

RENTAL MARKET WILL BOOM NOW – BUY-TO-LET WAY TO GO

Today's interest rate hike of 50 basis points, resulting in a prime of 15,5 percent, will further heavy South African home-owners' debt burden, and increases the repayments on mortgages.

This development, however, now sets the scene for a booming rental market with excellent prospects for certain investors, reports RE/MAX of Southern Africa and BetterBond.

The price boom of the last decade pumped up the capital values of property, outstripping the rises in rent which is typical of a bull market in house prices.

Because of affordability issues now faced in the current market climate, this driven by today's interest rate hike, increased food and fuel costs, and banks tightening credit criteria (the unavailability of 100 percent bonds), rental properties will be in greater demand, as a proxy for homes, which are becoming more difficult to obtain.

With a price correction of up to 10 percent in the value of homes a strong reality and not 40 per cent as cited in certain media reports, the current market will be very attractive and lucrative for buy-to-let investors. The proportion of properties bought-to-let will gradually increase during 2008 and could even reach up to 20% of all residential property transactions.

"This is the time for astute investors to purchase properties that reach the market realistically priced. For those who want to invest in property as an asset class, now is the time to buy. We are operating in a soft market, where buyers can negotiate prices down," says Marsha Haupt, sales director of BetterBond.

"Now more than ever, the services of a professional real estate agent will be required to bridge the gap between the expectations of a seller and a price sensitive buyer in order to conclude a transaction."

However, today's interest rate hike will also make it increasingly difficult for first-time buyers entering the market, because of very high interest rates and major banks withdrawing the finance of 100 % bonds.

"Consumers now require a substantial deposit and sufficient cover to service their mortgages. Deposits between R50 000 and R200 000 are now a reality," says Jeanne van Jaarsveldt, marketing and financial director of RE/MAX of SA.

"We expect the housing market to bottom out in 2008, and price growth forecast to increase gradually on the back of lower inflation and interest rates in 2009 / early 2010."

"We advise home-owners that will be affected by today's interest rate hike to contact their banks without delay to arrange alternative repayments if they cannot service their mortgage debts."