

Timeous reduction in the repo rate



19 March 2020

Property stands the test of time

Against the backdrop of the unprecedented times we find ourselves in, today's (19 March 2020) decision by the Monetary Policy Committee to reduce the repo rate by 100bps is a critical step towards financial survival, as consumers and our economy navigate uncharted territory and unexpected new challenges as a result of the onset of the Coronavirus, says Dr Andrew Golding, chief executive of the Pam Golding Property group.

"The ensuing reduction in the interest rate, coupled with next month's (April) likely substantial drop in the fuel price as a result of the dramatic reduction in global oil prices - despite the additional 25c a litre tariff increase as announced in the recent National Budget, affords some relief to South African consumers and hopefully part of the boost our economy needs right now.

"Given the extreme volatility currently being experienced in global stock markets, it is probable that, as has been seen over decades in times of great turmoil, we will see increased confidence in bricks and mortar among investors and home buyers.

"As property has over the longer term proven a sound investment, it stands to reason that many will regard the residential property market as a safe haven amid the heightened economic uncertainty caused by a global pandemic."

Looking at the recent past, according to the Pam Golding Residential Property Index, while national house price inflation continues to slow – to 1.95% in February 2020, house price inflation in Gauteng appears to be stabilising at 1.91% while both the Western Cape and KwaZulu-Natal housing markets continue to rebound at 5.36% and 3.12% respectively.

Positively, says Dr Golding, and on the back of the adjustment in the transfer duty threshold for zero payable on homes up to R1 million, the percentage of home loans extended via ooba to first-time buyers rose to 52% in February (2020), the fourth consecutive month this has exceeded 50%.

"Furthermore, 60% of all applications received by ooba are from buyers with no deposit, with four out of five buyers successful in their bid to secure a 100% bond. On average, mortgages facilitated by ooba accounted for 89.6% of loan value in February, the highest percentage on record (since 2007). In addition, loans extended for holiday homes recovered further last month (0.3%), while mortgages for investment properties rebounded to 7% of all mortgages facilitated by ooba from a weak January 2020.

"But all of this may be academic as we head into the uncharted territory of a Coronavirus affected world and where we will have to see its effects on the property market both in short and medium term as it unfolds".

Adds Dr Golding: The Reserve Bank will undoubtedly continue to closely monitor developments in the local economy, and will presumably stand ready to cut interest rates further should the need arise.

"Naturally, at this difficult time we are prioritising the safeguarding of the health and safety of our employees, agents and clients, taking every measure to mitigate personal risk while ensuring the continuity of our business operations and continuing to provide real estate services to buyers and sellers wishing to transact."

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