

Good and Bad News for House Prices

There was good news and bad news for house prices, FNB said on Monday when it released its house price index.

The average house price for 2009 declined by -3.9 percent for the year as a whole, when compared to the average price for 2008.

However, the good news was that late in 2009 the index showed a trend indicating improvement, with December 2009 showing a further rise in year-on-year house price inflation to record +2.7 percent.

"While still nothing to be over-excited about yet, the trend points towards a significantly better 2010 for those of us involved in the residential property market, and an eight percent average house price inflation is projected for the year as a whole," FNB's property strategist John Loos said.

On a cumulative basis, the index was 195.4 percent higher than the July 2000 level, the point at which the FNB house price index started at a level of 100.

The average house value for the month of December was measured at R772,974.

"December was the second month of year-on-year increase in house prices after almost a year of decline.

"The trend bodes well for a better 2010, after the market hit rock bottom in the first half of 2009 and thereafter began to show improvement," Loos said.

South Africa's economy had started to emerge from recession, "which should provide some mild additional support to residential property demand".

Loos said the full positive impact of last year's five percentage points' worth of interest rate cuts probably still needed to feed through into the market at least for the first half of 2010.

"As such, it is realistic to expect a significantly better residential property price performance for 2010 as a whole," he said.

This expectation was a significant improvement on 2009, but remained a moderate one compared with the boom years.

"The reasoning behind this cautious optimism is that there are still some key constraining factors on the market.

"For one, the domestic household debt-to-disposable income ratio remains high, restricting the rate at which the household sector can grow its new borrowing for the time being."

Loos said a downward trend in the debt ratio had started, but it could be a few years before South Africa reached the kind of low level needed to fuel a more impressive property boom.

Secondly, the world economy had problems, including high debt ratios in the US, the world's biggest economy, and major imbalances with some countries spending too much and others "over-saving".

"In addition, it is questionable as to whether those who have implemented fiscal and monetary stimulus packages, aimed at ending the recent financial and economic crisis, are capable of standing strong when the withdrawal of such stimulus packages takes place."

There was an expectation of two percent to 2.5 percent real economic growth in South Africa in 2010 and while this was more positive for property than the recession of 2008/09, it was not the five percent plus of a few years ago.

Loos said the World Cup would be "absolutely fantastic for South Africa and its economy in the longer term... and thus ultimately positive for property performance".

He said preparations for the event had already sped up much needed transport infrastructure delivery, and would do wonders for marketing the country's infrastructure and organisational capabilities.

"In the longer term, such positive marketing should entice more entities to want to do business with or in the country, or to come as tourists, which is positive for economic growth in the long term.

"A stronger economy normally means a stronger property market," Loos added.