Why a recovering US property market bodes well for SA

By Bruce Swain

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The United States has long held sway over the global economy and, as such, its welfare has had far-reaching implications for the rest of the world. Cue the sub-prime mortgage crisis in 2007, which effectively crashed the US housing market, and of which the effects are still very much in evidence, particularly in America and parts of Europe.

Due to the US' incredible economic power we've often noticed that the local property market tends to lag between three to six months behind the American market. As such, local estate agents and buyers are inclined to keep an eye on developments in the US. Of course, South Africa is a different kettle of fish and one would be foolish to assume that all movements in the US market will be mirrored in ours, but it does often give you an indication of what could be heading our way.

Revival is in sight

Even earlier in 2012, many still doubted as to when the US real estate market would begin recovering. Now it would seem that revival is in sight; JP Morgan & Co and Wells Fargo & Co, the principal home lenders in the US, reported double-digit quarterly earnings growth last week. According to Sterne Agee, a banking analyst from Todd Hargeman as reported in the LA Times, both companies "clearly expressed a view of signs of recovery, if not stabilisation".

The "Improving Markets Index", as compiled by the National Association of Home Builders and First American Title Insurance, indicates that 103 housing markets across the US now qualify to be listed, up from 76 in January 2012. Barry Rutenberg, chairman of the National Association of Home Builders (NAHB), believes that: ""This is an encouraging sign that the housing recovery is proceeding at a steady pace as firming prices and employment help spur new building activity, which, in turn, generates new jobs and more home sales."

Whilst improving markets are still a far cry from stable or even better, growing markets, it is the first sign that the American housing market is recovering. Broadly speaking, any recovery in the US is bound to filter through to the rest of the world, which should eventually lead to a rallying of exports from SA to Europe and other economic corrections. These corrections will, hopefully, lead to more job creation, increased earnings and, ultimately, the amelioration of the local property market.

Wildcat strikes and Marikana

That being said, there are local factors that have a greater, and more immediate, effect on the SA industry, such as the recent wildcat strikes and the tragedy that took place at Marikana, the staggering level of unemployment and the downgrading of our sovereign debt. These circumstances shake investor confidence, decrease international funding, threaten our exports and, ultimately, culminate in an impoverished economy.

Factors that contribute more directly to the property market include the lack of household savings, the high level of household debt-to-disposable income ratio, the increase of municipal rates and the difficulty of obtaining a home loan.

I believe that the South African Reserve Bank has done what it can to aid the property market by keeping the repo rate at a low 5%. According to John Loos, household sector and property strategist of FNB, the greatest problem that the market now faces is the lack of household savings. At present, the household debt-to-disposable income ratio stands at 76.3% (an increase over the first two quarters of 2012). Loos stated that: "This savings shortage is a serious structural issue not only constraining the housing market, but also many people's ability to retire financially sound."

Combined with the fact that banks' lending criteria are now considerably more stringent than four or five years ago, the reality is that many potential buyers cannot amass the deposit needed to secure a loan.

Municipal rates and tariffs

Of course, saving isn't the only problem. Municipal rates and tariffs have increased: Loos pointed out that where the average house price/average remuneration ratio fell by -24.4% since 2008, the rates and tariffs/remuneration has increased by 6.54%. Savings are less and properties are costing more to maintain - hardly a recipe for a sound property market.

That being said, the local property market is still stable, if sluggish, and there are slight indications that it's picking up. Yes, South Africans need to start saving, there's no doubt, but our market didn't take the hit that many of its international siblings did and with the stable repo rate and banks easing their lending criteria somewhat, there is hope. Sellers are still placing their homes on the market and the buyers are there. Remember, regardless of the current global and national economic situation, property is a long-term game and the industry will correct itself in time. Patience is key during this period.

ABOUT THE AUTHOR

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