

WE ARE coming to the end of a volatile and challenging year, one which started off with considerable promise but somehow failed to fulfil its potential. Perhaps we were all hoping for too much, too soon. Despite this, the residential market is recovering, if but slightly, and our sense is that the market will continue to make progress. It looks like being a relatively slow process, but all the key indicators are there.

The residential market still has an over-supply of stock. Bank repossessions have slowed, but in spite of efforts by the financial sector to try to keep distressed debtors afloat, forced sales continue.

It is a great pity that the Reserve Bank decided not to cut interest rates at its November meeting. Economic growth is down to 3%, less than half the target required to put the country back on track. Many economists have been urging this step to help stimulate the economy, but it appears that the SARB is nervous of global events and their potential effect on inflation, which is now hovering around the bank's upper target range. A rate cut would have boosted consumer confidence, which in turn would impact on the housing market.

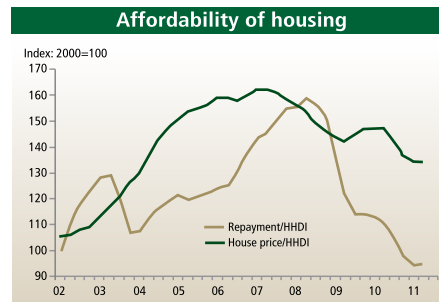
Nevertheless, house sales across the board are increasing, helped in part by many sellers taking a more realistic stance in terms of asking price. Genuine buyers too are beginning to realise that while we are still not experiencing real house price inflation, the downward slide has bottomed and waiting on the sidelines could mean missing opportunities. The market faces a long upward haul, but I am convinced that we'll get there. To put it into perspective, house prices have declined by a relatively modest 15% since the price boom peak in February 2008. And residential property

remains a top class investment. Over the past 10 years, South African property has outperformed other asset classes, with an average annual return of 22,7%, followed by local equities (17,3%) and local bonds (10,3%).

The residential market still has an over-supply of stock. Bank repossessions have slowed, but in spite of efforts by the financial sector to try to keep distressed debtors afloat, forced sales continue. Historically, in pre-boom times, the common reasons for selling one's home are the four Ds; Death, Divorce, Debt and Departure and these are certainly the relevant ones today

It is important to realise that the property slump is not an isolated phenomenon; it is simply indicative of the general poor state of the country's economy. The government has now lowered its forecast of GDP growth to 3%. We need at least 7% growth to meet our socio-economic targets.

Households remain under financial pressure, but this particular cloud appears to be abating to some extent. Outstanding household credit for September showed a significant decline, as did the SA Reserve Bank's data on the household debt-to-disposable-income ratio. Both are positive developments; consumers are paying off their debts.



However, on the other side of that particular coin, the banks' tight lending criteria is still impacting negatively on the residential property market. There has been some loosening, but mortgage bonds remain difficult to obtain, particularly by some demographic groups, such as the self-employed.

A welcome development on the mortgage bond front is the progress being made by black applicants who, according to mortgage originator ooba now represent 45% of total home loan

applications. Furthermore, black first-time buyers make up 55% of approved first-time loans. This illustrates the growth in the emerging black middle class and is a very positive development for the residential property industry.

A discernible gap in the market has been that of investment buying, but we are now seeing early signs that astute investors are stirring, taking the view that it is time to move in. Investors, however, require an acceptable correlation between their financing costs and rental yields. Further rate cuts could make all the difference – as they would to the property market generally.

A particular market segment, and one in which PGP holds a commanding place, is the high end, where sales are predominantly cash. We have seen a significant resurgence in activity by high net worth individuals seeking homes ranging in price from R15 million to R65 million – particularly in Cape Town's own Cote D'azur.

Summer traditionally heralds an increase in foreign visitors fleeing the rigours of a Northern Hemisphere winter. Of the holidaymakers and tourists a number are genuinely interested in buying property, usually as second homes, occasionally as primary residences. This market, alas, has gone off the boil and sales to foreigners by PGP are currently 20% of the volume of three to four years ago. The global financial crises have impacted negatively on this important segment of the market, but there are other contributing factors, not the least being the rand's strength this year against the currencies common to the majority of our foreign customers.

To sum up, the real estate business faces many challenges. There are encouraging signs of a recovery, but a real turnaround will take longer than originally anticipated. Hopefully, this is not too far off. Let us all look forward to an active and rewarding 2012. ■■■



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