

## Property heading for meltdown?

Is the long-awaited drop in house prices finally on the horizon? The question is popping up increasingly amid growing concerns of mounting mortgage debt (in South Africa and overseas) and house prices that some believe have increased too far too fast.

The big worry is that SA homeowners, like many of their US counterparts, could soon find themselves in the dreaded negative equity situation – when your mortgage debt exceeds the market value of your house.

That usually occurs when interest rates rise, property prices fall and homeowners start defaulting on their mortgage repayments. Such a scenario was evident in SA in the late Nineties after interest rates shot up to 25%.

However, data released in recent weeks by SA's banks and other housing commentators suggest that the chances of house prices falling (in nominal or even real terms) anytime soon are highly unlikely.

In fact, economists have been surprised by how buoyant housing sales and price growth still are, prompting some to upgrade their growth forecasts for 2007. Both Jacques du Toit (Absa) and John Loos (FNB) no longer expect house price growth to dip below 10% this year.

### **Rebound seen in 2008**

Absa's latest monthly house price index already points to an acceleration in house price growth since the beginning of this year, with an average 15.4% growth in February (year-on-year), up from 14% in fourth quarter 2006.

Loos, FNB's property strategist, says the lag effect of last year's four consecutive interest rate hikes may still dampen housing activity, with growth bottoming at around 12% this year. However, prices could start accelerating again in 2008, steadily rising to 18% by 2010. Loos says his forecast may even prove too conservative.

His bullish outlook is based on escalating building costs and a growing land scarcity that will continue to drive house prices up. Says Loos: "People don't seem to appreciate the extent that SA's 5% growth economy is pushing demand for housing from a fast-growing middle income class. And we have a construction sector that just can't supply that demand quickly enough."

Loos doesn't see supply catching up with demand for at least another four years, given that SA's limited pool of building resources is likely to be allocated increasingly to infrastructure and commercial property development in the run-up to the 2010 Soccer World Cup.

Then there's the argument that SA house prices still need to play catch-up with international markets. Loos also believes that the extent of SA households' indebtedness is exaggerated.

### **'No debt crisis'**

A recent study commissioned by the national credit regulator supports Loos's view. National credit regulator Gabriel Davel was reported in Business Day as saying that though arrears have started ticking up "there's nothing that indicates a debt crisis".

Standard Bank senior economist Elna Moolman agrees. "Household debt levels as a percentage of income may be at a record high 73%, but debt repayment to income ratios remain well below historical peaks."

Moolman argues that homeowners actually have scope to borrow more, especially if you consider that SA mortgage debt as a percentage of disposable income is still at a "comfortable" 40% compared with 78% in the US, 120% in Australia and 105% in Britain.

It isn't just the SA housing market that remains surprisingly lively. Other international property markets are also defying widespread expectations of a global meltdown. According to a report in the latest issue of US magazine Newsweek (March 19), the long-awaited drop in house prices worldwide has yet to happen. It reported that while average house prices in the US may be decelerating, many major cities worldwide are experiencing a rebound in prices.

## **Property crash unlikely**

Newsweek reports that though interest rates are starting to creep up worldwide, they're still hovering at historic lows of between 5% and 6%. "This, coupled with strong and in some instances spectacular house price growth in many parts of the world, makes a global property crash unlikely."

Says Nariman Behraves, chief economist at the Massachusetts-based economic forecasting and consulting firm Global Insight: "As long as interest rates remain low, you'll see a housing recovery and then a reacceleration."

That seems to be very much in line with what analysts here are predicting for the housing market in SA.