

South African Property Market Not Entirely Immune

The last few months have clearly shown that South Africa is not protected from or immune to the global financial problems.

So says Bill Rawson, chairman of Rawson Properties, who adds that this has implications for the property market.

"Much has been said about how we are not too badly affected by the sub-prime crisis and while this is true it is also true that the South African share market has lost half its value, GDP is dropping by 1%, the motor industry is having to cut back severely and, with a depressed economy and lower tax returns, the government may have to cut back on its infrastructural and other spending. A full scale recovery is, therefore, unlikely before 2010."

Where, therefore, can an investor now place his funds (if he still has funds) with a reasonable expectation of a return?

"Now is obviously the time to invest in property - but there are very good reasons for doing this right now. First, in my view, residential prices (as well as land and building material prices) are bottoming out and will not go much lower. Second, most economists are now predicting more interest rate drops in the near future and this is likely to have a real impact."

Analysing recent bank figures, said Rawson, it becomes clear that a 1% drop in interest rates could add a further 5% to the annual total of homebuyers.

Currently he said, anything from 180,000 to 240,000 people buy homes in South Africa each year - a further 10,000 (5% up on the current level) would be a very significant boost to the market and could have a push-up effect on all prices.

Asked if a fall in the value of the rand could deter the South African Reserve Bank from going ahead with a cut in interest rates, Rawson said that the rand had, in his view, stood up very well to the negative Fitch and S & P ratings and international bankers have in the last year gained considerable respect for South Africa's banking system.

"One has only to compare the rand's performance with that of the Australian dollar to realise that South Africa is seen as having wise fiscal controls - but the economy now very definitely needs the boost of a lower interest rate."

Apart from dropping the interest rate, said Rawson, now would be a good time to implement far more worthwhile first-time homebuyer subsidies. Currently, depending on income, the usual subsidy is around R40k and it applies only to very low income families.

"It is true that at this level that the greatest demand is felt, but surely, as in Australia, the subsidy should apply to any family earning, say, up to R15k per month. The banks have set aside large sums for housing assistance - why not use it in this way?"

"Apart from the stability that this would give to South Africa and the incentive that it would provide to work harder, the labour creation of a revival in the housing industry is exactly what South Africa now needs. Rand for rand, no other industry promotes jobs as much as the house building industry."