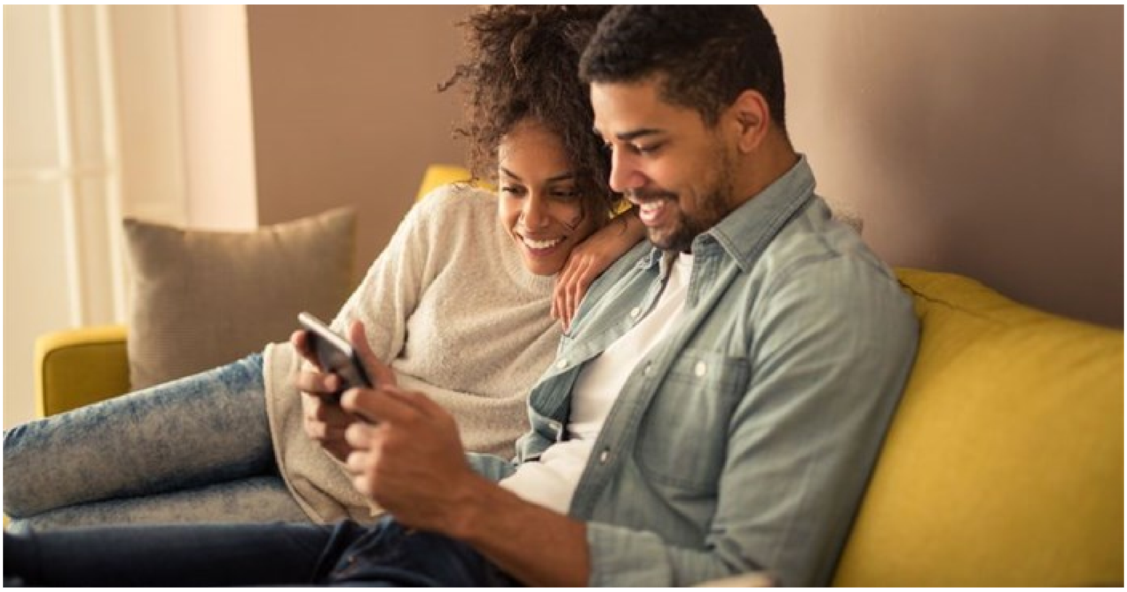
Sturdy budget promises firm roots for green shoots

According to Berry Everitt, CEO of the Chas Everitt International property group, Wednesday's Budget Speech contained some very hopeful elements for SA's property sector. It was well balanced, considering the current constraints on the economy, he notes.



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"Despite implementing the widely expected VAT increase, for example, Treasury has at least taken care to limit its potential negative effects on the poorest households by announcing above-inflation increases in old-age and disability pensions as well as child grants," says Everitt.

Improved business, consumer confidence

Overall, he says, the budget is also supportive of the green shoots of economic growth that have begun to spring up in recent months as consumer and business confidence in the country's future improved. Significant allocations have been made, for example, to encourage youth employment, support small businesses and revitalise the mining, agricultural and manufacturing sectors.

"At the same time, the commitment to reshape the public service and cut government spending by around R85bn will hopefully stave off a ratings downgrade to total junk, help to attract more private sector investment and boost the employment rate even faster.

"More jobs will mean more property sales and rentals, and rising investor confidence will also help to keep inflation in check and could even mean some interest rate cuts this year. That would, of course, make it easier for more people to qualify for home loans and buy their own homes, and our understanding is that the banks are keen to see this happen, so our outlook for residential property over the next 12 months is distinctly positive."

Everitt says other important aspects of the budget for the property sector are:

- Government's intention to sell off most, if not all, of the 195,000 properties it owns to raise around R40bn;
- The allocation of around R15bn to the acceleration of land reform – and the promotion of agricultural development and food security;
- Drought relief totalling R6bn for the worst-hit cities and districts; and

- Greater financial support for the eight large metros that are home to 39% of the population and account for 50% of all employment and 57% of GDP, as well as several smaller centres that have the capacity to provide significant economic opportunities.

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Samuel Seeff 22 Feb 2018

Meanwhile, he says, the new spirit of confidence flowing through SA is already being reflected in sharply increased property sales all over the country – and in all price brackets. “And, in an even more telling reflection of the renewal of hope for our collective economic and political future, we are witnessing the rapid re-emergence of a pattern of upgrading in the middle-income market that has been missing for several years.”

Bigger, better homes sought

Instead of trying to downsize, he says, an increasing number of repeat buyers are now seeking to move to bigger and better homes. “In the process they are now keeping more of their wealth in SA and, truth be told, there could hardly be a better time for them to do so in real estate terms," says Everitt.

“There are two major reasons for this, the first being a massive influx of first-time buyers that has caused home prices to rise faster at the lower end of the market than at the upper end and create an unusual opportunity for astute owners to ‘sell for more and buy for less’ as they move up the property ladder.”

#Budget2018: Tough budget positive for property market in medium to long term

22 Feb 2018

The second reason, says Everitt, is that there is a very substantial differential at the moment between the cost of pre-owned homes and the cost of comparable newly-built homes. “This means that there is plenty of margin for renovation if your preference is for the traditional older homes and large gardens in blue-chip suburbs.

“Indeed, it is currently possible to buy such heritage homes for little more than the value of their stands, and spend R2000/m^2 or even R3000/m^2 on modernising, improving and securing them without any danger of overcapitalising, because newly developed homes in the same areas are selling at up to R8000 or R9000/m^2 not including the land cost.”

In short, he says, there are some very exciting prospects in real estate now, “but as always in this sector, you will get most benefit out of them if you work with a qualified and experienced estate agent that can help you identify the best opportunities to suit your personal circumstances”.