Mixed outlook for real estate following S&P downgrade

The lower inflation rate and the unchanged interest rates are great news for SA consumers and home buyers this festive season; however the recent downgrade of the country to sub-investment or "junk" level by international rating agency, S&P Global, doesn't bode well for investment.

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S&P previously rated SA's foreign currency credit at junk and local currency debt at one level above, but on Friday announced it was dropping the local currency debt rating as well, and joining Fitch in giving the country a "stable" outlook. Fitch had already downgraded both types of credit to sub-investment level earlier in the year.

Meanwhile the third major agency, Moody's, has decided to keep its ratings for both types of debt at one level above junk but placed SA on "review" for a possible downgrade in 90 days.

Shaun Rademeyer, CEO of BetterBond, says this means that SA has escaped – for now - a "total junk" situation in which major institutional investors would have been forced to immediately withdraw more than US$100-billion worth of investments from our economy.

"However, the S&P decision is bound to make major investors more cautious, which means it will cost the country more to borrow money abroad, and that its already considerable debt burden will rise. Unfortunately, it is also likely to have a negative effect on business and consumer confidence, and that will put a damper on GDP growth, employment prospects and the country's ability to increase tax revenues to lower the national debt.

"At the same time, the value of the rand against most major currencies has already fallen and will most likely stay at lower levels next year, and that will push up inflation, making it more difficult for consumers to make ends meet."

From a real estate point of view, he says, the S&P downgrade will in all likelihood cause a drop in housing demand within the next few months due to falling employment prospects and rising living costs that make it more difficult for first-time buyers, especially, to qualify for home loans.

"We could also see a simultaneous increase rise in the number of existing home owners and investors who are no longer able to afford their properties and are seeking to sell them in order to avoid repossession. And depending on how great the imbalance between supply and demand becomes, we could see property values actually start to decline."

However, Rademeyer says, although many consumers will be in for a tough time next year, there will be opportunities, especially in property, for those with forethought, courage – and cash. "For example, the demand for rental properties is likely to spike in the downgrade scenario, and those who are able to acquire such properties now for cash or with large deposits are set to do very well out of their investments in the longer-term.

"Those who can move fast to sell their existing properties and realise the equity that they have built up in these homes will also be in a position to upgrade to bigger and better homes they will be able to purchase at a significant discount to market value – although they will need to check first that they will qualify for a new loan."

Meanwhile, those who have saved and planned to become home owners should proceed without delay, he says, while interest rates and the income qualification levels for home loans are still at relatively low levels. "Our advice to buyers, though, would be to seek loan pre-qualification through a reputable bond originator like BetterBond so that they know what their purchasing capacity is, and then to set their sights on even less expensive properties so that they will have plenty of room to manoeuvre in their household budgets."