

Is an upturn really on the way?

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With a number of estate agents reporting sudden increases in show house activity, and the economists lauding the slowing of demand for credit, it's easy to believe that rock-bottom has been reached and the upturn has begun.

However, the country needs to take account of a number of factors before assuming the worst is over, says Mike Bester, CEO of Realty 1 International Property Group.

"It's not clear what the basis is for this enthusiasm," says Bester. "Until interest rates start to come down, the NCA's affordability criteria remains the single largest obstacle to accessing home finance, and many buyers simply don't have the necessary deposit to qualify for a mortgage."

This means the property market is unlikely to turn just yet. Although there is increased demand for rentals, he says, this is only good news for those landlords whose bond repayments are low enough to make renting viable – usually investors who owned their properties for some time before the downturn.

"Many of our offices involved in rentals have reported that potential tenants are being extremely selective and shopping around for good rental prices," says Bester. "Anyone buying now with a hope of climbing on the rental bandwagon needs to have substantial funds to put down, if there is to be any hope of recovering the bond repayment through the rental price."

Bester says before the property market can assume the tide has turned, it will need to take account of a variety of factors.

Azar Jammine, chief economist at Econometrix, said recently he expected inflation to start falling in the months ahead and double-digit wage hikes to kick in. Jammine pointed out that wage adjustments were based on historical inflation rates, and said that increases in the past year were inadequate as inflation moved to 13.4% in July.

"Jamine predicts a reversal in the year ahead," says Bester, "and he also said that the 12% to 15% pay rises that are now being seen will provide relief in the run-up to the drop in interest rates that is expected in early 2009. If this happens, it will obviously help to kick-start the property market, as it will enable buyers to meet the affordability criteria better than they can at present."

However, FNB's John Loos cautions that while the recovery will be driven in part by higher average wage inflation, this may mean a period of net job loss and greater income inequality as employers try to contain their wage bill growth.

Bester says that at this point it's hard to know who to believe. "Our economists can all produce stats on which their predictions are based," he said, "and everyone is hoping for a miracle upturn in the economy - and especially the property market. But we need to be realistic and wait for real evidence before we can be sure that the worst is over and property is recovering." At the same time do whatever you can to ensure that you hold on to your property or enter the property market as soon as possible.