

Just ticking over



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AS WE MOVE TOWARDS the end of the year, we have seen some mild improvements in the residential property market. However, market balance – the difference between supply and demand – remains relatively weak. The average time homes for sale remain on the market has risen slightly to around 17 weeks.

That's quite an alarming figure, but it is a reflection of a stubborn sellers' market wherein asking prices are often pitched at unrealistically high levels. It is estimated that in the region of 90% of sellers are required to drop their asking price to make a sale. As such, it has become imperative that sellers heed estate agents' advice; otherwise both are wasting valuable time and money.

Affordability remains the key – both the cost of buying and the cost of running a home – yet bondholders' ability to repay their mortgages has improved. Mortgage credit is still tight, although there has been a mild resurgence in the granting of 100% bonds. First-time buyers too are starting to be more in favour with the lending banks. However, self-employed borrowers are still finding it difficult to comply with banks' lending criteria.

Absa Bank's current housing review reports that the value of new mortgage loans granted by the banks in respect of residential property was down by a massive 34% y/y in the second quarter of this year. Households' mortgage debt was around 59% of their total debt during that period. Running costs are daunting - as are mortgage interest rates, especially for young buyers, in spite of being at the lowest level for three decades, and more and more erstwhile buyers are seeking to rent as a compulsory alternative.

The residential market experienced a brief uptick earlier in the year, but this has faded and growth has declined towards year-end. September's price growth rate of 5,1% - almost keeping pace with consumer inflation – slowed to 4,5% in October.

First National Bank reports that since the house price boom peak in February 2008, house prices in real terms (after inflation) have declined cumulatively by -15,7%. In nominal terms (excluding inflation) house

prices have risen cumulatively by +6,2% since February 2008. But the long term value of residential property as an asset remains positive. Since July 2000 when FNB's House Price Index began, prices are still up 64,3% in real terms and 211,1% in nominal terms.

Absa says that trends in nominal house prices varied on an annual as well as quarterly basis in the different segments of the market and geographical areas in the third quarter of this year. Even affordable housing, for which there is increased demand, showed very little increase in values. Surprisingly, the average nominal prices of houses in the luxury category, ie. those valued at above R3,5million up to R12,8 million (in Absa's book) rose in the third quarter.

FNB says its Valuers' Market Strength Index continues to provide a plausible explanation for the ongoing weakness in nominal house price growth and real house price decline as it continues to point to weakness in demand relative to supply. This, suggests FNB, "downward price adjustments" are expected in the absence of any major stimulus – ie, interest rate cuts – or an improvement in economic growth. John Loos summarises: "We are of the opinion that the combination of weak market balance, signs that the economy will carry on at mediocre growth rates at best in the near term, and significant consumer price inflation pressure on incomes, will keep house price growth under pressure and that further house price decline will be forthcoming.."

Tight bank credit remains a major stumbling block to a recovery in the residential housing market. Absa reports that in the first three quarters of 2011 the growth in mortgage balances in the household sector was below 2% year-on-year.

John Lottering, editor of the Rode Report, comments: "For the moment, prospects for the struggling housing market remain dreary; this as weaknesses in the residential mortgage market are likely to persist." He explains: "After peaking in the first half of 2010, growth in the value of new mortgages granted for residential property has been heading strikingly south. In fact, the deceleration in growth has been so sharp that in June this year the value of new loans granted was actually lower than a year earlier. Naturally, contractions in mortgage loans granted act as a restraining factor.

“Given the weakness in the mortgage market, continued weak growth in house prices remains the likely outcome.”

However, besides indications that economic growth may also keep household disposable income at mediocre rates, consumer price inflation continues to increase, eating into disposable incomes. But the overall inflation rate can be misleading as it is curbed by the slower rates of price inflation in key consumer items such as motor vehicles – which a household doesn’t purchase on a regular basis.

John Loos points out: “Certain key components relating to monthly household running costs are exerting significant pressure on households. Food price inflation has reached 8,7% year-on-year, “water and other services”, including municipal assessment rates and non-electricity utility tariffs, recorded a 9,2% increase, electricity 17,3% and the cost of running private transport a massive 21,7%.”

The transport issue is serious and is impacting on the housing market. According to a survey by mortgage originator ooba almost threequarters of South Africans consider the price of fuel before making a property purchase. Almost 70% of respondents to the survey consider rising fuel prices when choosing a home. Factors include distance to work, schools and shopping centres.

Overall, the various indices of residential property price growth vary between 4,5% and 5% y/y which points to the market treading water for the present.