

The each new year comes new snippets of advice from experts regarding the best investment strategies. 2017 Was a notoriously tumultuous period for local investors, from state-wide corruption to Steinhoff scandals. You'd be forgiven for being overly cautious about putting your money anywhere other than under your mattress. But 2018 has started off on a cautiously optimistic note.

When it comes to property in particular, there are many opportunities to be had. As Tony Clarke, MD for Rawson Property Group points out: "Our property market is definitely going through a period of contraction, but not all of that can really be attributed to politics. We've been seeing a slowdown in growth over the last 18 months. Ups and downs are a natural part of the property cycle, and certainly don't mean there are no opportunities out there. These kinds of transitional periods are an adjustment, but if you approach the market with the right information on hand, there are still opportunities

According to ooba's Q4 2017 statistics, 2017 was a tough year for the property market. Group CEO, Rhys Dyer, explains: "The property market is significantly influenced by sentiment and consumer confidence. Increased political uncertainty, low economic growth and inflationary pressures caused property buyers to ease off on new property purchases during 2017. Reduced demand for property forced sellers to adjust their prices to meet the demands of a more cautious buyers' market, resulting in negative price growth in real terms when inflation is factored in." But it's not all doom and gloom, he says: "We expect the new ANC leadership to deliver improved policy certainty during 2018. If this happens, consumer sentiment will recuperate and boost demand in the property market. This in turn will drive increased property price growth over time. We can then expect the year-on-year property price growth to rise by 6% for the last quarter of 2018, compared to only 1.4% compared achieved for the fourth quarter of 2016."

According to Dyer, the current market presents an opportune time to invest in property before the good news in the economy factors into higher property prices. But where are we supposed to look when it comes to choosing a property?

# **Luxury Property Trends**

Andrew Amoils, the Head of Research at New World Wealth, highlights several up-and-coming suburbs and towns in the luxury market. These include Franschhoek, Nature's Valley, Zinkwazi, and Illovo. According to Amoils, Nature areas they've identified as increasingly popular with HNWI investors. In addition, the research group has highlighted to top luxury apartment developments across the country. These rankings were made based on several criteria, including the design and space, maintenance, location, views, security, activities and amenities, appeal to wealthy buyers, and the quality of fittings. The top 10 for 2017 are as follows:

# 1. Whitehall Court

Located in Killarney, Johannesburg, Whitehall Court offers a timeless design, impressive gardens, high ceilings, and excellent finishes. Prices range between R3million and R12million.

# 2. The Bantry

A beautifully designed complex in Bantry Bay, Cape Town, The Bantry offers large units (all over 300 square meters) and designs by architect Stef Antoni. Prices here come in at between R30million and R40million.

# 3. Melrose Arch

A unique mixed-use residential area, Melrose Arch in Sand-

ton includes apartments, offices, and shops. Residents have easy and safe access to stores, bars, and restaurants. Prices range from R2million to R30million.

## 4. San Michele

Located in Clifton, Cape Town, the complex overlooks Clifton Beach. Beautiful designs and an unmatched setting, apartments range from R3million to R30million.

#### 5. Franklin Row

This development is located in Melville Road, Illovo. Featuring a timeless design, prices range from R3million to R10million.

# 6. Michael Angelo & Raphael Suites

The complex is located in the heart of Sandton CBD, and offers residents easy access to the Sandton City Shopping Centre. Prices range from R3million to R45million.

# 7. V&A Marina Apartments

Located next to the One & Only Hotel in Cape Town's Waterfront district, it boasts one of the most expensive addresses in the country. Prices here fetch over R90,000 per square meter.

# 8. The Pearls

A large residential development in Umhlanga, The Pearls offers various units, ranging from garden apartments on the beachfront, to sky-rise penthouses. Prices come in between R3million and R30million.

#### 9. De Meermin

Overlooking Lookout Beach and the Lagoon in Plettenberg Bay, De Meermin is the only Garden Route complex in the top 10. Prices here range between R3million and R10million.

### 10. The Bermudas

A well-established development in Umhlanga, The Bermudas offers both garden apartments and high rise units. Well-managed and comprising internal gardens and an impressive pool on the upper levels, the complex also has easy access to the beach. Prices range from R3million to R10million.

Amoils highlights that they have seen a global shift from traditional luxury apartments towards hotel residences: "This refers to apartments in existing hotels that can be purchased. They essentially allow owners to live in a hotel permanently and enjoy the same services as normal guests do: room service, dining, and cleaning." Examples of the hotel residence model in South Africa include The Houghton in Johannesburg, Cape Royale and Taj Residences in Cape Town, and the upcoming Oceans Hotel Residential Apartments in Umhlanga.

# **Affordable Market**

While the luxury market trudges on, seemingly in its own bubble, most real estate investors are looking towards a much more affordable class of property. Clarke explains that the lower end of the property market will likely experience the highest growth in the year ahead: "We've already seen this trend making its impact felt over the course of 2017, with properties valued under R1m seeing far stronger price growth than those over the R1m mark. There are, of course, areas that buck this trend and show excellent price growth in other value bands, but on average, we do expect affordable property to outperform the rest in 2018."

Leanne Govender, sales manager at Nedbank CIB Property Finance, highlights affordable housing as an area in need of innovation: "Much more impactful affordable housing partnerships need to be established between the country's public and private sectors. Property financiers, developers, and investors need to work with the government to find solutions to

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accelerate the mobilisation of this key segment of the market to ensure its continued growth." She adds that it's a good sign that the government has recently prioritising social housing delivery, setting a medium-term target of 27,000 units. "This represents a step change," she comments.

The buy-to-let market is still very popular with property investors. Johette Smuts, the head of data and analytics at Pay-Prop, predicts that South African tenants and consumers will remain under pressure in the year ahead: "We expect a continued migration from the lower rental brackets to the higher ones as rents continue to increase, but rentals between R2,500 and R7,500 should stay in high demand." Pay-Prop's latest Rental Index reveals that tenants in these bands spend a lower percentage of their income on rent than those in higher bands. According to Smuts, renters in the higher brackets (especially those between R7,500 and R10,000) might be in trouble in the year ahead, if income levels continue to stagnate. She adds: "We expect that disposable income levels will remain under pressure – largely due to low job creation and possible tax increases in the near future."

# Supply and demand

The age-old mantra of "location, location, location" once again comes into play. Areas showing high demand will invariably offer a better investment opportunity. According to PayProp data, rental prices and growth rate in the Western Cape - especially in and around Cape Town - aren't as susceptible to struggling economic factors. "With the ever-present threat of Airbnb-type short-term letting – which is turning out to be very profitable for owners – there is short supply in long-term rental stock, which in turn means higher rent levels and bigger rental increases. "Semigration" to the region from other parts of the country also puts pressure on house prices and rent levels there, and this is unlikely to change in 2018," comments Smuts.

While this is good news for the Cape Town property owners, it spells bad news for those looking to get a foot in the door. "Fuelled by real demand, we predict that Cape Town will continue to see positive house price growth in 2018. While the very steep upward curve we are currently seeing may flatten marginally, Cape Town will remain a lucrative investment destination from both a capital growth and rental income perspective as the current growth is not a bubble," says Adrian Goslett, CEO of RE/MAX Southern Africa.

Bill Rawson, Chairman of the Rawson Property Group, highlights the importance of getting onto the property ladder sooner rather than later. "A solid first investment forms the foundation - and often financing - for subsequent purchases. That makes it extremely important to do your research well before settling on a property," he explains. FNB's House Price Indices shows that smaller properties consistently show higher appreciation that their medium, and large counterparts. For this reason, sectional title properties are increasingly popular with investors - young and old. Rawson highlights that oneand two-bedroomed apartments in particular make excellent investments. He echoes the importance of choosing your area carefully: "Aim for a neighbourhood that is either just starting to show promise, or buy into an exciting rental hotspot. The former offers potentially higher capital appreciation, but the latter might provide better immediate rental returns.

John Loos, Household and Property Sector Strategist at FNB Home Loans, reports that the estimated average first-time home buyer level seems to have stabilised in 2017, after two years of decline. He comments that Gauteng, in particu-

lar, has shown a strong first-time buyer rate: "This reflects the region's superior home affordability levels compared to other major metropolitan regions," he explains. According to Loos, Greater Johannesburg saw an increased average first-time buyer percentage, from 21.6% in 2016, to 25.9% in 2017. In the same period, the Tshwane region went from 23.75% to 26.7%. Gauteng has had low house price growth in recent years, adding to the region's affordability.

The coastal regions, however, paint a less optimistic picture for first time homebuyers. Nelson Mandela Bay saw declines from 19.6% in 2016 to 17% in 2017. Ethekwini went from 20.5% to 14.7%. Unsurprisingly, Loos says, the most severe decline in first-time home buying levels took place in the City of Cape Town. The region has been below the national average for nine consecutive years, but has diverged more sharply since 2016. In 2016, it fell sharply from 18.39% in 2015 to 12.8. In 2016, it fell to only 7.5%. Loos predicts that, due to this extreme disparity between the top-performing and lowest-performing regions, Gauteng will emerge as the relative outperformer in the residential market for the year ahead.

According to the latest Lightstone data, there is a clear trend towards properties in the lower-price group outperforming other categories.

Over the last year, the top-performing suburbs, based on inflation, have all fallen into this class. Over in Cape Town, the performers were primarily situated in the city. Diepriver has shown growth of 37.7%, Woodstock 22,8%, Observatory 21.1%, and Schotschekloof 20.8%. In the northern suburbs, Eden Park in Brackenfell showed impressive growth of 19.8%.

The City of Johannesburg shows less dramatic inflation, with the top-performer being Northgate at 14.1%. Savoy Estate shows inflation of 12.9%, while Cresta shows 11.6%. In Tshwane, Rietondale and Meyerspark both showed inflation of 12.6%, while Rietvalleirand sits at 11.4%. Ethekwini Municipality showed strong growth, with Mount Vernon in Durban coming in at 20.4%. Cowies Hill Park, Pinetown, shows inflation of 18.4%, while North Beach grew by 13.5%.

When looking at inflation over the last five years, those comments about affordability and first-time investor's struggle to get into the Cape Town market is clear. Zonnebloem has shown inflation of 138.3%, Glen Marine of 135.3%, Lakeside 130.8%, Dieprivier 118.4%, and Schotschekloof 107%. In New Dawn Park in Durban, inflation over the past five years sits at 111.8%, while Cowies Hill Park is at 64%. The top-performer in Gauteng was Barbeque Downs in Midrand, with 85.7%.

According to FNB's data, the real (after inflation) house price inflation since December 2000 is 65.5%.

With property prices seemingly primed to rise, Rudi Botha, CEO of BetterBond, explains the importance of putting money into your bond: "According to the latest statistics from BetterBond, the average home price is currently R1,13m and the average deposit 20%, putting the average monthly bond repayment on a 20-year loan granted at the prime interest rate of 10,25% at just under R8900 a month. However, thanks to the way compound interest works, the homebuyer who pays only the minimum amount each month will pay almost R1,3m in interest over the course of the loan - or more than the original cost of the property." He explains that, if you were to pay 10% more than the minimum each month (in this case, R890) you will pay off the loan in about 15.5 years, rather than 20. This results in you only paying R892 000 in interest. "And of course the value of the property itself will be growing at the same time, and your equity will be mounting up quickly to provide a solid foundation on which to build wealth and meet your future needs," he continues.



# **COMMERCIAL AND RETAIL PROPERTY**

According to Linda Tshabalala, business development manager for the Commercial-Public Sector at Lightstone, points to specific trends in the business, retail, and industrial property markets for the year ahead:

#### Office space

Even though businesses may experience internal growth and require additional space, the current trend indicates that office tenants and owners will rather endeavour to employ the services of working space specialists, encourage mobile offices rather than relocating to bigger office space.

Another external element that needs to be considered is the global trend of shrinking office sizes. In recent years companies have started moving away from individual offices and cubicles in favour of a more social work setting.

Minimalising work space has also played a part and as a result, many property managers and landlords are finding themselves leasing to a larger number of tenants, each utilising a smaller space with more employees. Medium-to-small businesses have also started leaning towards flexible leases and subdividing space to share risk and ultimately reduce monthly costs.

# Retail

South Africa is the sixth most 'malled' country in the world. This is rather alarming considering the uncertain economic climate and all the different contributing factors that need to be considered for a shopping centre or mall to be successful and show financial conviction. The additional pressure on the

end consumer's disposable income shows a decrease in foot traffic in shopping malls and ultimately the individual's spend.

Stuttafords, River Island, Mango and other previously stable retailers have been forced to withdraw from the country, creating more and more vacancies in large shopping centres. This could be indicative of developers moving to smaller, nimbler 'strip malls' with much less gross leasable property (GLA) to fill.

#### Industria

One of the only sectors to show resilience is the industrial zones. Developers are continuing to build on risk and are rewarded with a favourable uptake of tenants in spaces such as warehouses. Interestingly, the logistics industry seems to be the catalyst for the stability in the industry with many new high-tech warehouses catering specifically for this division.

A great example of this is Fortress Income Fund which is seen as a leader in this space after disposing most of its office portfolio and old industrial assets, to turn its focus on developing new high-tech warehouses aimed at the logistics sector.

# **Bond insight**

The total number of registered bonds in 2017 YTD show a decrease compared to 2016 year-on-year. The City of Cape Town is the only municipality with a notable increase from 2016 and sustained growth of bonds registered to the value of just over R25bn as well as increased inflation of 9.5% from 2016. Bond data shows a decline in transactional activity in Johannesburg from 2016, with a drop of 8.5% in value.

# The bottom line

While the economy trudges on and we all hold our breaths for the next bombshell, now is the time to find the right investment property. No matter where you decide to invest, the savvy buyer has many good options. "There are going to be fewer buyers on the market, which means less competition for listings, and far less tolerance for overpriced homes," predicts

Clarke. Doing your homework and knowing which area works for you is essential in finding the right property to invest in.

# SOURCES

Lightstone, FNB, ooba, BetterBond, Rawson Property Group, RE/MAX, New World Wealth, PayProp, Nedbank