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Has 10 years of zero growth damaged fundamental belief in property?

By Ronald Ennik

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Traditionally, property has always been a cornerstone of anyone's investment portfolio. But an investment demands a return. Since the financial crisis of 2008, the residential property has performed very poorly, not quite keeping up with inflation for 10 years. At 4.8% growth (against inflation at 5%) the market has, in fact, flat-lined over the longest period in my 35-year career.

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Granted, political sentiment has now improved by a quantum leap and it should improve even further after the election, but the economy has deteriorated into a recession. Property market sentiment followed economic sentiment. Ten years is a long time, even in property. Memories of how vital an asset class it is in any portfolio have faded. The old days of riding the three-year cycles cleverly (with astute gearing) have long gone. Millennials, now economically active in their 30s, have never experienced the benefits of good property investment.

A pent-up tide

Sandton, Johannesburg is sitting on a pent-up tide of would-be home buying – particularly among millennials. And it is simply waiting to roll out. Granted, dinner table talk these days on the residential property market has hardly been invigorating. People are not hearing or discussing profitable property stories. It will take a little while (perhaps a paradigm shift) for faith to be restored. Property is dinner party conversation - that is where sentiment is reinforced. This is why the turnaround is starting slowly. It will gather momentum, particularly after there is clarity on the property expropriation front. This will happen.

The average number of buyers responding to show days and portal advertising has improved since last year. This will slowly translate into transactions. Millennials who are poised to buy a home for the first time are seeking to be convinced that there is a likely return on the investment. Property is a medium- to long-term investment and with that in mind the chances of investment made now being profitable later is extremely good. Property is very undervalued everywhere at the moment. Perhaps only Cape Town and the Western Cape are adjusting down off an unsustainable high.

The national climate of uncertainty that continues to prevail will start to ease and traction will improve in the next six months. Millennials today account for about 50% of home purchases in Sandton, Johannesburg, and they will be a key driving force when the market does, inevitably, strengthen its turnaround. But we need to take into consideration it's not an asset class they've considered for a long while, if ever.

Finally, a point to remember too, is that once it's noticeable that the market is recovering, it has in fact recovered three to six months earlier.

ABOUT RONALD ENNIK

Ronald Ennik is the founder and CEO of Ennik Estates.

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