Pam Golding reviews residential property market

By Dr Andrew Golding

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While residential property markets are, by their very nature, local, diverse and nuanced, it is also a fact that all real estate markets are influenced by certain macro or global forces which ultimately shape their long-term prospects.

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In an attempt to find an answer to the sustainability and resilience question, our international partners Savills, recently conducted some research which put aside local issues and focused instead on the basic, longer-term market drivers which are relevant to all property markets across the globe.

They concluded that across the world and through the ages, the single fundamental driver of residential property demand has always been the number of households in a population wanting a roof over their head.

The price of those roofs is then a function of the number of properties and the amount of money available with which households can compete for them. This means that essentially three key factors will make for house price growth in excess of general inflation:

- Growing population
- Growing affluence
- Limited land and/or housing supply

Furthermore they assert that the absence of one of these variables can stall a housing market and the absence of two or more can send property values downward.

So where are we in terms of the three key drivers and does this perhaps give a pointer to future housing market performance here in South Africa. By taking you on a journey around the country I will attempt to answer the question, beginning with a look at the demographic component.

Population growth

According to the recently released 2014 Development Indicators report, South Africa's population has risen to just over 54 million and is growing at a pace of approximately 800,000 people each year.

Not only is the total population increasing, but South Africans are migrating at a rapid pace within the country as well - resulting in more pronounced population trends within the various provinces and metros.

For example, between 1996 and 2014, Gauteng's population is estimated to have increased by 60% while the Western Cape's population rose by 50%. During the same period, the Free State and the Eastern Cape both lost approximately 20% of their residents.

For those moving to Gauteng and the Western Cape, the major cities are the biggest draw-cards - reinforcing the rapid pace of urbanisation in South Africa. Currently approximately 64% of the population lives in urban areas, but the UN estimates that by 2050 this will rise to nearly 80%.

With the search for employment often the driving force behind in-migration, South Africa's urban areas are growing larger but also younger. Government estimates that two-thirds of South African youth live in urban areas. The resultant 'youth bulge' in South African cities is visible when comparing the population pyramid for the country as a whole with the age distribution of people living in major cities like Gauteng and Cape Town.

Mortgage applicants

According to mortgage originator ooba, the average age of mortgage applicants is 37 years while that of first-time buyers is 34 years. Given that the largest age cohort in both Cape Town and Johannesburg in 2011 (most recent census data) was people between the ages of 25 and 29 years, it seems likely that both cities will begin to experience strong growth in demand for housing in about five years as this 'youth bulge' reaches the age of the average first-time house buyer in South Africa.

Therefore we think that the first of the three metrics identified is likely to continue to provide a strong underpinning for the local housing market - particularly in the major metro areas, during the decade ahead.

Then as far as the question of affluence is concerned, in South Africa, cities and large towns generate over 80% of national economic activity, with major metro areas growing twice as fast as other smaller towns and cities. Average incomes in major metros are typically about 40% higher than for the country as a whole, while employment has grown twice as fast as other areas.

As a result, between 1996 and 2012, metros accounted for 75% of all net job creation in South Africa. Further fuelled by access to key transport routes and public transportation, and an increasing demand for convenient, urban living, it is no surprise then that the housing markets in metros typically outperform the national average.

Affluence in metro regions

The growing affluence in South Africa's metro regions, even as growth in the national economy continues to lose momentum, explains why house price inflation in major metros like Cape Town, Johannesburg and Pretoria continues to accelerate as these housing market benefits from growing populations, a relative shortage of housing and growing affluence within the metro population.

Turning to the question of regional outlook, according to our Property Index, the top performing regional housing market is the Western Cape. Its large services sector is at least partly insulated from slowdown in China's commodity-heavy economy. Furthermore, the steady in-migration from other provinces and the limited number of new housing units completed means that all three metrics for the housing market remain supportive.

House price inflation in the Western Cape has averaged eight percent year to date, well above the national average of 5.8%, while house prices in the City of Cape Town continue to register double-digit growth rates (an average of 10.1% in the year to May). Over and above this, the Atlantic Seaboard consistently continues to outperform with house price growth of around 25% for the past 12 months.

The recent launch of the new Yacht Club development at the gateway to Cape Town's Waterfront saw an overwhelming demand for apartments, with phase one units snapped up in a matter of days, selling to investment buyers at R45,000 to R60,000 per square metre, necessitating the fast-track release of phase two, which was launched to the Johannesburg market on Tuesday, 6 October and over 60% of the units were snapped up on the night. The demand is driven by the lack of stock in the market at the moment and the value proposition of this development when compared to pricing of units elsewhere in the waterfront area.

Cape Town market

Having entered its busiest season, the Cape Town Metro region is experiencing competing offers on certain properties mainly in the price range below R6m. A further current trend sees sellers divesting of large homes in the Southern Suburbs to relocate to the convenient, cosmopolitan lifestyle on the Atlantic Seaboard.

Cape Town's central city property remains in high demand and short supply, while areas to watch are the Southern Peninsula's Kalk Bay, Simon's Town and Noordhoek, as well as trendy Greenpoint, and the popular Western Seaboard where you can still acquire a house for just over R1m.

The rental market remains buoyant, with tenants at the top end paying R70,000 to R100,000 and even up to R150,000 per month for luxury homes, and while rentals vary a good two bedroom apartment close to the waterfront may range from R15,000 to R45,000.

Across to the Hottentots Holland mountains and attracting a high calibre of purchaser which includes numerous Gauteng buyers, in the Boland and Overberg we find an increasing demand for homes in secure lifestyle estates, driven by a number of factors including lifestyle and access to good schooling, infrastructure and amenities, as well as value for money - particularly in and around hubs such as Stellenbosch, Somerset West, Paarl and Wellington.

Recent top end sales including a home in De Zalze Winelands Golf Estate (Stellenbosch), homes in Paarl Winelands estates, and in the Paarl-Franschhoek valley - stands in Val de Vie Gentleman's Estates, are all achieving prices in excess of R10m.

Student accommodation

Unique to Stellenbosch is the huge demand for student accommodation, which results in apartments snapped up by parents for their children attending university as soon as they become available for the forthcoming academic year. With rentals of R12,500 to R15,000 for a two bedroom unit and around R22,000 for a three bedroom apartment, investors are assured of sound returns.

On Baronetcy Estate in upmarket Plattekloof in Cape Town's burgeoning Northern Suburbs, the trend towards an estate lifestyle is increasingly evident, particularly among a younger age group from late 30s to early 50s. First time buyers also look to the Northern Suburbs, showing a preference for townhouse units in complexes, priced from around the R2.5m to R3.5m mark.

The KwaZulu-Natal housing market is similarly buoyant - with house prices in the region increasing by an average of 7.2% during the year to date, nearly 1.5% above the national average. The housing boom is located primarily on the North Coast, extending north of Durban through uMhanga, Ballito and further afield, rather than in the metro hub itself.

The relocation of King Shaka International Airport to the area, coupled with decentralisation of business nodes and schools as well as the proliferation of new up-market housing estates, has triggered a migration of families from elsewhere in the province and commuters from neighbouring regions.

Mixed-use developments

A new trend towards mixed-use developments sees the live, work and play concept unfolding at a rapid rate in uMhlanga. The Gateway node is a prime example of mixed use, having been well received by a new era of buyers looking for convenience and an urban lifestyle, while the new Sibaya node near Umdloti and a few kilometres from the airport will also have a mixed-use development plan.

Moving north house price inflation in Gauteng has averaged just 5.3% during the year to date - marginally below the national average. The underperformance of Gauteng's housing market is at least partially attributable to the presence of several mining towns in the region, which have been hard hit by both the slump in global commodity prices and ongoing labour tensions.

Together these factors have limited growth in house prices in these towns to just 3.4% during the first half of the year, according to the FNB Mining Town Index. In contrast, house prices in economic hubs of Johannesburg (6.5%) and Pretoria (7.5%) continue to strengthen, bolstering the regional average.

Against a background of a muted economy, Johannesburg and Pretoria continue to develop at a rapid pace with growth being particularly evident across a number of growth nodes. With transport costs and traffic congestion on the increase, residents are looking to live close to economic nodes and transport corridors that allow easy access to the workplace and educational institutions.

This is resulting in rapid residential densification within growth nodes such as Rosebank, Midrand and Fourways. In addition, Johannesburg itself and Braamfontein are undergoing massive redevelopment while the growth of Sandton continues unabated.

New residential apartment developments in and around central Sandton are currently selling for approximately R35,000 up to R60,000 per square metre, while PGP is marketing a penthouse at Michelangelo Towers in Sandown for R48.9m, or R85,500 per square metre.

Mini-Sandtons

Furthermore, centres such as Fourways and Menlyn are being described as 'new mini-Sandtons', while Midrand has doubled its number of residential properties, in addition to increasing its number of sectional title properties by 550% since 2000, according to Lightstone. According to our research, approximately half of all estates in South Africa are located in Gauteng province.

Residential property investors have noted the strong demand for quality accommodation within the growth nodes of Gauteng and a number of major residential developments and re-developments have been the result. One on Whitely, the next exciting residential phase of the booming Melrose Arch mixed-use precinct, has been launched, while at Park Central in Rosebank, more than 150 units have been sold.

We are delighted by the uptake in the market at Steyn City, with R800 million's worth of sales or the equivalent of 150 units clearly demonstrating a huge vote of confidence in this type of product, and having in this short time frame outperformed other luxury estates brought to market over the past decade.

With golf course, clubhouse and restaurant parks, outdoor gym, rugby field and cycling tracks already installed, this investment is already receiving rave reviews, with investors paying R3.5m for a 1,000m² stand and homes priced from an entry level of R4.2m up to R19m built and ready for occupation. Buyers are investing significant capital on constructing their dream homes and we anticipate those building now will more than triple the record price for the area in years to come.

Mature executives

Finally from a development perspective, a demand among more mature executives entering a new kind of 'pre-retirement' life stage has prompted the launch of the new Kruinkloof Bushveld Estate, just 12km west of Sandton, offering the luxury of a bushveld home close to big-city amenities and where plots are selling from R700,000 and homes from R3.5m.

For Fourways, an area which pioneered the gated estate concept and which comprises about 70% gated cluster or luxury estates, the only way is up, as the area experiences an ongoing migration of high net worth individuals seeking the security and freedom of estate living, further fuelled by convenient proximity to Lanseria Airport. Many are even relocating their businesses to the area, to be close to where they live.

Interestingly, the leafy, older suburb of Blairgowrie in Randburg in Johannesburg's Northern Suburbs is coming into its own with buyers finding value in homes, much as occurred in Parkhurst some 12 years ago. With increases in prices in areas like Parktown, Parktown North and Greenside, buyers are turning to Blairgowrie where for R1.8m or R2.2m they can acquire a 40 year old residence in a beautiful tree-lined street - versus R4m or R5m.

In a similar vein, and in a current challenging market where areas tend to compete, the trend toward value is also seeing some upmarket buyers who previously may have looked at property in Hyde Park or Sandhurst placing a greater importance on value than address, and turning to Bryanston.

Pretoria's Old East

In Tshwane, over above a buoyant sales and rental market, an interesting new trend is seeing the launch of new residential developments specifically to cater for the rental market, rather than sales.

This is coupled with the growing emergence of the Old East, in areas such as Brooklyn, where developers are buying up and demolishing old houses in order to create new apartment buildings. We were delighted by the response to 227 at Brooklyn, where the launch of 64 upmarket, one and two bedroom apartments available to rent from R7,500 for one bedroom and R9,500 for two bedrooms were immediately taken up, mainly by young professionals.

So considering all this, our view at a macro level is that rapid growth in the South African population and consequent housing demand, together with the ongoing shortage of new housing seems to suggest that the local housing market will continue to be resilient in spite of the likelihood of the national economy continuing to flounder.

In addition, a number of regional and suburban housing markets are likely to enjoy vibrant growth rates reflecting the migration of South Africans between provinces, the level of economic activity in the metro areas and the extent to which different metros are able to meet the housing demands of their local populations.

Finally, given the growing gap between the steady increase in the number of households formed in South Africa and the marked slowdown in the provision of new housing stock by both the government and the private sector, the second of Savills three metrics - the supply of land and/or housing stock - is likely to remain supportive of the local housing market for the foreseeable future.

Demand for sectional title

Moving on to a few other notable and supporting trends, not only is the South Africa population growing by an additional 800,000 people each year, but a gradual decline in the number of people per household - from four per household in 1996 to just 3.4 people in 2011 - means that the number of households is increasing at an even faster pace than the population.

This is reinforcing the trend towards densification and smaller units, with sectional title units increasingly popular. While freehold price inflation has been slowing sectional title price inflation continues to gather momentum.

South African developers are responding to the change in demand, with sectional title units rising from 10.9% of total plans passed in early 2000 to 38% in early 2015.

Another trend that we continue to see is high demand and capital growth in secure lifestyle estates.

Luxury lifestyle estates are increasingly benefiting from a growing number of buyers moving up into the higher-value markets. Estimates reflect around 318,000 residential properties within secure gated communities, with a combined value of R643bn at an average of R2m per property. This is almost three times more than the national average of R700,000 per home. 50% of these are in Gauteng and 25% in the Western Cape. About 2.5% of residential properties in South Africa are situated in estates (15 percent in terms of total value).

Coastal market

As far as the coastal market is concerned, we have seen coastal house price inflation slowing more recently. At the beginning of 2014 we saw a brief period of buoyant house price growth and activity but now, apart from prime ocean front properties which are a market on their own), the market is characterised by house price inflation which has slowed to 5.35% compared to 6.11% for non-coastal properties.

Notwithstanding this from a PGP perspective several highlights have bucked this trend - the surge in black buyers in East London in the Eastern Cape, which now comprise 57% of our sales since March this year, and Summerstrand, Port Elizabeth's sought after beachside suburb, where PGP has just opened a new office to meet the growing demand for homes in an area which in 2014 saw year on year sales rise by 33%.

Also along the Eastern Cape our St Francis Bay office is experiencing a good year, with the demand for good quality homes, particularly near beaches and canals far exceeding the supply. In addition, prime Garden Route properties remain in demand, with new vigour in the market - particularly in Knysna, Plettenberg Bay and George - including Fancourt.

PGP Group sales

I am pleased to report that with the first seven months of our financial year behind us (March to September 2015) the Pam Golding Property group has achieved group turnover of over R11bn, which is 10% ahead of the previous financial year in rand value and almost 7% up in terms of units sold. All things being equal this puts us on track to achieve around R19bn in residential sales to the year ended February 2016.

Looking at PGP's sales performance over the past 12 months, we have significantly increased our sales volumes (units sold) in the R20m to R50m price band by 33%, R10m to R20m by 13%, R5m to R10m by 20%, R3m to R5m by 12% and price band from R1m to R3m by 12%. In line with national demand, the bulk of our sales are in the price band up to R5m, with 43.6% between R1m and R3m.

In the luxury market, during 2014 and based on a price band definition of R12m and upwards on a sampling of some 130 such residential property transactions in areas around South Africa in which we operate, Pam Golding Properties sold more than a third.

As far as the perennial question of international buyers is concerned, residential sales to international buyers remain low as a percentage of total sales - being approximately 1% for South Africa as a whole, and 3% for Pam Golding Properties for the past 12 months. In order of priority the top 15 countries making property acquisitions in South Africa through PGP are the UK, Portugal (which is interesting as South Africans are increasingly acquiring property in Portugal for investment and access to a Schengen Visa), Germany, United Arab Emirates, Zimbabwe, Namibia, USA, Netherlands, China, Australia, France, Nigeria, Sweden, Belgium and Switzerland.

Investing offshore

The past year has seen South Africans increasingly looking to diversify their investment portfolios through offshore property as well as capitalise on residency opportunities through Portugal's Golden Visa Programme. To date almost 100 South Africans have already bought a property through us in Portugal ranging from the required Golden Visa investment threshold of €500,000 to over €1.5m. Most buyers are looking to the sought after area of Cascais, referred to as the Portuguese Riviera, and Lisbon, due to the many regeneration projects transforming the city.

On luxury resort Eden Island in Seychelles, to date PGP has sold 500 units at a total value of $500m, with only approximately 68 units left, selling between $450,000 and $3.1m. This hugely successful development is due for total completion by June 2017.

In Mauritius at the groundbreaking Le Parc de Mont Choisy in the popular Grand Baie region, PGP has sold 125 units (at an average price of R13m) to a total sales value of R1.6bn. At Royal Park Resort we have concluded another 25 sales at an average price of R9.5m to a total sales value of R240m, with a further five sales concluded in other developments including a R27m villa at Tamarina Golf Estate.

On the international front but closer to home on the African continent, PGP continues to grow its presence in partnership with local expertise, with Dar es Salaam in Tanzania on the cards in the next nine months. We are currently considering approaches from operators in Dubai and India while Angola and Ghana are also in our sights.

In Uganda sales have commenced at Lake Victoria Serena Golf Resort where the golf estate and clubhouse is already open while other facilities include a marina, mini mall, sporting facilities, pool and gym. Apartments and villas are priced from R3.345m and R10.41m respectively.

Nigerian projects

PGP is also involved in a number of exciting projects in Nigeria, including Legacy City in the capital of Abuja. Priced from $65,000 to $200,000 and well positioned just 15km from the centre of town, a range of 1,000 homes including apartments, villas and semi's are currently under construction catering for middle-income housing demand.

In the Legacy City fold a further much larger estate comprising 4,800 homes, which is still in the planning stages. Also in Abuja we are forging relationships with a number of developers which includes upmarket developments such as 200 apartments situated adjacent to the Abuja Hilton, priced from $950,000 to $1.5m and The World Trade Centre, currently under construction. Product in this high-rise is priced from $1.5m to $2.5m.

We are also in negotiations to become the real estate service provider of some of the residential components at the ten million square metre reclaimed island Eko Atlantic off the coast of Lagos which is being billed as the new financial capital of Nigeria. Over five million square metre has already been reclaimed and land sales have been very strong. Construction of some of the offices has commenced and the first residential buildings are in final planning for construction. This mega-city will incorporate a range of commercial and residential developments.

Developments in Namibia

Elsewhere in Africa, we are seeing new residential developments springing up, with our northern neighbour of Namibia proving increasingly attractive to investors. One of the new developments recently brought to market through PGP is an exclusive project within a small security estate in an affluent suburb in the eastern part of Windhoek, where units are priced from N$10.65m to N$11.875m with sound rental income potential.

Finally, demonstrating the sound value for money which can be had in South Africa, it is interesting to compare prices of global property. According to a report in Global Construction Review, in New York City last year ultra-luxury apartments reached an average cost of $13,800 per square metre (equivalent of approximately R189,000), while a square metre in London's Royal Borough of Kensington and Chelsea would be approximately $18,270 (or R250,077).

This is compared with the very top end of the Cape's Atlantic Seaboard which can range up to in excess of R100,000 per square metre. A two bedroom apartment in a secure area in Lagos, Nigeria would cost $1.4m (or R19.25m) while a 280m² four bedroom, penthouse apartment would set you back R48.1m.

ABOUT DR ANDREW GOLDING

Dr Andrew Golding, chief executive of the Pam Golding Property group, was originally in private practice as a General Practitioner on the Atlantic Seaboard from 1991 to 1996, after which he joined the family business as MD in 1996, followed by his present position.