

Treading Water

GENERAL OPINION among analysts is that the residential property market has hit a low peak. House price growth up until the end of the third quarter averaged around 5%, just a shade under consumer price inflation. So the market is more or less standing still. At least, it's stopped falling. After a growth rate of 5,1% in September, First National Bank's House Price Index slipped to 4,5% in October. Absa Bank's index followed much the same pattern. However, summer's approach has brought increased activity to the market and house price growth could possibly end the year around the 6% level, just edging ahead of inflation.

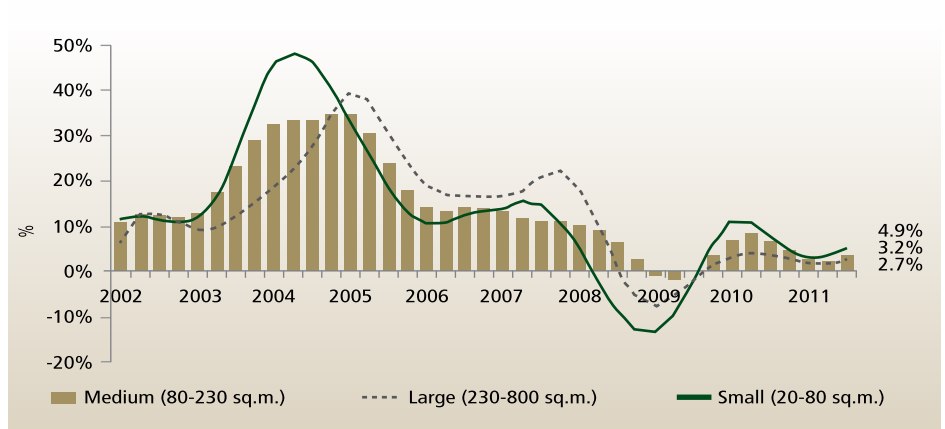
The brief uptick at the beginning of the year, brought about in the main through improved availability of mortgage credit following two late 2010 interest rate cuts, faltered mid-year. This shows the positive impact that rate cuts, no matter how small, have on the market. Expectations of a further cut in November were dashed (see page 05), disappointing the real estate sector.

According to FNB, since the peak of the boom in February 2008 house prices in real terms (after inflation) have declined cumulatively by -15,7%. In nominal terms they have risen by +6,2%.

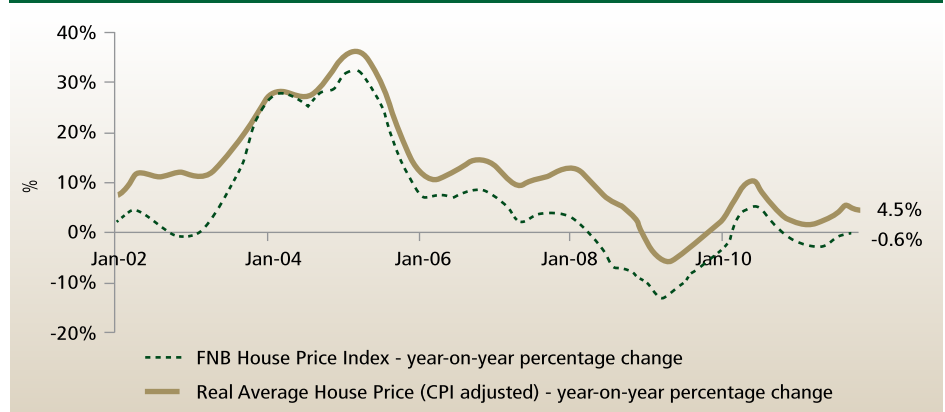
The major negative influences on the residential market remain lack of mortgage finance and affordability, but FNB says its Valuers' Market Strength Index provides a plausible explanation for the ongoing weakness in nominal house price growth and real house price decline because it continues to point to weakness in demand relative to supply. In other words, there is too much stock on the market. Estate agents surveyed in the third quarter indicated a rise in the average time of homes on the market from 15 weeks and one day to 17 weeks and 1 day. Moreover, they estimated that around 90% of sellers were setting their sights too high.

Nevertheless, the continued lack of available credit continues to strangle the market. After peaking in the first half of last year, the yearly growth in the value of new mortgages granted in the residential market has been on the slippery slopes. In June 2011 the value of new loans granted was actually lower than a year earlier. This situation places serious restraint on the housing market.

House Price Growth by Size Category (FNB Data)



FNB House Price Index - Real and Nominal Growth



The banks, however, are to some extent handcuffed by the rigours of the National Credit Act, under which they can be held responsible for reckless lending, and by the poor state of household finances. Says Absa's senior property analyst Jacques du Toit: "The slowing pace of mortgage advances is related to such factors as relatively high levels of existing debt and impaired credit records impacting consumers' ability to take up credit as well as rising consumer price inflation eroding spending power.

"Against this background, the value of new mortgage loans granted by banks in respect of residential property was down by a massive 34% year-on-year in the second quarter of 2011."

Households' mortgage debt was almost 60% of their total debt in the second quarter of this year. The supply/demand issue and the outlook for the property market in general was discussed by economists at the recent FNB Fixed Investment Round Table. FNB's chief economist Cees Bruggemans suggested that any new take-off in

house building activity will probably only commence in the second half of the decade once oversupply has been digested, debt burdens adjusted relative to income and the gradual increase in urban population in formal employment makes itself felt anew. "Once that's behind us there awaits a doubling up in activity levels."

Property economist Erwin Rode commented: "If there is interest rate cutting shortly it would provide some relief, accelerating property prices somewhat on a nine month view. This could ease the affordability issue and provide a slight boost to residential building activity. But in the main I stay with my broad framework of short-term housing oversupply, falling real prices and little investment demand for a number of years."

The current hiatus in the market has given rise to a number of changing trends. "Smaller is better" is one and smaller size properties are ahead in terms of price growth. This scaling down is also noticeable in the renovations market where homeowners are putting plans on ice. ■■■