Continued low interest rates beneficial to SA housing sector

The South African Reserve Banks' decision to hold the repo rate at 5%, although almost universally anticipated, will help bolster the residential property market for the foreseeable future, says Bill Rawson, chairman of the Rawson Property Group.

"Low interest rates," he said, "have probably been the main reason why the housing sector, although still feeling the impact of the 2008 to 2009 downturn, has been able to perform relatively satisfactory - and the likelihood of the rates remaining low should ensure that the market remains acceptable for some time."

Asked to define "some time," Rawson said that housing analysts are now predicting a low interest rate for up to two years.

"Gill Marcus," said Rawson, "has indicated that a CPI of 6, 1% or 6, 2 % at the moment is acceptable and there will be no need to decrease rates in order to stimulate the economy."

Marcus' view, added Rawson, could be affected by high oil prices and the weak rand but, in his opinion, is "perfectly logical" right now.

The really worrying factor influencing the current housing outlook, said Rawson, is that household debt has continued to rise and far too many people are willing to pay a fairly high percentage of their incomes, in interest rate charges, on personal loans and consumption items.

"It has been said that South Africa's man-in-the-street debt levels, still being below 70% of GDP, are satisfactory, especially when compared to those of such countries as Australia, the USA and the UK. However it is dangerous to compare an emerging country's debt level with those of fully developed economies.

"Our high debt levels coupled with the very large number of tarnished credit records make it impossible for a fairly high percentage of the population to get bonds - and it is this, more than anything else, that is holding back a full scale housing recovery, despite strong demand for homes."

Campaign promoting the virtues of home ownership

Asked what he recommends in this situation, Rawson said that an all-out campaign promoting the virtues of home ownership (such was done in the 1960s and 1970s in Germany) would be a big step forward.

The banks might, in addition, he said, consider more flexible housing loan packages, for example, undervaluing the home initially and making up the shortfall with a short-term loan (at a high interest rate) for two to five years.

"As I have said, I am not a strong supporter of personal loans, but if they are linked to a housing package, they could be beneficial - and the banks would have increased security."

Commenting on the rise in the number of the Rawson Property Group's buy-to-let investors, Rawson said this could well be a reaction against the JSE's record high levels, which, in his view, have been achieved not only on good company returns, but also on overvaluing doubtful stock.

In this scenario a swing back to the less volatile property market is traditional and always makes good sense, says Rawson.