Disruptors of the SA Property Market Cycle
A glimpse into the future…

The global economy is continuing to digitise at an unprecedented rate. The property sector is no different. But what does this mean for the industry in South Africa? How will the major players evolve in order to survive in the digital era?

To gain a greater insight into the present changes in the economy, it is useful to look at historical factors that influence cyclical growth in various economies. Every society undergoes the phenomenon of cyclical change. Cycles and growth are parts of the same process.

Looking back at South Africa’s economic growth trajectory over the past four decades there have been a number of booms which have been driven by exogenous (influences which originate outside of a particular sector) factors, most notably influenced by Social, Technological, Environmental, Economic, and Political (STEEP) elements. In South Africa during the 1960’s technological innovations fueled the industrialisation of the nation which increased productivity and economic output. Decentralisation and suburbanisation took place in the 80’s due to increased motor vehicle ownership and changing social preferences for larger living spaces away from city centres. More recently factors have been affected by political influences: the stagnant period around the dismantling of the apartheid regime, and the large growth and re-investment into a democratic South Africa which started shortly after the 1994.

From this growth, we are able to discern two distinct types of cyclical changes: quantitative and qualitative. Quantitative growth refers merely to the size of the economy, GDP, and responses to changing supply and demand. Qualitative growth refers to the shape and character of the economy.

Ultimately, the way we think about and model the economy must change as the economy is transforming before our eyes.

Currently, STEEP influences are changing not just the size of the economy, but its shape and nature. They are also changing the way that the real estate market operates internally. Thus, we are witnessing a fundamental change in the form and nature of the economy; a qualitative change from analog to digital.

Historically Social, Technological and Economic aspects of STEEP primarily cause the largest disruption to the status quo. This is currently the case in South Africa and the rest of the world, though degree of influence and adoption of technologies will likely by affected by the specific STEEP characteristics of a particular context. Despite this, there a certain aspects of STEEP that are present across the entire global economy. A current example of this is data. Data is now becoming the world’s most valuable commodity. It is argued that the next industry leaders will be organisations that can filter and analyse data to guide business decisions.
“Forget location. The new domain of the property sector is: Technology. Technology. Technology”

PropTech: Big Data and Property

Technology has been a disruptive force in most sectors over the past decade. However, the real estate industry has been slow to receive new technologies, until now… Technology is starting to make a genuine impact on the real estate sector. PropTech firms emerged at the start of the millennium in response to the inefficiencies of the property market, most notably through online property listings and search engines. Now the industry is growing to accommodate an ever-expanding variety of services and products from virtual reality, to crowdfunding property development. As a result, these technologies are reimagining the way in which real estate is procured, developed, managed and utilised.

Endogenous and Exogenous Factors

The most significant characteristic of the emergence of PropTech is the relationship between its exogenous and endogenous factors. Traditionally, the focus was on Exogenous (STEEP) factors, and the property market simply responded to these factors. However, what we are seeing now is the effect of technology and how it is changing the internal mechanisms and processes in the real estate sector. Here endogenous (PropTech) factors are causing a fundamental structural change within the property market in terms of how property is transacted, used, analysed and financed.

PropTech Pre-conditions for Success:

i. Diverse, widely distributed demand.
ii. Diverse, widely distributed, and heterogeneous supply.
iii. No dominant/efficient mechanisms bringing supply and demand together.
iv. Potential financial gains to supply side, demand side, and intermediary.
v. Scaleability.

Big Data, Market Efficiency and Transparency

The introduction of Big Data in the real estate industry has brought transparent demand and supply information to the consumer. This has enabled increased liquidity and efficiency, while decreasing transaction costs in the real estate sector.

This will fuel disintermediation as online platforms replace traditional services that lack efficiency and flexibility. Nevertheless, with data comes increased complexity, and the role of professional judgement is still relevant. Despite this, traditional operators will be under increasing pressure to adapt or expire. To meet consumer demand and maintain investment returns, real estate actors will need to understand technological innovations and recognize how to integrate technology into their existing business strategies.

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Millennials

Approximately 40% of South Africa’s population are millennials. A Millennial is someone born between 1980 and 2000. By the year 2025, millennials are set by make-up 75% of the global workforce. This means that the decisions that they make will define the future for everyone. As a generation that grew up mobile phones begins to assume middle and senior management positions, the rate of creation and adoption of tech within industry is likely to increase accordingly.

Another significant aspect of how Millennials are disrupting the real estate sector is the way that they are revolutionizing how space is desired and used. Increasingly pressured by financial austerity, emergent generations see considerably less value in owning assets, and favour less permanent access to costly goods. Furthermore, millennials prefer to sacrifice space to be centrally located in urban areas that require less commuting time, with greater access to a number of public and private goods and services. This is a firm driver behind recent trends for highly compacted mixed-use development of urban nodes in cities.

The Property Sector will need to adapt to the digital era. The question is: will its players evolve with it?