Interest rate hike - consumer confidence is key

The interest rate increase announced by the Reserve Bank yesterday was not unexpected and should have very little impact on the residential property market.

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Herschel Jawitz CEO of Jawitz Properties says that it was inevitable that rates were going to increase at some point in 2014. Most buyers would have accounted for this in their buying decision. "The banks would certainly have factored this into their lending decisions especially in terms of the National Credit Act. From an affordability point of view, property prices are still fairly valued and interest rates, even with the increase, are at low levels so the buying proposition remains strong," he says.

Repayments will increase

Based on a R500,000 bond at prime of 9% versus the previous 8%, the repayments will increase by R150 per month and on a million rand bond, the repayments over 20 years will increase by R320 per month.

Jawitz says that the one factor that is hard to measure is the impact on consumer confidence. There is pressure on disposable income, lots of noise around tolls, the cost of electricity plus the looming elections this year, so it remains to be seen whether the increase in buyer activity, that we have seen over the previous six months, will continue or whether buyers will stop and pause to take stock of where they are.

"What is positive though, is the thought behind the decision to increase the rate which is consistent in terms of what the Reserve Bank has been saying. What more can be said about the independence of the bank than raising rates in an election year?" he says.