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What's happening in the property market in Cape Town?

Alarm bells have been ringing in homes around Cape Town and it's not about day zero – it's about the worrying rumour that property prices in our beautiful city are nosediving. Now, before you make any rash decisions as to whether to buy or sell - hang back, take a quiet sip of coffee, and read on……

Let's set the scene

Cape Town has long been the darling of the South African property market as reflected in the price of homes. The average selling price on the Atlantic Seaboard has more than doubled since 2012 and has risen seven-fold since 2001. International investors have been the driving force behind these dramatic increases as compared to other high-end destinations around the globe, homes here are still well priced.

A recent article by Knight Frank noted that while $1-million (approximately R12.2-million) will buy you an average of 157 square metres of prime space in Cape Town, you'll only be able to buy an average of 28 square metres in London, 25 square metres in New York, 46 square metres in Paris and a paltry 16 square metres in Monaco.*

Contrary to rumours that property prices here have declined by 20% over the last year, a recent report by FNB indicates that the average house price growth rate for a Cape Town property is currently sitting at 10% year-on-year compared to 15.6% in 2016. * * (Note that this relates to averages and not the top end of the market.) Growth rates are still higher in Cape Town than in other parts of the country. The reality is that our property prices have not fallen, the rates of growth have, and that the crux of the matter is that properties need to be valued realistically to sell.

Why the decline?

There are a few reasons why growth has tapered off, the most obvious being the affordability of homes. Capetonians have literally priced their homes out of the market and the average South African salary simply doesn't allow for property ownership close to the mountain or sea.

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The political uncertainty has put a damper on growth in Cape Town, as in other areas of the country. As much as we're rejoicing in Ramaphosa's presidency, the discussion around land expropriation without compensation is creating fear regarding all privately-owned assets. If Cyril does want to secure $100bn in foreign investment he's going to have to tread very carefully in implementing changes to our constitution regarding all privately-owned property.

And then there's the drought which affects the demand from upcountry and international buyers. It's hard to accept bucket baths, plastic lawns and 'swimming pools as reservoirs' and an ever-escalating cost of water as the new norm. Thankfully, we as South Africans are quick adopters and initiatives to increase the supply of water other than from dams are well underway.

What's in it for you?

You may be feeling rather fearful as you have to sell your home despite the sluggish market. Remind yourself that the situation is not as bad as the media portrays and that you need to price your property realistically considering all the actual sales figures in your area over the last year as opposed to the asking prices - and to be patient. And if you're a buyer, you're certainly in a good position to negotiate.

If you've reached retirement and need to downscale to release capital, you may not get the price you hoped for, but then again, you're able to negotiate a good price for your new smaller home.

The property market in South Africa is undoubtedly more uncertain and thus risky and it may be a good time to review your whole wealth portfolio regarding asset allocation and exposure to local property. If you are overexposed to property and need to sell, the good thing is that it's a good time to buy into the local equity market.

And life carries on

Cape Town is a perfect city in which to live and retire. It's a well-run city with excellent educational facilities. And then, of course, there's the spectacular mountain and sea which we shouldn't ever take for granted. The market may have slowed, but it remains highly sought-after and there will always be solid reasons to invest in this beautiful city.

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If you'd like to discuss your wealth portfolio and exposure to local property, do ring me on 021 461 2429 or email skantor@kananwealth.com

References:
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