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Coronavirus impact 'unlikely to derail property market in the long term'

South Africans are looking to policy makers to urgently implement measures that could stem the impact of the coronavisus National disaster we now find ourselves in. As markets rally in the face of a new reality now impacting South Africa's economic climate, the question around the pandemic's effect on the property market is an important one.

After the economic recession in 2008, house price inflation in the last decade showed lacklustre growth, only peaking at 6.35% at the end of 2014. In 2019, house price inflation ended just below 2% - the first time that actual inflation came in under Lightstone's low road scenario forecast, which was at exactly 2%, according to the property solutions company data.

"After starting the year off with negative GDP growth in the first quarter, South Africans were desperately looking for an economic silver lining throughout 2019. "With not much of an economic turnaround, we saw the low road scenario play out. This means we started 2020 off with the possibility of house price inflation breaking through the 0% barrier in the second half of 2020 and could end off the year with a 1,3% decline in home values should the low road scenario play out again.

The Lightstone prediction model includes CPI and GDP estimates and changes in prime interest rate. Realistically, South Africa can expect more of the same in 2020 with house price inflation ending in positive territory but just barely above 0%. The forecasts we provide are aimed at guiding our customers' strategies as well as their investment and purchasing choices.

'CALM IN THE CORONAVIRUS STORM'

Property tends to be a far more resilient investment type than most, agrees Carl Coetzee, BetterBond CEO. "In recent days we've seen equities being significantly affected, while property has remained fairly stable. Earlier this month CNBC reported that residential real estate in the US appeared to offer investors the calm they were looking for in the coronavirus storm.

"Traditionally, property is far less volatile than the stock market and has a high tangible asset value. Irrespective of the impact the virus has on society, people will still need accommodation,

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which offers a measure of security in terms of a property investment holding ground in times of turmoil," says Coetzee.

"What's more, property is an asset class with supreme resilience and a unique ability to "bounce back" as market conditions improve. As South Africa is poised to see rate cut in the face of the so-called buyer's market, there is "no reason to shy away from property investments in the time of Covid-19" he says.

"Our advice is to ensure that you buy at the right price, that your affordability is in order and that you don't extend yourself too much when acquiring a new property. Putting down a deposit is always a good idea and might mean that you can get a better interest rate on your bond.

'GREAT TIME FOR BARGAIN HUNTING'

Although the current economic status quo does not bode well for the health of the property market, the positive news here is if you are looking to purchase a home, it's a great time to do some bargain hunting. Suffice to say the current grim outlook will likely not last forever with property still being a sound long term investment.

This is supported by a high road scenario forecast where Lightstone predicts a positive turnaround of house price inflation in the second quarter to end the year off on a positive trajectory.

"When evaluating the different value bands' performance, the trend is similar to what was experienced in the last two years. The affordable market is expected to remain the fastest growing value band, which was more robust during the last four years, where the higher end of the market increasingly suffered at the hands of low economic growth and policy uncertainty.

'LUXURY PROPERTY PRICE DROP'

In 2019, the luxury property sector entered nominal house price decline for the first time since the 2008 recession and is predicted to experience further negative growth during 2020. Another unique finding within the value band forecasts is that, in 2020, sectional scheme growth is projected to outperform the freehold property sector with positive house price growth, according to Lightstone.

"With the continued revelations of mismanagement across the public sector, corruption and the looming threat of a junk status downgrade by Moody's, there is no doubt that consumers are finding it hard to stay positive. "There are, however, real opportunities to be found for potential buyers and investors, specifically in the low-end affordable market."

Source: property24