

Has the Property Market bottomed?

The South African property market has experienced a steady decline in property price growth since the last quarter of 2007.

This growth decline eventually became negative growth and the extent of this property price decline varies from 5% to 20%, depending which sources you refer to and the geographical area under discussion.

A burning question in the minds of both buyers and sellers at present is: What will happen to property prices going forward, or more critically, when will property prices move into positive growth again? Tony Ketcher, managing director of Seeff Properties Randburg, believes that property prices have bottomed, and explains why.

"There are a number of simple facts which lead me to believe the property prices may have bottomed. It is, however, too early to expect that we will see any kind of growth in prices for the next 18 – 24 months.

"Property prices are determined by demand and supply, and there is clear evidence of a mild improvement in demand. Our branch in Randburg is fairly representative of a broader market, and our branch volume activity has increased by 16% year-on-year to the end of July 2009. However, this increased activity will probably do no more than ensure that prices do not decline further. There remains an oversupply of properties on the market in many areas, for a number of reasons.

"There are significant numbers of sellers who have been forced due to the current economic situation to sell second properties and in some cases even to sell their primary homes to reduce monthly expenses. Many potential sellers have been holding out since early 2008 for an improvement in market conditions, and are now putting their homes on the market in the hope of attracting interested buyers at a better price than was achievable in 2008. The developers who managed to survive the property squeeze through 2008 are now reintroducing stock to the market.

"We do not, however, see buyer activity reaching such a level as to reduce the supply of properties to a point where demand exceeds supply – certainly not over the next 18 months.

"This is because the affordability of buyers has been seriously challenged over the past year because of retrenchments, job cuts in corporate South Africa and the general economic woes. Disposable family income growth has dropped faster than household credit growth."

"The decision by banks to request a deposit from people applying for mortgage finance means that first-time home buyers will hold off on buying a home until they have saved for the deposit (which in many cases is as much as 10% of the purchase price). Over and above the deposit, a buyer will also need to fund transfer duty and conveyancing fees. The National Credit Act (NCA) remains a factor, since there is far closer scrutiny of buyer income in order to establish affordability. A certain number of buyers will need to wait for improved income levels to be able to afford the mortgage finance they require. It is also our experience that self-employed individuals are finding it increasingly difficult to obtain bond finance, given the bank requirement to prove income and affordability.

"The combination of all the above factors results in a situation where supply should continue to exceed demand for the next 12 – 18 months. Should this be the case, it is only in exceptional cases that one will experience property price growth.

"We are not saying that there will be no demand activity – and in fact we will experience increasing levels of activity as the pressures in the economy ease and affordability levels improve. There are also many speculators in the market presently who have cash and are looking for 'value for money' purchases.

"Banks remain cautious, but there has already been a mild relaxation of credit policy, and we anticipate that more people will start buying once the banks make more finance available. However, this process will evolve over time rather than overnight.

"So have prices bottomed? Consider also, the following. A very recent FNB House Price Index advises that property price deflation has reduced, albeit marginally. The increase in demand experienced in June and July was not seasonal – in fact, these are normally quieter months for the property market, leading us to believe that demand will continue to increase steadily. There is little indication that the market will experience any further significant increase in the supply of homes for sale.

The declining interest rate scenario has helped many sellers who were experiencing difficulty with mortgage repayments, and those who do not need to sell urgently will hold out for their asking price."

Jacques du Toit, senior property analyst, says it depends on what variable you are looking at in the property market when determining when it has bottomed.

"We see the cycle of year-on-year (y/y) price deflation to continue until early next year, but slowing down over the next few months. Month-on-month price deflation has already slowed down and may change to price inflation in the near-term.

"Market activity may start to recover before the end of the year, but taking into account demand-and-supply conditions, price inflation will only be experienced somewhat later.

"Then there are also factors such as number of mortgage applications, the difference between asking and selling prices, the average number of days properties are listed before being sold, buyer interest in show houses, etc, which may all be indicators of when the market is turning, while these indicators may all give different signs in terms of timing," he says.

John Loos, property strategist at FNB, says demand for residential property as well as residential mortgage loans has bottomed and is showing mild strengthening. "However, there still exists an oversupply of property that has to be mopped up. Therefore, demand and supply have not yet returned to balance, and as a result I don't think that average prices have bottomed out.

"Some more deflation is thus expected in the second half of 2009, with price stabilization only expected next year. Then there's the development market. I think that this still has some way to go in terms of decline in building activity, bottoming out some time next year at the earliest.

"Any recovery, though, I believe will be a very mild one at best, given my belief that the global economy has a long and slow road back out of its 'hole' that it is currently in," he concludes.