By Johan Fourie

TECHNOLOGY

The future of the property market

The property sector is under pressure and demand is shifting, but this has resulted in unexpected innovations.

Covid-19 has affected the way we consume and invest in profound ways, but many would argue that it is the property market that has seen the biggest disruption. A new research paper, by Sitian Liu and Yichen Su, shows that the pandemic has led to a substantial shift in housing demand in the US, away from neighbourhoods with high population density. They also find that neighbourhoods with high home values before the pandemic see a greater drop in housing demand. Big cities lost; smaller cities gained.

But it is not just demand that has shifted. On the supply side, Covid also gave rise to new innovations. Neighbourgood is a next generation South African developer and operator of modern homes and workspaces. Founded just after hard lockdown last year, Neighbourgood repurposes hotels, guest houses and office spaces that are no longer relevant, to create co-living and workspaces. I asked founder and CEO Murray Clark to what extent Covid-19 has disrupted the property sector. "The sector is vulnerable. If one looks at the listed companies and accurately assesses the underlying assets, most of it is made up of a combination of commercial offices and oversized retail. In my opinion, 50% to 60% of that space needs to be repurposed for the world we now live in. A traditional office or shop is just no longer relevant to the modern consumer. We seek convenience, flexibility and on-demand choices, and we want them in real-time served to us with a smile on our faces. And why not? That's the way it should be. You're dealing with an industry that comes from generations of wealth that is slow to change, extremely risk averse, and most certainly doesn't understand customer service.

Murray Clark
Founder and CEO of Neighbourgood

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"It's quite evident that property stocks are under pressure because all of the above translates to one word: relevance. If a commodity is no longer relevant it loses its value. The entire industry needs to shift over the coming years to remain relevant. Technology will certainly be a driving factor but more than that, understanding consumer needs and ensuring we can deliver on them in the most contextually appropriate ways."

One company that is beginning to disrupt the way property is conventionally marketed is Flow Living. Co-CEO Gil Sperling explains that Flow Living is a proptech marketing platform for agencies and developers that automatically creates Facebook ads to drive buyer and seller leads and build their brand. I ask Sperling whether he believes there is more scope for innovation.

Gil Sperling
Co-CEO of Flow Living

"We generally spend a third of our income on where we live, so we all understand the value of property. We know that there's tremendous value to be unlocked in the property space, because we saw how it is the least innovated space – and we've seen how big a leap tech has helped other industries make. With property being so valuable, imagine what you could unlock for people. Property is a basic human need, so solving for that need with proptech is a huge opportunity."

Is this also an opportunity to improve society? I asked Sperling and Clark about housing inequality in SA. Can they imagine innovative models that would allow the democratisation of ownership, at least at a faster pace than what is happening currently?

Says Sperling: "Proptech has enabled fractional ownership of property, where people can buy a R100 share in a property, with platforms like EasyProperties. WealthMigrate is helping people buy into property overseas, with rand. That means that without solving the socio-economic problem, you're at least enabling someone to access the asset class in whatever way works for them."

Clark says there are simple ways of redistributing property ownership that requires support from the banks. "As an example, co-living as a model can be used to reduce the unit size (and thus cost), lowering barriers to entry into ownership but the banks require a kitchen in every unit if they are to finance it. We create shared kitchens in our developments where people connect with each other and so we don't need to build a kitchen in every unit. The banks are notoriously conservative and will not finance units for end users of this sort. In short, the entire sector (including the banks, owners, investors) needs to start looking at how we do things to challenge the status quo. Because, whilst the wealthy move money offshore, we have 30m to 40m South Africans who currently don't own property who, if given the chance to do so, would certainly invest."

What prevents more start-ups in the property sector that could help solve societal problems? According to Sperling, the perennial problem is accessing capital. "Tech naturally needs funding, especially in the early stages of business."

Clark agrees: "Capital is conservative and follows a predictable path. Start-ups, by our very nature, are not as predictable, so there's risk and reward. Both equity and debt need a proven track record and so that's always important. But innovation by its very definition, means doing new things and challenging the status quo."

Covid-19 has not only changed housing demand but, much like in other sectors, has necessitated and encouraged innovation and experimentation on the supply side. We must hope that the new systems and technologies born from such experimentation will also result in the democratisation of ownership to a far greater extent than what has been possible in the first 27 years of SA's democracy, building the economic freedom that many so desperately desire. ■

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