

More Rate Hikes would be Perilous

Reserve Bank Governor Tito Mboweni's recent signal that interest rates would rise again this year because inflation pressures had spread far beyond food and fuel, is already having an impact on the residential property market.

The combination of a decreasing property values with increasing interest rates has put the residential property market in a precarious position this year. Anecdotal reports of rising repossessions and a surge in forced sales is now spreading to various parts of the property market, particularly those in the R2m to R5m valuation range.

"Mortgage stress is spreading across all cities, suburbs and demographics. Over-extended middle income families are obviously the most vulnerable but wealthier South Africans are now also being affected by a slowing residential property market,' says Alliance Group's chief executive, Rael Levitt.

The latest research from Alliance Group's research department claims more than 55,000 South Africans will suffer mortgage stress by September this year, 15,000 of those will be in severe stress and 8,000 could lose their homes because they can't meet the loan repayments.

Severe stress is defined as being unable to meet repayments without refinancing, with many having to re-schedule bond repayments.

"They are sobering figures. Yet, probably the scariest finding from our research is that once someone is in severe stress there is a 20% chance of being forced to sell the property and there is only a 50% chance of getting out of mortgage stress altogether," says Levitt.

Levitt explains that the lesson struggling homeowners should adhere to when in trouble, is that "you can't just ignore it and hope things will improve. The quicker you take action, the better your chances of beating the financial survival odds".

While inflation is now a real factor in South African economic landscape, these mortgage bond stress levels are affecting the South African residential property market. Retail sales are down, housing finance has slumped, consumer sentiment has crashed and the property market is down. "It's not as if everyone is out partying as they have been for the last five years," says Levitt.

For an indication of just how savage our interest rate levels are, official repo interest rates in the US are 2,25%, Canada 3% and Britain 5%. Compare that to South Africa's repo rate at 11,5%. If they go to 12%, as the Reserve Bank hints, this may strike another fatal blow to the residential property market. South African home loan borrowers are already paying five times the repayments of American property owners. "So it's not surprising that more and more consumers are falling into arrears."

Levitt believes that the pain of higher interest rates has only just started to kick in and believes that we will see further residential value falls over the next 6 to 12 months and another hike will simply speed up this process.

"The South African housing market is in a bind – we have a historic housing shortage and thus huge demand at the entry level, but that isn't going to stop prices declining further. I think we'll see prices fall by another 5% this year – and that's without another interest-rate rise.

"If rates rise again it will accelerate price declines, and that's an ominous prospect because price falls can be infectious," Levitt says.

"If one house in a street sells for a lower than expected price, that can have a knock-on effect to other properties in the same area, and so it goes on."

The latest figures from the Alliance Research team, released last week, showed Johannesburg house prices falling by 5,5% in the March quarter alone and Cape Town falling by 4,85% – the average performance of the five large South African cities. The Standard Bank property gauge recently revealed the first residential price drop in eight years.

The Reserve Bank's hint that interest rates might have to rise later this year if inflation keeps rising, would thus be disastrous for struggling homeowners.

"You've got to be smart in today's market. There's a great opportunity to buy properties at distressed rates. We are already seeing great deals for buyers and with the residential rentals tracking interest rates, investors can get a good yield through house investing. Over time the market will settle down, as it always does, and investors will again see capital growth," Levitt says.

The irony, explains Levitt, is that with decreasing home prices there is actually no better time to get into the market. "Bold investors will make bold profits when the market inevitably turns upwards."