Buckle up, it's a bumpy ride ahead for property

By Samuel Seeff

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The decision of the Reserve Bank's Monetary Policy Committee (MPC) to hike the repo rate by 50 basis points, taking it to 6.75% (up from 6.25%), and the base home loan rate beyond the 10% barrier to 10.25% (up from 9.75%), comes as no surprise.

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By now, consumers should also be aware that this is the first of more hikes to follow. Interest rates could rise by as much as a full 1-3% this year, especially in the event of a credit downgrade to junk status.

Strong message for ratings agencies and investors

Although not good news for consumers, it does send a strong message to the international ratings agencies and investors that the Reserve Bank is serious about kerbing inflation and protecting the value of the rand.

The market has had some time to prepare for the rate hike and consumers should know that they are in for a bumpy ride this year and will have to do some serious belt tightening.

Basic living and property costs will climb considerably, as will mortgage loan costs. Affordability is going to be the key theme for the property market this year.

Buyers will drive a hard bargain

Buyers will be looking very closely at prices and will be driving a hard bargain as they know that the market is getting tougher. The average price growth will deteriorate further and we may even see negative equity growth when we adjust for inflation.

Although the market will absorb the rate hike, there will no doubt be a knock-on effect. The affordable and middle-income sector will feel the effect most.

Although we do not expect the banks to tighten their lending criteria any further, it will become tougher for first-time buyers. Bigger deposits may well become necessary which is also not a bad thing for the market as it creates a financial buffer to an extent, he adds.

For now though, we are still sitting with a fairly healthy housing market, packed with plenty of demand. Buyers are still eager and show house attendance still at much higher levels than what it was five years ago.

This provides some insulation against some of the economic headwinds. The market is stronger than what it was in the immediate aftermath of the 2008 global credit crisis. Stock levels remain tight and we do not have to contend with the volume of distress that inhibited sales and price growth post 2007/8.

Good property market requires good economy

Having said this, for a good property market, you need a good economy. Both are heavily sentiment and confidence driven. So, while property will remain an attractive investment this year, the economic decline and deteriorating confidence is a serious concern.

Consider for example that while the decline in the value of the rand is seen as a boon for foreign buyers, it is also a cause for concern as to the value of their investment. In October last year, you would have bought at R17 to the British pound. By December, the rand - and your investment value - had declined by 18% to around R20 to the pound.

ABOUT SAMUEL SEEFF

Samuel Seeff is chairman of the Seeff Group.

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