

Property Demand to Feel The Heat

Higher interest rates and over-indebtedness of individuals will suppress demand for residential property in months to come.

This reduction will continue to feed through the building sector, making developers more cautious about submitting further building plans over the coming few quarters.

There continues to be a significant downward trend in building plans passed, with overall real growth declining to -6,7% year-on-year (y/y) in September from August's figure of -2,7% y/y. This was the fourth consecutive month of negative y/y growth.

In the residential sector the real growth in building plans passed decreased further in September to reach -13,8% y/y from August's figure of -10% y/y.

In the non-residential sector, however, the real growth in building plans rose significantly to 25,2% y/y in September from August's figure of -4,1% y/y, returning to levels seen at the beginning of the year.

The slowdown in growth of residential building plans passed firmly suggests that the high interest rate environment is having a substantial impact on the residential sector.

The National Credit Act (NCA) introduced in early June is also contributing significantly to the slowdown.

On a year to date basis (January to September), using constant prices, overall building plans passed increased just 0,4% compared to the corresponding period last year. However, for the third quarter, plans passed actually fell - 6,5%, from the second quarter of 2007.

The overall real growth in total buildings completed fell in September to -3,9% y/y from -0,8% y/y in August.

This was the lowest level since March this year at -2,2% y/y. The real growth in residential buildings completed fell sharply to -19,7% in September, from -3,6% in August.

On the other hand, non-residential completions increased sharply in September by 107,9% from -12,3% in August.

Although non-residential activity appeared strong in September, the overall figures look skewed, possibly due to few very large once-off developments.

Quarter-on-quarter (q/q) growth in non-residential plans passed barely changed and the year-to-date plans passed only increased by 1,4%.

As a result, the outlook for non-residential activity in the next three to nine months looks rather disappointing.

Building plans passed: September 2007
(y/y real % change):

Residential buildings: -13,8%

Non-residential buildings: 25,2%

Additions and alterations: -11,4%

Total: -6,7%

Building completions reported: September 2007 (y/y real % change):

Residential buildings: -19,7%

Non-residential buildings: 107,9%

Additions and alterations: -15%

Total: -3,9%