



By **Stuart Murray**
June 2010

It all adds up

House prices continue to advance at a fairly steady pace in spite of numerous “affordability” factors militating against consumers’ pockets. It’s also a question of confidence – and this should receive a boost from the World Cup.

THE SIGNS OF A STEADY TURNUP in the residential property market continue, with statistical increases in house price inflation being regularly reported by the major banks and other industry analysts. One problem facing the consumer is the variation in degrees of price growth reported by the watchdogs. Perhaps an even greater conundrum is whether the trend will continue, at least for the rest of the year.

Absa reports that the average nominal value of houses for which the bank approved mortgage finance was 1,2% higher than April’s number – and a cumulative improvement of 15,2% since May last year. The average real value of homes, after adjusting for inflation, is around 8% higher year-on-year.

First National Bank’s National House Price Index showed a further acceleration in year-on-year growth in May to 11,9% from the previous month’s growth rate of 10,1%. FNB comments: “In real terms, adjusted for consumer inflation, house price inflation is accelerating – 5,1% in April compared to 2,8% in March.

The bank’s home loans strategist John Loos cautions, however: “We remain of the belief that the peak in price inflation is nearing, and won’t be far past mid-year.

“Given our expectation that there will be lack of further interest rate cutting going forward, that economic growth may peak soon, coupled to a mediocre rental market limiting buy-to-let buying, and huge cost increases related to utilities and assessment rates, we retain our view that year-on-year house price growth should peak within the next few months. Thereafter the expectation is for a slowing back into single-digit price inflation towards 2011.”

Standard Bank, which uses a median approach, is also cautious, reporting that properties financed by the bank rose by 2,3% in May, relative to last year – and marginally up on April’s 2% y/y. Standard says that although the number of loans granted rose by 4% over the first four months of the year, household appetite for credit remains limited. “Should inflation surprise on the downside and growth continue its upward trajectory this year, the housing market could register growth between 6%-8% in the second half of the year”. However, it adds the caveat that at this juncture growth between 3%-5% seems more likely.

Standard economist, Danelee van Dyk, commenting on the mortgage situation, says that while there are still signs of financial stress among consumers, they are nowhere near the distress levels seen this time last year. She adds: “If past trends are anything to go by, it could take another two to four years before growth in household credit establishes pre-recession trend growth.”

The housing component of the Consumer Price Index (CPI) has the largest weighting of around 22% and is one of the weak links from an inflation targeting – and thus interest rates – point of view. Main culprits are the “electricity and other fuels” component followed by “water and other services” which includes assessment rates.

These numbers, says FNB’s John Loos, also paint a weak picture for the rental market, which is suffering from over-supplies of stock, legacies from the buy-to-let boom of a few years ago, as well as a significant portion of financially stressed tenants and potential tenants.

Developers have been in the shadows for some time now, but the steadily falling price index for building materials is good news for developers and building contractors who have been struggling to bring competitively-priced new stock onto the market. Nevertheless, according to Absa the percentage difference between the average replacement cost of a house and the average existing house price is around 18%. But apartment developments are beginning to show their face again. PGP is marketing, for example, a new apartment block being built on the beachfront in Muizenberg on the site of the old Peppermint Palace. La Diamante will comprise 39 one and two bedroom apartments ranging in price from R790 upwards. In Amanzimtoti, south of Durban, the local office also has a beachfront apartment development, Prince Place, where one bedroom flats start at a very reasonable R400 000.

Household demand will remain a key factor in all segments of the residential property market. Household consumption expenditure is expected to grow by around 2,4% this year, following last year's 3,1% contraction. But affordability remains a problem.

Historically, house price growth has recovered after six months or so following the easing of interest rates. So a full blown property boom might have been expected, as in past cycles, given the sheer size of the 6,5 percentage drops in the prime rate between 2008 and today. But, as Danelee van Dyk points out, we have a vicious hangover following the cocktail of the impact of the global recession, households' over indebtedness, the consumer debt review process, the National Credit Act and banks' tighter lending criteria.

Now lack of affordability faces new hurdles – not the affordability in terms of buying a house, but of running one. With more inflationary pressures due in electricity, transport, utilities and other public services, households' discretionary income levels will be further squeezed. FNB's John Loos calls it "the new affordability challenge". Nevertheless, falling inflation and relatively strong wage growth could conceivably provide new support to housing demand growth on top of what the interest rate cuts have already achieved, he adds.

As in all things, national averages and statistical analysis do not paint the full picture. There are numerous property "hot spots" around the country. The Western Cape is doing well and is expected to benefit further from the soccer world cup influx of visitors – as will KZN and other coastal hubs – as well as Gauteng to some extent. In Cape Town, Upper Constantia is experiencing considerable activity. In the sought-after "The Avenues" area, Pam Golding Properties has a five bedroom luxury home for sale at R27,5 million. Kommetjie too is experiencing renewed interest.

An example of KZN activity is the Durban suburb of La Lucia, bordering Durban North and Umhlanga and within easy reach of the new King Shaka International Airport. Carol Reynolds, area principal for Pam Golding Properties, says the average house price for freehold properties has risen to R3,015 million.

In conclusion, the market is looking up. The 2010 Fifa World Cup™ will generate huge excitement, putting South Africa firmly on the global tourism map. That must be positive for the property market in the long run.

