BIZCOMMUNITY

Drop in interest rate welcome relief but more measures are needed

By Carl Coetzee

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The recent surprise announcement by the governor of the Reserve Bank, Lesetja Kganyago, of a further drop in the repo rate by 100 basis points to 4.25% per annum is welcome news for the property sector, as it takes the prime lending rate down to 7.75%.

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This 1% drop in the interest rate allows for significant savings, particularly in the long term, as demonstrated by the table below (calculations based on a 20-year loan period):

Bond Amount	Prime rate down by 1% from 8,75% to 7,75%	
	Interest Savings Over 20 years	Monthly Savings
R 250 000,00	R37 657	R157
R 500 000,00	R75 315	R314
R 750 000,00	R112 972	R471
R 1 000 000,00	R150 629	R628
R 1 250 000,00	R188 286	R784
R 1 500 000,00	R225 944	R942
R 2 000 000,00	R301 258	R1 255
R 3 000 000,00	R451 887	R1 883

Any measures that seek to stimulate the market and ease the financial burden on the consumer's pocket is a step in the right direction to buoy the property market. But while the drop in the repo rate is a good start, additional strategies will need to be put in place to secure the long-term survival of the industry.

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Suspend transfer duties

One such measure could be to suspend the transfer duty on property valued up to a certain amount.

Raising the threshold on transfer duty, which currently stands at R1m, to R3m for a limited period of time, such as six months (with the option of reviewing after six months), could mitigate the risk of the industry contracting significantly as we start what is sure to be a slow economic recovery.

The savings to the buyer could mean the difference between both the confidence and the financial means to buy property, while government's loss of income is set to be relatively low over the proposed six-month period. Government revenue is likely to be matched by the benefits gained on collecting tax on the earnings of all players within the property industry, and even the capital gains payable on properties sold, if such a stimulus measure were to be implemented.

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Reopen Deeds Office

A second measure that could go a long way in keeping the property sector ticking over is to reopen Deeds Offices around the country for the remainder of the lockdown, albeit at reduced capacity.

With the Deeds Offices closed, thousands of transactions are placed on hold, which effectively means a loss of income for thousands more who are directly and indirectly involved in related sectors and services. Furthermore, the backlog that will have to be cleared when it does reopen will add additional strain.

In a typical month in South Africa, between 10,000 and 12,000 bonds are registered in the Deeds Office and, as a sector, property contributes significantly to the GDP, supported by the fact that the Deeds Office processed R12bn in registrations in April 2019.

We call on government to give urgent consideration to these two proposals. While the lowering of interest rates is likely to provide some much-needed stimulus to the economy and the property sector in particular, more is required. The added benefit is that revenue collection for the fiscus will no doubt be positively impacted through the knock-on effects of such measures.

ABOUT THE AUTHOR

Carl Coetzee, CEO, BetterBond