IS PROPERTY A GOOD INVESTMENT IN THE CURRENT ECONOMIC CLIMATE?

PIETER C HENNING
IS PROPERTY A GOOD INVESTMENT IN THE CURRENT ECONOMIC CLIMATE?

by

PIETER CORNE HENNING
22223607

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Study leader: JH Cruywagen

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DECLARATION BY STUDENT

I, the undersigned, hereby confirm that the attached treatise is my own work and that any sources are adequately acknowledged in the text and listed in the bibliography.

PC HENNING
Investment in a broad sense is much like saving, but with the key difference of there being risk involved in investment. One is often lead to believe that when it comes to investment the higher the risk, the higher the potential reward. This statement might be the reason why most prefer to play it safe and rather save money at almost no risk than taking a chance with investment, which in some instances seems like a gamble, and possibly lose ones hard earned money. Economics to most are an ambiguous science and even those who make a living from it sometimes struggle to grasp or fully understand its inner workings and mechanisms, making it difficult to predict. Bearing this in mind, how does an average person with no extensive knowledge in this field make an informed decision towards making a successful investment? The most prominent question being, what to invest in? The last couple of years property performed exceptionally well in South Africa with constant and steady growth rates suggesting that one can almost not go wrong with property. This caused a ‘buzz’ around the property investment sector leading ordinary people to believe that property is the way
to go for the future. Some were successful and some failed miserably. This leads to the question: Can property reliably be said to be the best overall investment, especially when considering the current economic and political conditions in South Africa?
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Chapter 1 – introduction

1.1. Overview of topic

Investment in a broad sense is much like saving, but with the key difference of there being risk involved in investment. One is often lead to believe that when it comes to investment the higher the risk, the higher the potential reward. This statement might be the reason why most prefer to play it safe and rather save money at almost no risk than taking a chance with investment, which in some instances seems like a gamble, and possibly lose one’s hard earned money. Economics to most are an ambiguous science and even those who make a living from it sometimes struggle to grasp or fully understand its inner workings and mechanisms, making it difficult to predict. Bearing this in mind, how does an average person with no extensive knowledge in this field make an informed decision towards making a successful investment? The most prominent question being, what to invest in? The last couple of years property performed exceptionally well in South Africa with constant and steady growth rates suggesting that one can almost not go wrong with property. This caused a ‘buzz’ around the property investment sector leading ordinary people to believe that property is the way to go for the future. Some were successful and some failed miserably. This leads to the question: Can property reliably be said to be the best overall investment, especially when considering the current economic and political conditions in South Africa?
1.2. **Statement of main problem**

Is property a good investment in the current economic climate?

1.3. **Statement of sub problems:**

1.3.1. What is the nature and scope of property investment?

1.3.2. What are the current economic conditions like in South Africa?

1.3.3. How does the current political climate in South Africa influence the South African property market?

1.3.4. How does the current economic condition in South Africa influence the residential property market?

1.3.5. Can economic cycles be beneficial to property investor?

1.4. **Main hypothesis:**

Notwithstanding the disconcerting current economic, political and property price conditions, property investment, apart from saving money, is still a lucrative and relatively safe investment avenue for investors to create a passive income if the investor applies his mind and consider all his options.

1.5. **Sub hypotheses:**

1.5.1. Property is a good long term investment opportunity offering a diverse spectrum of investment opportunities for different investors

1.5.2. South Africa is struggling in the midst of an economic recession and will take a couple of years to recover.
1.5.3. Politics plays a large part in consumer perception and confidence and can either influence an individual negatively or positively depending on their social and political perception.

1.5.4. Economic conditions whether good or bad will inevitably influence the property market as it has a direct impact on consumers and their disposable income.

1.5.5. Economic cycles definitely influence property, and property investors can with the necessary knowledge use it to their advantage.

1.6. Delimitations

This research study was restricted to the following delimitations and parameters:

Geographical area – South Africa (SA) (foreign investments were not considered)

Economy – This research was based on the current economic climate in SA (2007 – 2009)

Social standing – this study focuses on upper-middle class consumers Corporate entities and financial institutions were not considered

1.7. Definitions and terms

Income TAX – Monetary duty levied on a person, corporation or legal entity’s income as set by SA law

SA – South Africa

VAT – value added tax as set by SA law
Upper-middle class – permanently employed Individuals earning a gross monthly salary of between R 10 000 and R 30 000 per month

Prime interest rate – the base line interest rate financial institutions lends money to consumers

Inflation – The overall general upward price movement of goods and services in an economy, usually as measured by the Consumer Price Index and the Producer Price Index.

1.8. Assumptions.

- Prime interest rate – 11,5%
- Inflation rate – 8,0%

1.9. Importance of study

This study is deemed to be of importance to:

- Forthcoming property investors
- Financial institutions
- Estate agents
- Developers and entrepreneurs
- Building industry professionals
- Students
1.10. **Research methods**

The information and data required to successfully complete this treaties will be sourced from the following sources:

- The internet will be the main source of information on this topic
- Newspaper articles
- Financial magazines articles
- Books and literature in Libraries
- Interviews and questionnaires with experts in the relevant profession
CHAPTER 2

What is the nature and scope of property investment?

2.1. Introduction

To be able to make wise investment decisions one must understand what you are investing in, especially in turbulent times. One must first grasp the underlying nature and scope of property investment in general and how it differs from other forms of investment such as the stock market, bonds, money markets, unit trust, etc.

2.2. What is investment?

There are many definitions for investment but they all boil down to the same generic principal, which in essence is, the sacrificing a present value for a future value against risk and reward. The word ‘future’ suggests uncertainty and thus risk. One would obviously not sacrifice what they have now for the same in the future at a risk of losing it, which brings us to the key word in the definition, ‘reward’ which drives the whole decision to make an investment.

Let’s consider an everyday example: Say a person decides to endeavour in a fitness and diet programme to lose weight and get in shape, the person is affectively investing in his/her health and wellbeing. The value/s the person are sacrificing are putting aside his/her current lifestyle and putting in great effort (exercising, eating correctly, etc) to achieve his/her goals. One doesn’t get in shape and/or lose weight overnight, it usually takes a fair amount of time, thus the word future of the definition. The reward (which triggered the decision) in this case might be personal satisfaction, pleasing others, health reasons, etc. Finally the risk involved in this investment might be getting injured, giving up halfway, not achieving his/her desired goal within a certain time frame.
The same principal demonstrated above applies to financial investment, an investor sacrifices the use of a current amount of money (the investment amount) for what will hopefully be (risk) a larger amount and/or passive cash flow (reward) at a future date. In the case of an income-producing property the future benefits might include future passive income flow, property value growth and in some cases sense of achievement, the risks on the other hand might include value deflation (as is the current situation in SA), high interest rates, negative cash flow, vacancy factors, etc. (Cloete, 2005:3)

2.3. The scope of property investment

Although it is difficult to measure, it is believed that property makes out a large portion of the world wealth. It is difficult to estimate the total value of property in the world because most countries don’t have a formal property registration system and those countries that have registration systems in place, most of the property belongs to the government which have difficulty valuing their total assets. For example in SA the largest single land owner is the state through the department of public works.

Where sufficient reliable data could be gathered, the figures suggested that property investment made up between 10 to 15 percent of the total value of investments.

Property makes up a considerable piece of wealthy peoples’ estates. This statement can be supported by referring to Cloete where he noted that on average, property comprises 17% of the world’s wealthiest peoples’ assets according to World Wealth Report (2004) (Cloete, 2005:4)
Property also offers a diverse scope of investment opportunities as is illustrated by Cloete when he quoted Lowrey “Real estate also offers investors an incredibly wide array of investment vehicles and strategies. While this feature further complicates creating a meaningful and representative benchmark for the asset class, the breadth of investment opportunities can accommodate the different risk and return preferences of many different investors. Real estate assets are highly financeable, and can, therefore, attract and accommodate capital from a wide variety of sources-public or private equity or debt, or some combination thereof in the form of mezzanine financing. Over the past decade, the public equity and debt capital real estate markets that allow capital to flow through many different channels. The financeable feature of property assets is unique to real estate, and affords investors a broad array of investment opportunities and strategies. Equity investment strategies, for example, range from relatively low risk core investments in stabilized, high quality properties, to higher risk, higher return value-added investments, like repositioning and development forwards. At the far end of the risk-return spectrum, investments in distressed markets or properties, entity level investments, and arbitrage opportunities created by capital market imbalances between the public/private, debt/equity and taxable/tax-exempt segments of the real estate market. A similarly broad range exists for debt investments, which range in risk and return from core private mortgages to mezzanine and high yield real estate debt. With the development and rapid growth of the commercial real estate securities market since early 1990’s, investors can now invest in publicly traded commercial real estate debt instruments that range from investment-grade CMBS securities to below investment grade securities that offer double-digit yields and whose performance is driven largely by property-level performance in the loan pool rather than movements of the interest rates.”

(Cloete, 2005:5)
2.4. The nature of property investment

Fixed property is more than just simply land plus the improvements thereon, as believed by many. Property should rather be regarded as a three-dimensional concept, which represents a delineated space over time. The essence of property investment is the conversion of space vs. time to money vs. time. Builders, architects and engineers view property from a space vs. time perspective whereas property economists and investors think of property as money flow over time. The strategies to convert space vs. time into money vs. time are the core of property investment and many sophisticated methods have been developed to convert space vs. time concepts into money vs. time projections to compare different scenarios to the individual requirements of investors. (Cloete, 2005:10)

This concept brings to light the fragile nature of property, as property cannot be stored it is vitally important to utilize the maximum space vs. time in order to generate the best possible money flow. This is why it is so important for property enterprises to keep vacancies at a minimum. (Cloete, 2005:11)

Property investment transaction (converting space vs. time into money vs. time) according to Cloete takes place in a specific environment (property investment environment) and consists of three main groups namely, Investors and/or developers (who provides the space over time), the consumer (who utilises the provided space) and the government (who provides the infrastructure). Although all three these groups might have different interests vested in a particular property, they will attempt to find some equilibrium (middle ground) on which all of their needs can be met to some expectable degree under the circumstances.

The following diagram (fig 1) best illustrates the three main groups, their relationships, interests, and interaction. (Cloete, 2005:11)
2.5. **Objectives of property investors**

The vast majority of people invest money to make money, in other words, the objectives of financial investors in most circumstances is cash flow and return on investment. Even though most property investors are seeking financial gain (operating yield, estate building leverage, etc) people can invest in property for many reasons other than financial gain, for example, pride of ownership, personal control, etc.

(Cloete, 2005:18)

The advantages and disadvantages of property investment will be discussed in more detail in following chapters
2.6. The participants in the property investment process

As mentioned previously, property investment takes place in a particular environment (property investment environment) concerning three main groups namely, the investor/developer, the consumer and the government. The property investment environment can be further elaborated upon by considering the property investment process. According to Cloete, there are four major participants concerned with the property investment process with different and often conflicting objectives for entering into a property investment.

These participants are:

- The equity investor
- The mortgage lender
- The property user (tenant)
- The government

These participants, their relationships and interactions can briefly outlined by the following illustration (fig 2)

(Cloete, 2005:21)
Each participant places constraints and restrictions on the probability that the investment will be successful and must be analysed and negotiated carefully to avoid disastrous consequences. 
(Cloete, 2005:21)

2.7. Summary

Investment entails sacrificing a current value for a future one against risk and reward. The same applies to property investment where physical space over time is converted to cash flow over time. Property is estimated to form a considerable part of the world's wealth highlighting its potential for investment opportunities. The space-time versus the money-time concept implies the fragile nature of property investment and the importance to maximise the utility of the
property at all times. There are various parties concerned with property, each with their own objectives, in a competitive environment.

2.8. **Conclusion**

Due to the proven past performance and diverse nature of property, property can be concluded to be a good investment opportunity. As with any investment with a reasonable return, there is a fair amount of risk involved and it is crucial for the potential investor to be familiar with prevailing conditions in the market place. It is advisable should the potential investor not posses of the necessary knowledge to make responsible informed decisions, to seek the advice of experts in the industry.

2.9. **Testing hypothesis**

The original hypothesis in chapter one reads as follows:

‘Property is a good long term investment opportunity offering a diverse spectrum of investment opportunities for different investors’

The hypothesis was correct in stating that property offers a good investment opportunity and wide range of possibilities. Property investment however is by no stretch of the imagination fool proof, and careful consideration and responsible decision making is required to increase the chances of the investment to be successful.
CHAPTER 3

What are the current economic conditions like in South Africa?

3.1. Introduction

Economic conditions influence all of us in our daily lives in some way or another. Whether we are directors of a multi-national corporation or employees working for basic wages, we all feel the pinch when times get rough. To be able to understand how the economy influences investment, and property investment in particular, one should first have a look at the current economic climate and what it means to the potential investor.

3.2. Introduction to the South African economy – a brief background

South Africa is classified as an upper middle-income country with the characteristics of both a developed and developing nation. South Africa’s is ranked 20th biggest economy in the world based on its Gross Domestic Product (GDP) of $663 billion. (South Africa: the good news; 2 October 2008)

Despite South Africa’s diverse range of challenges such as large income gaps, high unemployment rate, poverty, a dual economy and other considerable social challenges South Africa has achieved a high level of political and economic stability over the last ten years.

South Africa has a productive, industrialised economy and a modern infrastructure, with well-developed financial, legal, communications, energy and transport sectors however, the social conditions for the majority of the South African population have not improved as much as hoped.
3.3. **Is SA in recession?**

The world’s major economies such as America and Japan were caught up in a deep recession by the fourth quarter of 2008. This was a crisis South Africa was not likely to escape. On top of the global economic downturn, there were also the delayed affects of South African-specific interest rate increases of recent years to consider, which were likely to compound the probability that South Africans would inevitably share the same fate as their economic peers, come 2009.

Some economists, including finance minister Trevor Manuel, believed that South Africa’s economy would still notch up positive growth during the early period of 2009. This was a far cry from the advanced economies, which would no doubt ably shrink during 2009. Even though South Africa somehow managed to show some positive growth for the early period of 2009, it was not likely to escape a recession.

The technical definition for a recession is two consecutive terms of negative economic growth or contraction of a country’s Gross Domestic Product (GDP).

By the beginning of 2009 South Africa’s (GDP) had contracted by 1,8% from the last quarter of 2008. This caused a great deal of anticipation of what the statistics will show for the first quarter of 2009. By the end of May 2009 Stats SA released their latest statistics which indicated that South Africa’s Gross (GDP) had contracted by 6,4% during the first quarter of 2009. Since the technical definition of a recession is two consecutive quarters of negative growth, these figures now confirmed that SA had entered its first recession in 17 years.

Although this was anticipated by most, the magnitude of the contraction was surprisingly larger than was expected, even double that of what was expected by some economists and analysts.
3.4. **How are different sectors affected?**

It is evident that the mining and manufacturing sectors were hardest hit in the global economic downturn. As these sectors were already struggling before the global recession and relying heavily on exports. The global economic slowdown caused a sharp decline in exports and in turn amounted to large scale retrenchments in this sector.

A recession implies an overall contraction in economic activity causing consumer confidence to diminish. This together with high interest rates of recent past, ever increasing food prices and conservative credit policies imposed by banks counters the interest rate cuts by monetary authorities which were intended to boost consumer confidence.

This statement can be supported by referring to economist Annabel Bishop (2009), an economist from Investec, which is of the opinion that the country's recession has only partly been driven by the fall in demand for exports and the South African Reserve Bank's previous tightening cycle, which had seen interest rates being increased by 5.5%, has also contributed to the recession.

The decline in consumer confidence puts considerable strain on the retail and local manufacturing sectors as the vast majority of consumers tend to adopt a conservative attitude towards spending due to less disposable income an sombre hopes of new job opportunities

Although the rand had weakened only slightly and later strengthened significantly against the major international currencies exports remain slow due to the global economic struggle.

A group economist from Sanlam, J. Laubscher (2009) in his economic commentary provided the following insight on the diversity in how the different sectors experiences the current economic recession
As stated previously Laubscher concurs that the standard definition of a recession entails at least two consecutive quarters of negative economic growth or declining GDP. However, according to Laubscher, an exclusive focus on total GDP may hide or distort important differences in the way different sectors of the economy are experiencing the downturn in economic conditions.

The current recession is no exception and there are marked differences in the way different sectors are experiencing the contraction in terms of its severity and duration. To date, the economy has been contracting for three consecutive quarters, with total GDP declining by 2,9% from its peak. Loubscher used the table below (table 1) to summarises the diversity in the experiences of the different sectors as distinguished in the official statistics (Loubscher:2009)
<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of consecutive quarters of negative growth up to Q2 2009</th>
<th>Decline in GDP from peak</th>
<th>Number of negative quarters since beginning of 2007</th>
</tr>
</thead>
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<tr>
<td>Agriculture, forestry and fishing</td>
<td>2</td>
<td>-5.3%</td>
<td>2</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>1</td>
<td>-8.2%</td>
<td>7</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>4</td>
<td>-16.3%</td>
<td>6</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>3</td>
<td>-3.0%</td>
<td>6</td>
</tr>
<tr>
<td>Construction</td>
<td>0</td>
<td>n/a</td>
<td>0</td>
</tr>
<tr>
<td>Wholesale and retail trade, hotels and restaurants</td>
<td>5</td>
<td>-4.5%</td>
<td>5</td>
</tr>
<tr>
<td>Transport, storage and communication</td>
<td>2</td>
<td>-0.7%</td>
<td>2</td>
</tr>
<tr>
<td>Finance, real estate and business services</td>
<td>2</td>
<td>-1.2%</td>
<td>2</td>
</tr>
<tr>
<td>General government services</td>
<td>0</td>
<td>n/a</td>
<td>0</td>
</tr>
<tr>
<td>Personal services</td>
<td>0</td>
<td>n/a</td>
<td>0</td>
</tr>
<tr>
<td>Total GDP</td>
<td>3</td>
<td>-2.9%</td>
<td>3</td>
</tr>
</tbody>
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Table 1: Recession’s impact on different sectors (Loubscher:2009)

http://thinkingahead.co.za/cgibin4/DM/y/eBTrM0R4xCJ0XwA0HRvW0EI
(Accessed 23 September 2009)
Laubscher (2009) made the following interesting conclusions from the above table:

The South African economy was already in a significant downswing prior to the negative turn in the global economy in the last quarter of 2008. This is evident due to the fact that important sectors such as the wholesale and retail trade, hotels and restaurants and manufacturing have been in recession for more than three quarters consecutively.

Wholesale and retail trade, hotels and restaurants have been in recession the longest, since they have being experiencing negative growth for the last five consecutive quarters. These sectors are naturally very sensitive to movements to interest rate changes and were negatively impacted by the tightening in monetary policy that started in June 2006. It was these sectors that benefited most from the ‘debt-financed’ consumer boom that commenced in 2004, but it was also the sectors that bore the brunt of the inevitable slowdown when the household debt burden reached its affordability ceiling.

The manufacturing sector has been in recession the second longest, with its troubles being compounded by the sharp contraction in global demand on top of already weak domestic demand. It is also the sector that has suffered the worst decline in value added of all the sectors (almost 80% of the decline in GDP during the last three quarters is accounted for by manufacturing). But in spite of this it is only fourth in line after agriculture, mining and transport as far as the reduction in its labour force is concerned. As in many other countries, the motor industry led the recession in the manufacturing sector.

As one would expect, general government and personal services did not show negative growth, but the fact that the construction sector achieved the same feat despite a sharp decline in building activity in the residential and private sector shows just how beneficial the government’s infrastructure drive towards preparations for the 2010 World Cup have been to this sector. However, the
construction sector needs to ask itself how it is going to adapt to the inevitable fall-off in public sector activity in future years. Stronger construction activity in the private sector could in time replace public sector demand, but one can definitely not rely on a smooth transition.

The last column of the table gives an additional perspective as it also looks at conditions prior to the official onset of the recession. It shows the number of quarters, although not consecutive, out of a total of ten during which each sector has recorded negative growth since the beginning of 2007. Apart from illustrating the problems faced by the manufacturing sector (negative growth 60% of the time), it highlights the sustained contraction in mining production in recent years (negative growth 70% of the time), while also reflecting Eskom’s struggle to maintain power generation.

Further Loubscher added that these statistics raises the important question whether the real issue in sectors such as manufacturing and mining is not perhaps structural weakness rather than cyclical weakness.

The mining sector is clearly in a worldly downswing and this is not just as a result of the fact that the sun is gradually setting on the gold-mining industry. South Africa’s mining production including gold is currently 21.5% less than at its peak in January 2005, but even if gold is excluded it is 18% lower. And this in spite of the sharp rise in the demand for commodities from 2003 to 2008.

The manufacturing sector reflects South Africa’s international competitiveness the best and the contraction in this sector is worrying. According to the latest competitiveness index of the Institute for Management Development in Switzerland, South Africa is currently ranked 48th out of 57 countries – down from 37th position in 2005 and 39th in 2003.

The current level of manufacturing production is about the same as four years ago, but even at its peak in the second quarter of 2008 it was only 25% higher.
than the lower turning point of the cycle in Q2 2003. During the same period world trade in goods increased by 53%, and goods exports of emerging and developing countries (excluding oil producers) increased by 97%.

The post-crisis global economic environment will be less friendly than in the period 2003 to 2008. Will South Africa be able to meet the more serious challenges this will bring? Can the country afford to push aside its strategic thinking while trying to mitigate the short-term consequences of the recession?” (Loubscher: 09/2009)

Experts are uncertain how long South Africa will remain in a recession and state that it is largely depended on how quickly the international economy recovers, as many of South Africa’s subsectors are dependent on international demand factors.

It is expected that GDP growth in the second and third quarters to contract again, although it is believed to be of a smaller magnitude than the beginning of the year

Monetary authorities already responded aggressively to the slowdown, having announced 450 basis points cuts in interest rates since December 2009.

Economist Annabel Bishop (2009) believes that the recent consumer credit policies will delay the effects of the interest rate cuts. “The recent tightening of rules governing consumer credit will delay the stimulus from this year’s monetary easing; we do not expect positive growth before 2010,” she stated.

Major trade unions such as Cosato believes that emergency measures to protect vulnerable industries have to be implemented and that the new government have to make a shift towards more “expansionary economic policies” that would include a “radically expanded” public works programme to provide jobs for the growing number of unemployed citizens.
The 2010 FIFA World Cup is believed to hold considerable psychological and economic promise to the South African economy and is expected to lead onto a higher growth path in the years ahead. It is however of great importance to ensure that the economy is poised to take advantage of the business cycle when it turns and to attract the investment it needs for growth and development.

3.5. Summary

South Africa has a young emerging economy which despite of significant political and social challenges progressed rather well over the recent past. A large scale depression in the global economy became evident by the end of 2008 which would inevitably spill over to South Africa. By middle 2009 it was confirmed South Africa has entered its first recession in 17 years having experienced two consecutive terms of negative growth.

The mining and manufacturing sectors were hardest hit which lead to large scale job losses. Consumer confidence remains under strain despite aggressive interstate cuts by the authorities. It is uncertain when the recession will end as large sectors of the economy are dependent on the Global economy’s recovery. The 2010 World cup is believed to be of great importance to the rate at which the economy will recover.

3.6. Conclusion

South Africa along with the rest of the world is experiencing economic recessions which lead to an overall slowdown in economic activity. Although most are feeling the pinch, relief is expected as soon as 2010.
3.7. Testing hypotheses

The original hypothesis in chapter one reads as follows:

‘South Africa is struggling in the midst of an economic recession and will take a couple of years to recover’

The hypothesis was correct about South Africa experiencing a recession but in this chapter it was evident that experts expect the economy to start recovering as soon as the beginning of 2010, which is sooner than expressed in the hypothesis.
CHAPTER 4

How does the current political climate in South Africa influence the South African property market?

4.1. Introduction

It was stated in previous chapters that the government is one of the key participants in the property investment process. Considering this fact, it seems only natural that a country’s political climate plays a major role on its economy. This raises the question: how does the current political climate in South Africa influence the South African property market?

4.2. The current political climate like in South Africa.

Given the series of political events in the recent past from the ANC presidential elections in December 2007, where Jacob Zuma was elected the new ANC president, right through to where we are now with the ongoing strikes, Eskom tariff hikes, etc it is not surprising that a great deal of citizens are anxious and unenthusiastic about what the future holds for them.

When comparing South Africa’s current state of politics, with that of Zimbabwe, one can hardly call our situation a crisis. Even if one look at the public mudslinging between the ANC and main opposition party the DA, and comparing this to the Obama - Hillary Clinton and even more so Obama - McCain clashes, our “public debates” seem pretty tame.

The African continent has an unfortunate history and is associated with conflict and dictatorship, often resorting to populist policies. With Sub-Saharan Africa generally being the worst performing major economic region in the world, it is not surprising that any form of change raises numerous doubt and concerns.
Even though the Mbeki era was far from perfect, the anxious minority population groups had probably become comfortable with it over time. In the Zuma “revolution” however, with a strong Cosatu and SACP influences, future policies remains a mystery to some extent.

4.3. Politics and the Property market

Considering the resent political and social situation in South African, and of course the current trend in the South African Property Market, the question whether these two aspects are interrelated arises.

Even though, FNB’s property economist and strategist, John Loos (2008), commented that the political changes in South Africa should not have a noticeable impact on the already weak residential property market.

Recent political activities in South Africa such as the national elections, resignation of finance minister Trevor Manual, numerous strikes by labour unions, etc may create negative perceptions among several citizens towards the government. These negative perceptions might potentially filter through and compromise the property market’s performance both directly and indirectly.

Property prices are particularly susceptible to public sentiment. When political trouble brews, buyers retreat, the demand for property withers and sellers are forced to accept lower prices for their commodities. On top of this, people leaving the country in hope for a better future elsewhere, are probably the most substantial and measurable consequence of negative political sentiment under citizens.

Recent figures are particularly concerning as they indicate a steady increase of ‘emigration selling’ in suburban residential property markets. On average, the percentage of residential property sellers selling their homes for emigration purposes has risen from 9% of total sellers to 18% this year.
Even though this seems to be an issue among minority groups and that the suburban markets are steadily transforming, the bulk of the total property market probably still remains in the laps of these three minority groups. A tremendous volume of property transactions takes place in this sector of the market given the significantly greater mobility of people in middle to upper income areas.

This statement can be supported by referring to I-Net Bridge’s article ‘Property and Politics’ where she quotes John Loos, “Insofar as the latest political events create negative sentiment in and towards the country, they are potentially negative for residential property performance with the direct impact possibly in the form of higher emigration rates from the sensitive suburban markets which are still dominated by the three minority population groups according to the Apartheid classification of race,”. (Bridge: 2009)

Taking into consideration, the sensitivity of an important part of the residential market to political uncertainty, and having seen an increase in the importance of emigration selling as a portion of the total market, the political events of recent days should have a direct impact on the state of the residential property market.

Apart from immigration, indirect impacts can occur when general investor confidence is negatively affected, which can have a negative impact on economic growth and thus on purchasing power for residential property. This together with consumers finding it increasingly difficult to obtain finance due to the stricter credit laws, places additional strain on the residential property market.
Other influential factors may include:

- Slow economic growth having a negative impact on job creation and thus on household sector purchasing power.
- Rising inflation, influenced by global food and oil price surges, eating into nominal disposable income growth.
- Rising household debt-to-disposable-income ratio. This was the first driver of a residential slowdown, through causing household debt servicing costs to rise.

It is uncertain how long this negative impact will last, but experts believe these factors come and go in cycles and they are the predominant drivers of what is always a cyclical residential property market.

Further, John Loos stated that our major economic and local property risks arguably come from North America with its fragile financial institutions. It is also believed that the market will experience relief when the global economy ultimately recovers which will have a positive impact on the local economy.

The much anticipated 2010 soccer world cup has according to Loos (2008), “…also fast-tracked some of the country's much-needed infrastructure delivery and a visible increase in infrastructure completions is expected to provide the country with a perception of progress and an economy 'moving forward' as opposed to a prevailing perception amongst many of stagnation".

Loos seems to believe that “the world’s and our own political history tells us that the utterances from new leaders on their path to power are not always a good indication of what policies are to follow,” and that “a year from now, when the dust has settled on the current process of political leadership change”, he said that the economy will turn for the better and combined with the benefits of 2010, there will be a significant decline in emigration. He added that policy shifts are more important than people shifts or policy wish lists.
4.4. Summary

Recent political turbulence in South Africa might have been a contributing factor to the poor performance of an already weakened residential property market. The political climate is thought to mainly influence the residential property market through the immigration of disgruntled citizens selling their properties and causing an oversupply in the market. Although these are mainly minority groups, a significant volume of the residential property market’s transactions takes place within this sector.

Politics are also believed to have an indirect negative impact on the property market by means of influencing the economy. These negative impacts may include, rising inflation, low consumer and investor confidence, strict lending criteria imposed by banks, increasing household debt-to-income ratios, etc.

Despite of the discouraging political situation, some economists and strategists like FNB’s John Loos, believes that the state of the current residential property market is vastly overshadowed by the reminisces of the ongoing global economic struggle.

Loos, also believes that preparations for the 2010 soccer world cup plays a key role in boosting confidence through major visible infrastructure upgrades.

4.5. Conclusion

Notwithstanding the fact the a negative political climate can have a noticeable Impact on the property market, it seems, that in the current situation in South Africa, the troubled economy casts a giant shadow over the political situation making it seem less important. It is also observable that politics has a greater direct impact on the residential property sector than the commercial and industrial sectors.

The commercial and industrial sectors on the other hand, it appears, are mostly indirectly impacted by politics through its ability to influence the economy. The
political turmoil of recent times, given the economic conditions, can be said to only add to an already distressed economic state and may slow down the recovery process.

4.6. Testing of hypothesis

The original hypothesis in chapter one reads as follows:

‘Politics plays a large part in consumer perception and confidence and can either influence an individual negatively or positively depending on their social and political perception’

The hypothesis was correct in saying that politics has the ability to influence consumer and investor confidence negatively. Although recent political events in South Africa can be seen in a negative light, the economic crisis is believed to overshadow the negative affects which the political climate might have had on the property market.

This brings one to the conclusion that South Africa’s political climate does have the ability to negatively influence the property market and probably does. The extent to which the market is affected by the political situation however is difficult to determine in isolation given the current economic crisis overshadowing this issue.
CHAPTER 5

How does the current economic condition in South Africa influence the residential property market?

5.1. Introduction

In previous chapters the state of the current economy was discussed. It is however important considering how economic conditions influence the property market, using house prices as an indication.

5.2. Current residential property conditions

2008 was a shocking year for residential property with house prices rising less than four percent in 2008 according to Absa, the lowest since 1996. In real terms, house prices fell just short of seven percent between January and November 2008, the biggest fall in 16 years. (Alton: 2009)

2009 turned out even worse as residential house prices fell even further with continuing property over supply due to debt levels remaining high pushing up forced sales of houses. At the same time the financial dilemma of homeowners was aggravated by banks “tightening up on access homeowners had to the equity in their homes”, said Roy Cokayne in Business Report. (Alton: 2009)

Generally, houses are now selling at the same prices they were going for two years ago. Inflation, however, means the figure is closer to what a house was worth in 2005.

Experts deem that we have not seen the worst of distressed sales yet, as home repossessions are estimated to almost triple in 2009 to some 150 000, said Don Robertson in Business Times (2009). This is likely to worsen over supply in the
residential market, and could delay a recovery in the market even further. At the same time, house prices may have come down in recent months but they were "so badly overvalued" in the first place, that they'll need to fall considerably more to reach fair value, said Ben Pillay, CEO of the Institute of Estate Agents of SA. (Alton:2009)

Recent interest rate cuts by some 400 basis points had only a marginal impact on deteriorated property demand. The poor response to rate cuts are believed to be owed to increasing household indebtedness as measured by the debt-to-disposable income ratio. Growth in household disposable income is under severe pressure due to the overshadowing economic recession. The high debt ratio is sustained by disposable income growth falling faster than household credit growth. (Loos:2009)

Further, the current economic conditions are having a devastating effect on employment in many sectors of the economy, negatively impacting household income.

According to Jacques Du Toit, Absa property analyst (2009) these conditions will have a negative impact on households' final consumption expenditure, which is projected to drop by 2,6% in 2009. Especially durable household consumption expenditure will be hit hard, which is expected to drop by 14,5% in 2009.

With headline consumer price inflation expected to reach the 6% level by mid-2010 only, the Reserve Bank’s Monetary Policy Committee is forecast to leave the key policy interest rate, the repo rate, unchanged in the rest of 2009 and into 2010. Banks' prime lending and variable mortgage interest rates are thus projected to remain stable at the current level of 11% during this period.
5.3. **Recent construction activity in the housing market**

Data on residential building activity released by Statistics South Africa up to May 2009 indicate that activity in the planning and construction phases of new housing slowed down further on the back of the economic recession.

In the period January-May 2009 residential building plans approved by local government institutions, which when compared to the same period in 2008 decreased by 47,3%. The real value of residential buildings reported as completed in the first five months of 2009 was 16,7% lower than the same period in 2008.

In all three segments of housing the number of residential building plans approved was down in January-May 2009.

Plans approved for alterations and additions (based on total square meter area) to existing houses are down by 23,5% y/y in 2009 compared to the same period in 2008. However, the total building area reported as completed with regard to alterations and additions to existing houses are up by 20,5% y/y, which was to a large extent driven by strong growth in this activity in the Western Cape, the Eastern Cape, the Free State and Mpumalanga in the first five months of 2009.

Residential building activity is expected to follow the recovery in house prices and demand. (Du Toit:2009)

5.4. **Economic outlook and prospects for the housing market**

According to property economists, a real recovery will only start taking place in 2010. Jacques du Toit, Absa property analyst expects the market to bottom in the middle of 2009 and to gradually improve from there on. (Alton:2009)

FNB’s property strategist John Loos agrees that any recovery in the sector will be gradual. (Alton:2009)
The lagged effect of lower interest rates and a moderate recovery in the economy later in 2009 are factors which will contribute to an expected gradual improvement in residential property market conditions from early 2010. (Du Toit: 2009)

The lagged effect of lower interest rates and a gradual recovery in the economy in the second half of 2009 are factors which are set to lead to an improvement in property market conditions from early next year," Du Toit added.

5.5. What economic factors are contributing to the current deflationary environment?

Money Week invited a team of economist and analysts to share their view on the state of the South African property market, they had the following to say: (Stokes, 2008)

Erwin Rode: “If I had to sum it up with a single word I’d say affordability. Pressure on affordability has been brought about by three things. The first one is that prices are very high in real terms. The second is the impact of high interest rates. And the third is high inflation. Of course the last two are linked: high inflation and high interest rates.”

John Loos: “Public enemy number one is the combination of inflation and interest rates. The reason I refer to a combination of inflation and interest rates is that the Reserve Bank has adopted an inflation targeting policy. Apart from inflation’s indirect impact via its effect on interest rates there is also its direct impact on essential items, food and petrol. Especially at the lower end of the market you see surging inflation eating into disposable income. It’s rising rapidly enough that wage inflation has not yet caught up. In second place, but gaining in importance is the slowing domestic economy. The slower GDP growth rate also negatively impacts on middle class purchasing power growth.”
Chris Hart: “The number one factor is interest rates. They’re up quite a lot more than expected. It’s been an abnormal cycle as far as interest rates are concerned and because of this, household budgets are being stretched to breaking point. As a consequence the demand side is struggling. There’s still quite a bit of supply on the market that needs to be absorbed and it looks like residential property is going to be under pressure for quite some time.”

Sizwe Nxedlana: “The main economic factor impacting the residential property market is interest rates which are now up by 500 basis points since June of 2006. Back then the prime interest rate was 10.5% and today it’s at 15.5%. The cost of servicing debt is 36% higher than it was 24 months ago. A second factor is the cost of living as measured by CPIX inflation. This index is up 10.4% year-on-year, spurred on by the petrol price that has gone up by about 260c per litre since January. The impact of the National Credit Act (NCA) can also not be ignored. Prior to the NCA you needed a repayment-to-income ratio (the percentage of your monthly mortgage payment to your grossincome) of no more than 30%. This rule still applies; but the NCA requires that you ‘clear’ additional obstacles to prove affordability. All these factors combine to put severe strain on demand for residential property.”

5.6. **Summary**

House prices continued a declining trend during the first three quarters of 2009. The poor performance in the housing market is believed to be owed to an oversupply in property and diminished demand caused by tough economic conditions.

Recent building activity statistics in the residential sector indicates a significant slowdown in building plans approved and buildings completed since the first two quarters of 2008 in all three housing segments.
Economists believe that property prices deflation will start to bottom out towards the end of 2009 and gradually improve during 2010.

5.7. Conclusion

The residential property market is under considerable strain due to the prevailing economic recession. This is especially prevalent in the available house price and building activity statistics. It can be concluded that the property market in general and residential property prices will follow on the back of the recovery in the economy as a whole.

5.8. Testing hypothesis

The original hypothesis in chapter one reads as follows:

‘Economic conditions whether good or bad will inevitably influence the property market as it has a direct impact on consumers and their disposable income’

The hypothesis was correct in saying that economic conditions will influence the property market, as is the case in the residential property market, financial strain on consumers are directly linked to poor demand and oversupply in the housing market leading to house price deflation.
CHAPTER 6

Can economic cycles be beneficial to property investor?

6.1. Introduction

From previous chapters it is clear that South Africa is experiencing a recession and latest statistics released sketched a pretty dreary picture of the South African economy, politics and house price deflation. The question however remains what does this mean for property investors and how should the investor react and adapt to these conditions?

6.2. Economic cycles

Economic cycles are fluctuations in the overall economic activity in the world or a country. It can be said that the economy moves in rhythmic cycles of growth and decline. The world economy goes up and down as it answers to many factors influencing it. It will always be influenced by factors like high and low interest rates, optimism and pessimism, inflation and deflation, political stability and instability etc. A country’s economy, similarly, goes up and down according to many factors that will influence its particular rhythm. With many similarities between the world’s economic cycle and a country’s own economic cycle, particular political, financial and even unforeseen factors like a new oil find, a platinum find, or a world sport event could get a different rhythm going. (Van der Walt 2007)

According to Cloete (2005) there have been several types of economic cycles identified over the years. They are identified by their average duration or by the name of the person who first identified them. Three of the more important cycles are as follow:
- Kitchen cycle (between 1 and 12 years) short term
- Kuznets cycle (15 to 25 years) medium term
- Kondratieff cycle (50 to 55 years) long term

These cycles’ duration are measured from peak to peak and usually repeats itself, however they are rarely ever exactly the same.
(Cloete: 2005:60)

The short term cycles are typical of developed nations, however in South Africa and some other developing countries a much shorter cycle is found (Cloete 2005:60) The South African cycle for example are between approximately 4 and 6 years of duration according to (Smit & van der Walt, quoted by Cloete 2005:60) and can be structurally altered with fundamental changes by specific events such as, Middle east oil crises, political unrest, etc.

The typical characteristics of South Africa’s short economic cycles can be illustrated in figure 3 below.

Figure 3: The South African business cycle
(Hindle, quoted by Cloete 2005:61)
Investors may in some instances make use of economic forecasting models, but should not follow such models blindly and should keep in mind that there will be fluctuations during a trend in the cycle and also that the next top or bottom of a cycle could be higher, lower, flatter, sharper, shallower than the previous one.

6.3. **Construction cycles**

South Africa’s construction industry is notoriously cyclical and closely related to the economic cycles due to the economy’s effect on demand and supply for construction (Cloete 2005:62). Figure 4 illustrates the relationship between supply and demand in the construction industry
The demand for construction improves as the lower turning point of a cycle is reached and starts to decline before the upper turning point is reached. This seems to suggest that construction demand is an important indicator of the upper turning point in an economic cycle. (Cloete 2005:62)

The characteristics of the various construction phases are illustrated in Figure 5, below.
6.4. Property cycles

Similar to the economy property cycles results from the interplay between demand and supply forces in the industry (Cloete 2005:63) Property cycles typically follow the following sequence of events.

- The General economy picks up after recession
- Vacancy levels fall and rentals increase faster than building costs
- Property development becomes feasible again and new buildings are erected to cater for the upswing in demand.
- Demand declines again as the economy contracts again
- New building (to cater for the previous rise in demand) still under construction as most building projects take between 12 and 36 months to complete
- Thus supply continues to rise even though demand is in a down swing
- A classic oversupply then occurs which can often only be filled in the next upswing of the economy

Figure: 5 Characteristics of the South African construction cycle (Cloete 2005:63)
Figure: 6. below illustrates how key property variables change throughout the property cycle

![Property cycle diagram](image)

Figure: 6 Property cycle (Cloete 2005:64)

According to Cloete there is evidence in the South African property cycle that suggests it is a long cycle, probably between 12 to 15 years and that property performance should be measured accordingly. “The comparison with performance of shares and fixed interest over a one year or five year period will result in incorrect conclusions” Cloete adds.

6.5. How to interpret economic cycles in property investment

As can be gathered from previous paragraphs, nothing is cast in stone, and it is of utmost importance to all investors to keep track of the existing phase of the economic cycle and the phase that is to follow. Every investor needs to have a rational approach and has to check the economic cycle on a regular basis. This should form the pragmatic structure for decisions as it is almost impossible to interpret the bombardment of daily information in a manageable way. (Van der Walt 2007). According to Van der Walt there is a basic structure to an economic cycle, and when simplified can be illustrated as follow in figure 7.
The property cycle normally lags behind the general economic cycle. The previous property boom is an exception to the rule. Extremely low interest rates forced prices to exuberant heights and the resulting buyers frenzy created a severe imbalance. Re-adjustment is now the leading game.

Property sales are usually rather quiet for quite some time before it responds to a new momentum in economic activities. It is when the effect of lower interest rates starts to filter through, that demand increases and property prices starts to rise again.

It is all about supply and demand. When the interest rates are high and the economy in a recession, nobody is actively interested in buying property, but you will find lots of sellers. At some point this will change when the economic cycle has reached its lower turning point and consumer confidence starts to recover the strong supply of properties will decline and a strong demand for property will drive property prices up. The best time to buy a property is when
the economy is scraping the bottom and interest rates are still high, but the turning point for ongoing rate cuts becomes clearly visible. (Van der Walt 2007)

Marriott Income Specialists chief executive, Simon Pearse agreed when he stated: “You need to buy when the interest rate is at its highest and inflation at its most. When no one wants to buy property, that is the best time to buy…and then you will make the most money,” (Van Zyl 2008)

“Effectively, the situation created is one where the investor’s bond payments would decrease on an asset that continues to rise in value. Taking this advice into account, Marriott developed the first commercial property fund for private investors in South Africa in 1997, when the property market was at its lowest ebb in the past twenty years. This fund recorded a 200% return on investment between 1997 and 2005, when the property boom began to taper off.” Van Zyl ads

On the other hand the same principle applies to selling. When the economy is flourishing, with investors still buying into property and not seeing that talk becomes laden with expected interest rate hikes, the time would be right to seriously consider selling. It will always take nerve to go against the current of the market and to focus rather on the building up of the next trend. (Van der Walt 2007).

Pearce (2008) concurs that the best time to sell a property ‘would be when interest rates start to rise again or when everyone at the local pub informs you what a great investment property is’, according to Pearce

He added that if property investors do not have cash reserves right now, they should try and convince their bank to loan them the maximum amount available under the tight conditions and purchase a bargain property. “You are not borrowing for the sake of borrowing, but buying an asset,” he urged, and the asset value will begin to rise just as interest rates start to fall.
6.6. **Is now a good time to invest in property in South Africa?**

Despite the negative economic and political situations in South Africa and contrary to the majority sentiment which is to steer clear of investing in property. Some experts still reckon that a combination of unique factors is creating once-in-a-lifetime opportunities for potential investors. (Graziosi 2009)

These factors Graziosi refer to include the following:

- **The “irrational” markets are over.**

  The wild appreciation in property values over the last ten years are something of the past. This together with the failure of some home lenders, and strict lending criteria imposed by banks creates a very tighter market, resulting in a much less volatile property market environment.

  ABSA economist Jacques Du Toit warns that investors in the property market should not anticipate any positive real capital growth in the next 18 to 24 months (Van Zyl 2008). “In view of property being medium to longer-term investment (five years and longer) property investors should look through the current downward cycle and focus on income returns, with a view of achieving positive real capital appreciation from 2010,” Du Toit said.

- **Property prices have decreased dramatically.**

  As can be gathered from previous chapters property prices have fallen severely over the last two to three years. According to Graziosi (2009) even thou this statement sound discouraging to most, it is far from negative. ‘Never before have homes in great neighbourhoods been available at such depressed prices. There are foreclosure bargains in every price range. It’s a true buyer’s market.’ Graziosi added
Rental demand is increasing.

According Graziosi rental demand is increasing, and should do so for years as many home owners lost their homes to foreclosure or were forced to sell due to increasing dept-to-income ratio making bond repayments unaffordable. These unfortunate individuals have to rebuild their credit before they'll be able to purchase again, and on top of this lenders are likely require from them to make larger down payments and meet stricter requirements. (Graziosi 2009)

Graziosi ads that “a large percentage of those foreclosures happened because people made poor choices when they got their bonds, not because of financial misfortune. Many foreclosure victims are still employed and can pay market rental rates, and they are likely going to rent something similar to their previous home”.

According to Pearse, property will always be a sound long-term investment because property values and rental income are linked to inflation, which means that prices continue to rise over time. (Van Zyl 2009)

In order for potential investors to be successful with their property investment endeavours, it is important for them to continuously expand their knowledge base of the specific field in which they intend to invest in. According to Graziosi the property investor should try to continuously expand their knowledge of the following aspects.

- Current national real estate sales and price trends
- Local trends that influence where people want to live
- Local employment, industrial, and job creation activities
- Neighbourhood dynamics (whether the population is growing or declining)
- Resources for everything from loans to renovation
Graziosi also ads that the property investors should be mindful of information sources and make sure that information are reliable and up to date.

6.7. Summary.

The global economy and a county’s economy alike moves in rhythmic cycles of growth and decline as it answers to many factors like inflation, interest rates, etc. South Africa’s construction industry is notoriously cyclical and closely related to the economic cycles. There is evidence in the South African property cycle that suggests it is a long cycle, probably between 12 and 15 years and property performance should be measured accordingly. The property cycle normally lags behind the general economic cycle. Every investor needs to have a rational approach and has to check the economic cycle on a regular basis. This should form the pragmatic structure for decisions as it is almost impossible to interpret the bombardment of daily information in a manageable way. Despite the negative economic and political situations in South Africa and contrary to the majority sentiment which is to steer clear of investing in property. Some experts still reckon that a combination of unique factors is creating once-in-a-lifetime opportunities for potential investors. According to some experts, property will always be a sound long-term investment because property values and rental income are linked to inflation, which means that prices continue to rise over time.

6.8. Conclusion

This is not the first time that South Africa or the world for that matter is experiencing a recession with negative effects on various sectors including property. The economy is clearly of a cyclical nature and has always been that way. It is true that the severity, duration, etc often differs but these cycles follow specific patterns. Although these cycles hardly ever repeated in exactly the
same manner, investors can benefit from these cycles if they time their actions and reactions correctly. In order for investors to be successful they must constantly expand their knowledge base and keep a close eye on their investments.

6.9. Testing hypotheses

The original hypothesis in chapter one reads as follows:

“Economic cycles definitely influence property, and property investors can with the necessary knowledge use it to their advantage.”

The hypothesis was correct in saying that economic cycle’s influences property, and that property investors can benefit from it. However it was found in the research that property in South Africa follows a cycle of its own that lags behind that of the economy and evidence suggest that property in South Africa follows a longer cycle than the economy in general. This suggests that Property should be regarded as a medium to long term investment and property performance should be measured accordingly.
CHAPTER 7

Conclusion

7.1. The main problem

The main problem in question as stated in chapter 1 is: “Is property a good investment in the current economic climate?”

7.2. Previous chapters

- Chapter 2: What is the nature and scope of property investment?

Due to the proven past performance and diverse nature of property, property can be concluded to be a good investment opportunity. As with any investment with a reasonable return, there is a fair amount of risk involved and it is crucial for the potential investor to be familiar with prevailing conditions in the market place. It is advisable should the potential investor not possess of the necessary knowledge to make responsible informed decisions, to seek the advice of experts in the industry.

- Chapter 3: What are the current economic conditions like in South Africa?

South Africa along with the rest of the world is experiencing economic recessions which lead to an overall slowdown in economic activity. Although most are feeling the pinch, relief is expected as soon as 2010.
- Chapter 4: how does the current political climate in South Africa influence the South African property market?

Notwithstanding the fact the a negative political climate can have a noticeable Impact on the property market, it seems, that in the current situation in South Africa, the troubled economy casts a giant shadow over the political situation making it seem less important. It is also observable that politics has a greater direct impact on the residential property sector than the commercial and industrial sectors. The commercial and industrial sectors on the other hand, it appears, are mostly indirectly impacted by politic through its ability to influence the economy. The political turmoil of recent times, given the economic conditions, can be said to only add to an already distressed economic state and may slow down the recovery process.

- Chapter 5: How does the current economic condition in South Africa influences the residential property market?

The residential property market is under considerable strain due to the prevailing economic recession. This is especially prevalent in the available house price and building activity statistics. It can be concluded that the property market in general and residential property prices will follow on the back of the recovery in the economy as a whole.

- Chapter 6: Can economic cycles be beneficial to property investor?

This is not the first time that South Africa or the world for that matter is experiencing a recession with negative effects on various sectors including property. The economy is clearly of a cyclical nature and has always been that way. It is true that the severity, duration, etc often differs but these cycles follow specific patterns. Although these cycles hardly ever repeat in exactly the same manner, investor can benefit from these cycles if they time their actions and reactions correctly. In order for
investors to be successful they must constantly expand their knowledge base and keep a close eye on their investments.

7.3. Final conclusion

When considering the outcome of all the previous chapters or sub-problems, all are aimed towards solving the main problem “Is property a good investment in the current economic climate?” All the chapters deal with different problems regarding the main problem with each chapter adding insight to whether property is or isn’t a good investment in the current economic climate. By referring back to chapter two, it outlines the investment potential of property as a long term investment through ability to turn space over time into money overtime. However, it was also found that property is of a fragile nature and if the space over time is not utilized productively and managed correctly (tenant vacancies) this asset can easily become an obligation and liability.

The findings in Chapter three confirm that South Africa is indeed experiencing an economic recession. This together with the turbulent political climate (chapter four) and deteriorating house prices (chapter five) only adds to the consumer’s plight and places tremendous financial stress on the consumer and adds to the risk that comes with any investment. Because of this consumers (potential investors) either don’t have any money to invest (high debt-to-income ratio) and are unable to borrow money due to strict lending criteria or holds on to what little money they have left and play it safe with savings accounts, etc.

Taking all of these current challenging and restrictive conditions in South Africa into account, it seems that the consumer (potential investor) should steer clear of any risk bearing investment, especially property due to its current poor performance, until these conditions start to recover. However, this is not the first time that South Africa or the world for that matter is experiencing a recession with negative effects on various sectors including property. In Chapter six it was found that the economy is clearly of a cyclical nature and has always been that
way. It is true that the severity, duration, etc often differs but these cycles follow specific patterns. Although these cycles hardly ever repeat in exactly the same manner, investors can benefit from these cycles if they time their actions and reactions correctly.

Therefore the final conclusion and answer to the main problem of this treatise, “Is property a good investment in the current economic climate?” is as follow: Property will always be a sound long-term investment because property values and rental income are linked to inflation, which means that prices continue to rise over time (Pearce 2009). An investment can only be successful if the investor continually expand his knowledge base and keeps a close eye on his investments, especially in turbulent times.
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