The residential property market in 2018

By Jacques du Toit

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South Africa's real economic growth has been on a gradual downward trend since reaching a level of 3.3% in 2011, shortly after the recession of 2008/09. On the back of global and domestic developments, economic growth slowed down to below 1% in 2016 and 2017, with the forecast of showing only a marginal improvement to 1.2% in 2018. Based on the structure of the economy, the South African Reserve Bank's estimate of the country's potential growth next year is equally low at 1.2%.

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Due to the country’s poor economic performance, the state of government finances and developments on the political front, there is a risk of further country credit rating downgrades by the major credit rating agencies, which will affect confidence levels over a wide front, foreign capital flows, the rand exchange rate, inflation, interest rates, fixed investment, employment and economic growth.

The rand exchange rate is forecast to depreciate further in 2018 against the major international currencies, with the headline consumer price inflation rate to average around 5% next year. However, the main risks to the inflation outlook remain the exchange rate, as well as fuel and electricity prices. Against this background, domestic interest rates are projected to remain unchanged over the next twelve months.

The household sector is set to continue to experience a fair amount of financial pressure in the coming year in view of expected macroeconomic trends and developments, which are likely to cause the level of consumer confidence to remain relatively low.

Residential property market outlook

The largely subdued residential property market conditions of the past few years are expected to continue in 2018 against the background of macroeconomic conditions and expectations impacting the household sector over a wide front.

Due to the expected outlook for property demand and supply conditions, nominal house price growth is set to remain well in single digits in 2018, with the prospect of further price deflation in real terms, i.e. after adjustment for the effect of inflation. Housing affordability and access to mortgage finance will remain important factors in the performance of the property market and will be reflected in various indicators of market activity, such as the period of properties listed on the market before being sold, the percentage of properties sold below asking price, the difference between asking and selling prices, eventual transaction volumes, property buying patterns, the demand for property investment and the demand for and growth in mortgage finance.

Levels of residential building activity were relatively low since the 2008/09 recession and are expected to remain around these levels in the next year, with building confidence that has been on a declining trend over the past two-and-a-half years, to also remain under pressure.

The direction and performance of the residential property market over the next year will in general be driven by trends in and prospects for the economy, the state of household finances, banks' risk appetites and lending criteria, as well as levels of confidence.

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