Property predictions for 2016 not as negative as many fear

Property industry professionals are facing some tough questions around the future of the South African property market.

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According to statistics from the latest FNB Property Barometer report, there has been a decrease in growth momentum over the last quarter, but is this a sure sign that we're on the cusp of a market turnaround, or is there still growth on the cards for 2016?

"FNB's house price index showed a year-on-year increase of 6.8% in January 2016, which is very similar to that of the previous four months, and certainly suggests that house price inflation is peaking," says Schalk van der Merwe, franchisee at Rawson Properties Somerset West."However, while we don't expect growth to be as positive as it has been over the last few years, our predictions for 2016 are not as negative as many fear."

In the short-term, Van der Merwe believes the current stock shortages will continue bolstering prices through the simple economics of supply and demand. "At present, we're still experiencing sales within days of listing new mandates, and receive multiple offers on the same property."

Resurgence in movement

"Future interest rate increases, combined with overly competitive agents inflating asking prices to secure a mandate, may dampen buyer activity temporarily, but this should even out as prices are adjusted to more realistic market values. Once this starts happening, we're likely to see a resurgence in movement, which will trigger price acceleration once again."

The fact that property prices are still well below replacement values is also a positive sign, as is the current price-rent ratio. “Rentals are sitting fairly close to bond instalments, which makes purchases attractive to both first time buyers and investors alike. In fact, nearly 34% of buyers at present are either first-timers or buy-to-let investors,” says Van der Merwe.

These figures are, admittedly, likely to change as higher interest rates and more stringent lending criteria begin to take effect, however. “Affordability issues tend to affect investors and first time buyers first which could have a significant impact on current demand statistics, given the proportion of buyers in these market segments. If demand drops enough to correct or reverse the supply shortage that we have at the moment, it’ll definitely cause some deceleration in housing market activity. We haven’t seen signs of this happening yet, but it is a red flag to look out for.”

Global economic turbulence

Other challenges facing the market include the global economic turbulence which has seen commodity prices falling across the board and international giants like the US and China reporting minimal economic growth. This, together with South Africa’s own political instability and severe drought, has translated into significantly lower consumer and investor confidence - something that will inevitably impact the property market in months to come.

“The Consumer Confidence Index is sitting at negative fourteen as of January, while the Consumer Price Index continues to accelerate thanks to our increasing electricity, food, transport and alcohol costs. The general feeling about our economy is one of uncertainty, which means people will be tightening their belts and settling in for the long haul. At times like these, the property market does slow, but it doesn’t happen overnight, and it doesn’t mean there aren’t opportunities out there for those who know where to look,” says Van der Merwe.

“We might not have peaked quite yet, but we’re probably not far off,” says Van der Merwe. “The next few months will be a very interesting time for us as we get a better idea of what’s to come.”