

Residential Property “Impressive by World Standards”

South Africa property among world’s best performing – Global House Price Index.

South African estate agents may be feeling the pain of tougher market conditions, but from an international perspective returns from the residential asset class look “impressive” on the surface. That’s the message contained in a report produced by Knight Frank to accompany its Knight Frank Global House Price Index for 2007.

The index, which is an average snapshot of international residential property performance, fell in the final quarter on a year-on-year basis, but for the year price inflation was just over 8%.

Five best performers in the world were Bulgaria (34%), Russia (30%), Singapore (31%), Poland (22%) and Hong Kong (22%). South Africa was ranked number nine out of 30 countries, dropping from position number six in 2006. The return of just over 12% – about the same for Australia in 2007 – looks good compared to returns in many other countries.

Prices in five countries measured in the index dropped. They were the United States (-0,3%), Germany (-4,3%), Latvia (-7,1%), Ireland (-7,3%), and Estonia (-14,5%).

The United Kingdom and France, popular with South African offshore investors, produced returns of just over 5% and 2,5% respectively.

South Africa is the only country from the African continent included in the index.

In its commentary released this month, Knight Frank said: “Although impressive by international standards, the 12,3% growth recorded in South Africa represents a significant slowdown for the South African market, and is the lowest annual growth figure since Q4 1999.”

Making the figure “even less impressive” is consumer price inflation of 9%, making real returns more modest.

Unsurprisingly, Knight Frank cites rising interest rates and a tightening of lending criteria thanks to the implementation of the National Credit Act from June 2007 as the major reasons for South Africa’s residential slowdown.

“The outlook for house price inflation over the next year remains uncertain as although inflation is expected to remain high, new residential construction is predicted to slow, raising levels of demand for existing homes.”

Income growth, said the global property consultancy, is “also uncertain as the electricity crisis in South Africa will affect productivity and thus may impact on levels of housing affordability”.