

# Remaining ahead of shifting trends will be key to successful property investments

By [Waldo Marcus](#)

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The global economy is in an uncertain and unpredictable state, currently characterised by rising interest rates, energy supply constraints, climate change and volatile geopolitics. In South Africa, long-promised structural reforms are not being implemented as quickly as required, Eskom has warned of ongoing load shedding and the South African Reserve Bank (Sarb) is expected to continue its interest rate hiking cycle in a bid to tame inflation. Business confidence levels have remained low in the fourth quarter of 2022, according to the latest Absa Manufacturing Survey.



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All is not doom and gloom, however, with some economic indicators showing a positive uptick. Statistics SA's GDP data for the third quarter indicates that the economy is rallying, up 1.6% after a contraction of 0.7% in the second quarter.

The S&P Global SA Purchasing Managers' Index (PMI) is back above the neutral mark, having increased from 49.5 in October to 50.6 in November 2022. The PMI provides a snapshot of operating conditions in the private sector. Business confidence in the fourth quarter is also up, according to the latest FNB/BER civil confidence index.

## A retrospective view

The state of the economy tends to have a direct impact on the property sector. In the first quarter of 2022 the residential rental vacancy rate declined as consumer confidence improved and the TPN Market Strength Index returned to positive territory after an almost three-year period in negative territory.

However, poor business confidence continued to weigh on the commercial property sector which saw a marginal increase in the number of commercial tenants in good standing with their landlords. The retail sectors were the driving forces holding back the recovery in tenant payment behaviour post pandemic, but latest trading data supports an improvement in the retail sector's rental payment performance.

The residential rental market continued to be resilient in the second and third quarters of 2022, despite an interest rate hike rally, higher fuel prices and persistent load shedding. While interest rate hikes have traditionally been good news for the residential rental market, new trends have emerged including life-balance mobility, semigration and the need for work-from-home space driving improved demand for rental stock.

In the commercial property category, demand for industrial and logistics properties outstrips supply and is very much directed to well serviced and secure hubs, designed to optimise property performance.

Recent climate change related events have influenced how property markets are being consumed. Correlations can be seen in escalating costs to build, daily operations, relocations and demand for properties with sustainable utility features.



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## Looking ahead to 2023

Many of the key trends impacting the property market currently are expected to grow in prominence in 2023. As far as property ownership is concerned, there is a subtle shift taking place in terms of how property as an asset class and wealth creation is perceived with the latest generation coming into the market viewing property ownership very differently to previous generations. Instead of aspiring to property ownership as soon as possible, this generation is quite content to lease for the long term, pointing to the need for the property industry to consider introducing lease-to-own schemes going forward.

The growing cost of living and salaries which have not kept pace with inflation means that co-living and multi-generational living (children living with parents for longer, for example, as well as elderly parents moving in with their children) is on the rise in an effort to reduce costs.

Another trend which has been gaining momentum since pandemic restrictions were lifted – and is expected to continue – is semigration as people move out of large cities to smaller towns in search of a better quality of life. Seeing that those moving out of major cities are usually property owners that pay rates and taxes, this trend is having a knock-on impact on municipal finances. Given that civil society's voice – and money – is required for investments and to protect municipal infrastructure, this is likely to be the start of a vicious circle that will be difficult to break without positive owner and political intervention.



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## Impact of unemployment and poverty

South Africa's persistently high rate of unemployment and growing level of poverty is starting to reflect in even the wealthiest suburbs and towns via a slow and mostly unnoticed migration of the economically excluded into well-established and more affluent suburbs. High transport costs make it very difficult for low wage earners in South Africa to access job opportunities; out of necessity this group are starting to build informal dwellings in more affluent suburbs to gain access to a 'living'. A lack of municipal enforcement means it will often be some time before they are moved to another location, which impacts on property values and infrastructure in the area.

The need to be resilient to climate changes is paramount to future-proofing valuable assets, as risk profiles tense across regional locations. Water shortages, floods and extreme temperatures are forcing property owners to relook at location, design and change in lifestyle because of this phenomenon.

Ultimately, unpredictable market conditions will either make property owners a great deal of money in the months and years ahead, or ensure they incur great losses. The key to succeeding in the property investment space will hinge on the ability to remain ahead of property market trends and not fall into the comfort of traditional modelling and thinking.

## ABOUT THE AUTHOR

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