

The House Party is Officially over for Now

There is much debate currently among property experts, with one camp predicting a continuing downward spiral for the foreseeable future, while the other maintains the current scenario is a bump on a road that will soon head skywards once again.

“Before we can make accurate predictions about the future,” explains property economist Erwin Rode of Rode & Associates, “we need to be clear on how we got to where we are today in the first place.”

The residential property boom of the early years of the decade – now already being looked back on with a measure of nostalgia – was a once-in-20-years experience. “We must remember that it came off a very low base to begin with, and coincided with the longest business-cycle upswing (which started in 1999) that the country has ever experienced,” says Rode. Healthy economic growth, combined with the lowest interest rates South Africans had seen for more than two decades further spurred on the market into a state of euphoria. “Euphoric expectations of growth are often self-fulfilling, and all these factors together resulted in sustained – but unsustainable – growth for a number of years that far exceeded the growth in income and replacement costs. Inevitably, this led to houses becoming increasingly unaffordable.”

What is happening now, says Rode, amounts to a natural period of consolidation, although exacerbating factors such as the introduction of the National Credit Act last year, the electricity crisis in January, the jittery world economy and rising interest rates have sped up the cycle.

Causing a fair amount of panic in the marketplace, however, is Standard Bank’s recent findings that show house prices declining for the first time in eight years. And then there is the latest 50 basis points hike in interest rates announced by the Reserve Bank on April 10.

“We should bear in mind that the effect of a change in interest rates is only felt three quarters (nine months) down the road, and high nominal interest rates are going to be with us for a long time to come. Thus, the 2010 enthusiasts in South Africa might like to rethink their predictions of a property boom induced by the soccer World Cup,” says Rode. “A one-month tourist orgy was never going to create a boom.”