

Brexit: Possible SA interest rate hike on the cards?



By [Harry Nicolaides](#)

30 Jun 2016

The fundamentals of the property industry in South Africa will not change due to Brexit, given that we have an insignificant exposure to UK property buyers or sellers.



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However, the current dynamics of the property industry in South Africa may change due to the possible effect that a weakened local currency may have on the cost of financing home purchases.

Rand remains vulnerable

When Brexit was officially declared, the rand weakened significantly against the US dollar and the euro and although it has somewhat recovered, it does remain vulnerable. A weakened rand has an obvious negative effect on our liquidity and ability to service external debt. As such, our risk profile deteriorates and the cost of borrowing by our government and local banks from abroad increases due to the higher interest rates charged by lenders. This increased cost gets passed onto consumers which may cause an increase in our prime lending rate and ultimately results in an increase in monthly bond payments.

Unfortunately, this increase faced by consumers who are already under pressure from a rise in the cost of utilities, property rates and food inflation simply means that they have less cash available to spend on property and may simply have to delay the purchasing of a new home - whether they are first-time buyers or buyers looking to sell their existing home and upgrade elsewhere. In short, the net effect is a slowdown in property sales activity.

To compound the situation further, some sellers are forced to sell in this cycle while others who want to sell, have to reduce their asking prices to attract buyers, resulting in house price deflation or negative house price growth. Lenders do not grant mortgage bonds on a property that reduces in value as the property itself is the asset backed security. They will demand a decrease in the selling price or an increase in the deposit from the buyer to agree to lend the money.

Change current dynamics

In short, Brexit will not change the fundamentals of the property industry in South Africa but may change the current dynamics should there be an interest rate hike.

If there is to be some positive spin to all this however, it must be the good old 'yin and yang' of the property industry. Believe it or not, there is a balance – when the market is in decline then property prices drop, which means more buyers may be able to afford buying. When activity picks up it suggests a revival in the property market and prices begin to increase which the lenders find more favourable (their asset backed security is growing). Unfortunately though, there is a lag time – it takes time for sellers to agree to drop their prices and when the market revives itself, it takes time for lenders to conclude or verify that property prices are on the increase and these lag times cause frustration amongst buyers, sellers and estate agents.

What is not arguable though is that property, in the long term and all things being equal, is, in my opinion, on an upward trend - whichever way you look at it.

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