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Should South Africans still be investing in property during the recession?

Following the announcement in June that South Africa has slipped into recession, many homeowners and prospective homeowners are filled with uncertainty. Will house prices tank? Will homeowners slip into negative equity? Should buying plans be put on hold? Crispin Inglis, CEO of PropertyFox, says there is no 'one-size-fits all' answer because so much depends on an individual's own circumstances.

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"It's hard for anyone to ignore how tough it is out there. Every time you set foot in a grocery store your bill seems to have leapt by 10%. Interest rates are high, unemployment is at staggering levels. No one knows when things will start to look up. So anyone currently in the property market, thinking of entering it or expanding their portfolio needs to move forward with great caution, having considered their financial picture fully."

Buyer's market

He said a recession is not a good time to take a big financial risk. "But for those who can afford to, it could be a very good time to invest in property. A recessionary environment sets up a buyer's market. Many homeowners put their homes on the market – because they are feeling the pinch or because they fear their house value will drop, placing their loan into negative equity. This means there are likely to be a lot of properties listed - and limited buyers. As supply outstrips demand, there is a lot of room to negotiate good prices and potentially pick up a 'bargain' which will deliver strong returns in the long term."

He said that having a solid grip on what properties are selling for in the areas you are interested in is critical – do your homework. "This environment could well be the time to get your foot in the door of a suburb you've been dreaming of. So take the time to do deep, ongoing research if you are looking to buy in a particular area. Online portals show you what properties are being listed at and give information about what houses in the area sold for. Then we highly recommend also meeting with realtors and going to house viewings. Armed with this information, you should be able to make a very good decision when it comes time to buy."

Stable interest rates

For buyers who are bonding their property, there is some light, in Inglis's view. "We believe interest rates will remain relatively stable over the next two years, meaning repayments are unlikely to spike and house prices may remain relatively stable. Anyone buying through a bond should put down as large a deposit as possible. This will lower monthly payments and help keep the loan in positive equity territory. And it is always good advice to pay additional funds into your bond if you can manage it. This will decrease interest repayments over the long term and decrease your risk exposure during the tough times."

He said that keeping fees low during a purchase or sale transaction is also a good idea in such a tight trading environment. "Buying or selling a home in South Africa is expensive, with little room for negotiation on most costs, like lawyers' fees and transfer fees. We advise actively looking for other ways to keep fees down. When selling a house you can save vast sums in estate agent commissions, which vary from 5% and 6.5% for traditional estate agency charges, right down to 1.5% for a company like PropertyFox which is focused on keeping fees low for sellers. Commissions savings can run into the tens or even hundreds of thousands – if you add these savings to your deposit on a new property, the loan amount can be greatly reduced."

In terms of how to approach the negotiation process, Inglis says a 10% rule can be a guide during a recession where the market and perceptions are adapting slowly. "History shows that it's not uncommon for buyers to be negotiating up to 10% below the asking price – sometimes it's possible to bring this down further. Very often a negotiation's success depends on the type of buyer you are – if you can make an offer in cash, your offer is often more likely to succeed."

Negative equity

Inglis says that negative equity situations, while not very common in South Africa, are always a risk. "Negative equity is when a home loan exceeds the value of the house secured on it. If you take out a home loan, it helps to put down a sizeable deposit upfront to reduce the size of a bond and mitigate risk. You should also consider purchasing a more modest property to keep a cash cushion on-hand should there be another downturn."

Conversely, if you're a seller and find yourself in negative equity, Inglis advises waiting it out if possible until the market recovers. Alternatively, he suggests renting out your home or putting extra payments towards your monthly mortgage, if this is financially viable.

Inglis says anyone buying property right now must go in with their eyes wide open, "No one can guess when this recession will end or when property prices will start to climb well again. So if you're looking for security from your investment, then property is a good option. However, investing wisely by doing your homework is essential."