

## Property prices recover, but for how long?

The average price of a house is now going for about R891 700.

The latest data on residential property prices show that growth has increased slightly but banks warn that it will level off again later this year.

According to Absa's House Price Index (HPI), nominal house price growth was 15,4% year-on-year for February. A revised growth rate of 15,4% was also recorded for January.

This brought the average price of a house to about R891 700 in February 2007.

In December 2006 nominal house price growth of 13,5% year-on-year was recorded, down from a revised growth rate of 14% in November.

Absa's senior economist, Jacques du Toit pointed out that nominal price growth, on a month-by-month basis was following a downward trend.

Growth of 1,1% was recorded in February compared with 1,4% in January.

According to inflation data released for January, the CPIX inflation rate increased to 5,3% from a stable 5% in the period October to December last year.

Du Toit said taking into account the higher oil price, an increase of 10c per litre in the fuel levy as from April, which was announced in the Budget last month, as well as a weaker exchange rate, fuel prices would increase further next month.

He added that the drought conditions currently experienced in many food-producing regions around the country are expected to feed through into higher food prices in coming months.

"These trends do not bode well for overall inflationary pressures in the economy over the short term, he warned.

This upward pressure on inflation and continued strong growth in domestic credit extension signal a growing possibility the Reserve Bank may well decide to increase interest rates further at

the next Monetary Policy Committee (MPC) meeting in April, said Du Toit.

Property economist at Standard Bank, Gina Schoeman, said that, already, the four interest rate hikes in 2006 meant that households had to fork out at least R14bn more per year to service their debt.

With personal income tax expected to grow by almost 12% y/y in the 2007/08 fiscal year, it is likely to exceed the growth in households' income, in which case their tax burden will rise, she added.

Schoeman explained that given these and other curtailing factors impacting negatively on households' finances, there is some concern about their financial health, which, if it were to deteriorate markedly, will have severe consequences for the residential property market.

While most experts don't expect capital growth to pick up until next year, Anton de Leeuw, CEO of YDL property educationalists, pointed out that the rental market had started to firm up.

"Most of the oversupply of new developments in certain areas has been mopped up and rentals are roughly where they should be," he added.

De Leeuw reckoned that most investors, especially in the Sandton CBD, still weren't able to cover mortgage payments with rental income but demand for rental properties had increased.