

SA's macro-economic outlook is the real determining factor in house sales

Interest rate levels set by banks on mortgage loans are likely to rise by 75 basis points before the end of this year, with the result that most mortgage loan borrowers will be paying 11% - or more - on their mortgages.



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Jacques du Toit, economist and strategist for the ABSA Home Loan division, has recently predicted that this will dampen levels of activity in the housing and mortgage markets, and he went on to say that nominal house price growth will probably slow from +/- 6% last year to around 5% this year.

John Smyth, CEO of Multi-Net Mortgages, has commented that although many spokespeople for the property sector have gone on record 'regretting' the likely rise in rates, history has shown that housing can continue to sell fairly steadily at interest rates considerably higher than 11%.

"In 1988 and 2002 when for some time rates were around 15% sales continued to be satisfactory. It was only when they went above 18% that the market began to under-perform. One is forced to conclude that the country's macro-economic outlook is the real determining factor in house sales. So long as people are being employed and earning annual increases and bonuses they continue to buy homes and to appreciate the wisdom of this sort of investment."

Financial strain

"Regrettably, reports now indicate that in an increasing number of cases South African consumers are experiencing financial strain and quite frequently starting to fall behind on debt payments. This, it appears, is likely to lead to slower sales on all fronts - including housing.

"However, I do not believe we are in a crisis situation - as I have said often before, the slow-down in the market will not in my view be too serious because, as those of us at the coal face can testify, there is a strong desire in a growing number of our people at all income levels to become home owners and many will find ways of doing this," says Smyth.

"Those who determinedly make the sacrifices required to become home owners will, I predict, by the end of 2017 find themselves again benefiting from above-inflation appreciation on their homes, for the simple reason that in the long run housing tends to outperform other solid (as opposed to financial) asset classes - and right now it is worth noting that in the large home category (220m² to 400m²) the ABSA figures show that price growth recently has at over 7% continued to beat the inflation rate."

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