



By Stuart Murray
6 May 2008

Residential Property Outlook

House prices are beginning to fall in real terms as interest rates and a growing affordability problem continue to bite. Many analysts are beginning to doubt that inflation targeting is a sound policy for SA's emerging economy. The big fear is that Reserve Bank governor Tito Mboweni will stick to his guns and raise rates again.

Volumes in the residential property market have fallen by as much as 30% since the beginning of the year as house price growth has stagnated. It is now difficult to agree which of a number of adverse conditions has had the greatest negative impact, but rising interest rates is probably at the top of the ladder.

April's 50 points increase by the Reserve Bank was considered by many analysts to be the final straw in breaking the housing market's back. In nominal terms house prices still showed 8,7% year-on-year growth in March, according to Absa's House Price Index. But with inflation at 9,4% this relates to -0,7% in real terms. This is the first time since June 1999 that real year-on-year house price growth was negative.

The retail banks' prime rate is now 15%, and it's likely to go higher. Inflation is running wild, fuelled mainly by food and oil prices and their knock-on effects – and the Reserve Bank governor, Tito Mboweni, is determined to bring it down towards his inflation target range of 3%-6%.

Now, economists are suggesting that the Bank will raise interest rates again in June and in August. In effect, the Bank has no other weapons in its monetary arsenal. Unfortunately, higher rates tend to lure short-term foreign capital as the rand strengthens, which in turn adds to the inflationary spiral.

There are other factors affecting the housing market. The National Credit Act, introduced last year, has restricted the ability of commercial banks to freely grant mortgage bonds, making it more difficult for buyers to make a purchase. The huge increase in monthly bond repayments has increased the number of defaulters,

creating excessive stock being put on the market. Macquarie First South economist Gina Schoeman has estimated that the disposable income of a typical middle income household has fallen 39,3% between 2005 and 2006. And now, in 2008?

In addition, there are external factors pulling down the market. The uncertain political situation here is one. The turmoil in Zimbabwe has created growing unease among, in particular, the affluent sector. Estate agents report that around 13% of houses currently for sale are due to emigration decisions.

According to Absa, house price growth is expected to slow down even further this year. Nominal price growth of around 7% (-2% in real terms) is projected for the full year. However, this could worsen considerably if the Reserve Bank delivers a double whammy in June and August.

Pam Golding Properties' Gauteng director Ronald Ennik believes price pressures will be downward for the next two or three years. Standard Bank reports that certain areas are experiencing house price deflation "albeit from a high base". Houses are increasingly being sold at below the initial asking price and are staying on the market for longer and there is increasing anecdotal evidence of a rise in distress selling, says the bank.

Even what has been the superior performance of lower-priced homes looks like coming to an end. FNB's property strategist John Loos argues that lower income families face high food price inflation as well as the hardship effects of interest rate hikes. "Food price inflation affects lower income households worse because it consumes a higher proportion of their total income."

General feeling in the residential property market is holiday properties are in for a difficult period, while developments are already slowing and new ventures are being put on ice. The situation with Eskom – not just supply restraints but whether it will be allowed to increase tariffs by the 60% it has asked for – is further adversely affecting the market.

However, all is not gloom. Standard's May residential property gauge says the bank is confident that the residential market will experience a relatively mild cyclical downturn rather than a full-blown recession, as is the case in the US housing market, brought about by the sub-prime crisis. In fact, the bank sees the lowest ebb in the South African housing market as being in May, June and possibly July.

The bank does not foresee a US-type housing recession here in South Africa and points out that SA banks have been much more conservative in their lending criteria than those in the US and elsewhere. Also, it points out, "the South African housing market is not faced with the same situation of a severe excess supply, as in the US, which will require substantial reduction in house prices for the market to clear."

For homeowners and investors alike, the thing to remember is that the property industry is cyclical. As PGP chief executive Dr Andrew Golding says: "While the market is clearly in for a challenging period, there is no doubt that in the even in the medium term – and certainly in the long term – property as an asset class will continue to provide sound investment returns." ■

R21 BILLION IN ANNUAL SALES FOR THE PAM GOLDING PROPERTY GROUP

During the financial year ended February 2008 the Pam Golding Property (PGP) group achieved record sales turnover of R21 billion, which includes transactions concluded by all operations, including the residential arm, Pam Golding Properties, and Pam Golding Commercial. This represents total growth in turnover for the group of 13.5 percent over the previous year, considerably ahead of the market.

Dr Andrew Golding, chief executive of the Pam Golding Property group, says this exceptional performance was achieved despite the dampening effect of the National Credit Act which was implemented on 1 June 2007 coupled with rising interest rates, as well as the energy crisis and political uncertainty during the final quarter of the financial year.

"All regions and operations performed well and the group successfully concluded transactions for 26 000 clients. While this represents a nine percent decrease in units over the previous period, it does however indicate sound growth in market share as the rest of the industry reported decreases ranging from 20-30 percent. During this period the group expanded its office network to 310 offices with 25 new offices launched in Southern Africa," says Dr Golding.

The group's residential sales comprised R18 billion, reflecting growth of nine percent over the previous financial year. The company's average house price was R1.4 million, up from R1.1 million last year. While a large number of residential sales were in the R1-R2 million price bracket, the bulk of homes sold were priced between R1- and R6 million. An increasing number of transactions took place in the R20 million plus price range, with sales of properties of R35-R40 million not uncommon.

While sales to overseas buyers represented only three percent of total residential units sold by PGP, these were to purchasers from some 26 countries around the globe, with the bulk of sales to British buyers, followed by those from America, Germany, Holland, Belgium and France. Comments Dr Golding: "This still represents an extremely low level of sales to foreign buyers and it is noteworthy that an increasing number of these are seeking to relocate permanently to South Africa. It is interesting to see the increasing demand among American buyers, and following our successful international property exhibitions held in Russia, China and India last year (2007) we are also experiencing growing interest from those countries."

