No rate hike a welcome relief, but likely short lived

By Samuel Seeff

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The decision by the Monetary Policy Committee (MPC) of the Reserve Bank to keep the repo rate unchanged at 6.75% (base home loan rate at 10.25%) is welcome news for the property market, but likely to be short-lived.

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While it is unlikely to be a boost for the market, it does offer some relief for buyers and home owners who are facing pressure on their household budgets, especially vital given that FNB reports that the household debt-to-disposable-income ratio is rising.

Although the group remains upbeat about the economic outlook for the year ahead, it would be remiss not to caution that economic and property market recovery will take time. The renewed Eskom crisis has again reminded us that the economic and governance challenges are deeper than anticipated when President Ramaphosa took the reins last year.

Impact of energy crisis on GDP

As we head to the end of the first quarter, we are likely to see the impact of the renewed energy crisis and rising fuel, electricity and other costs impact the GDP for the quarter. Already, we have seen weaker business confidence and some economists cautioning of a recessionary risk and possibility of further sovereign credit downgrades by Moody's for example.

While the CPI rate at 4.1% as at February is still within the 4-6% target range of the Reserve Bank, as noted above, it may well rise in the coming months due to the Eskom fall-out. Combined with renewed volatility in the currency, we may well again be back in an interest rate hiking cycle sooner than what we had hoped for.

Nonetheless, for now, we have a flat interest rate and the banks are still granting mortgage loans, which is good for buyers. For those buyers still undecided or sitting on the fence, it may well be a good time to buy, provided they are able to find good value.

Deteriorating demand-supply balance

Sellers, on the other hand, need to continue focusing on their asking prices, especially at the higher price levels where we see a discretionary market in operation. The latest FNB Price Index shows that price growth has declined further since the start of the year and now stands at around 3.7%, down from 4% in January and 3.9% for 2018. At the same time, the bank's valuers report that property stock levels continue rising, resulting in a deteriorating demand-supply balance.

In a climate of fewer buyers and notably more properties to choose from, serious sellers need to focus on listing with credible agents who will give you the best advice rather than waste your time with low commission or high price promises.

We remain of the view that the property market will trade fairly flat, largely sideways for the first half of the year, and current market and economic indicators continue to support that view. There is a market for serious sellers, but they need to adjust to their local market trends as an increasing number of sellers have to drop their asking prices to conclude a deal.

ABOUT SAMUEL SEEFF

Samuel Seeff is chairman of the Seeff Group.

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