Residential buyers remain prudent despite interest rate peak and budget speech promise

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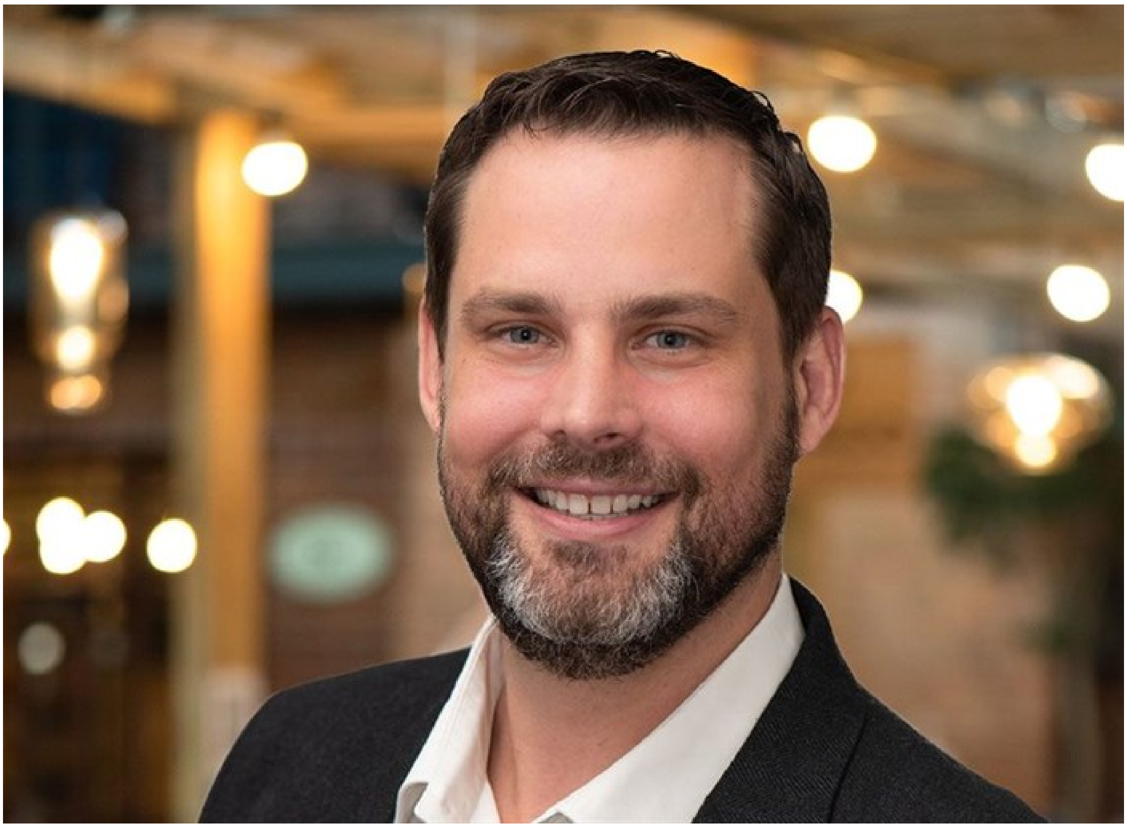
In late January, the Monetary Policy Committee (MPC) hiked interest rates for the eighth consecutive time, by 25 basis points, taking the repo rate to 7.25% and the prime interest rate to 10.75%. This is in an ongoing effort, by the South African Reserve Bank, to curb inflation which has been on the rise.



Weighing in on the current economic climate, Antonie Goosen, principal and founder of Meridian Realty, says, “Yes, it is the eighth consecutive hike, but it is also a smaller hike than expected (some economists predicted a 50-basis point increase), and most indications point to the fact that the rate-hiking cycle may be coming to an end.”

On the one hand, Goosen says, rental demand remains high and able buyers in the upper segment of the market are buying with a view to rent out their properties as a form of passive income. First time buyers and buyers in the lower to middle segment of the market, on the other hand, have been hard hit by interest rate hikes. This has made potential buyers think twice before investing in their own property.

While sales volumes may have slowed, Goosen still sees properties being bought as investments and is still seeing semigration motivated sales. He maintains that top tier buying remains reasonably unaffected.

> *Growing stock on the market will provide more choice for potential buyers and that will mean that sellers will not be able to ask the type of prices they were able to during the property boom that was fuelled by exceptionally low interest rates two years ago.*

He does, however, note that the Western Cape is the province with the lowest stock levels and as a result can demand

higher prices.
“We all know there is still healthy competition between banks, competing on attractive loan terms with credit worthy, potential buyers,” says Goosen, “So those who can afford it may be able to get 100% bonds or very favourable terms to make buying that much easier”.

Goosen believes that the residential market is stable overall, but buyers are being prudent and waiting to see what action happens post Finance Minister Enoch Godongwana’s Budget Speech that was delivered on 22 February 2023. “The actions of the government will speak louder than words,” says Goosen.

Goosen notes that a positive point that came out of the Budget Speech was that there were “no major tax proposals” by the Finance Minister because of more efficient and effective tax administration and collection. The Minister said that personal income tax brackets will be fully adjusted for inflation and there will be no increases in the fuel and Road Accident Fund levy.

An outcome that relates directly to the property market is the announcement that the transfer duty bracket has increased by 10%, which means that buyers will not pay transfer duties on properties less than R1.1m. Goosen says, “This will help first time buyers, enter the market and will help revive this section of the market”.

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Also, following on from President Ramaphosa’s State of the Nation Address (SONA), the Finance Minister confirmed that there will be a tax rebate to the value of 25% of the cost of new and unused solar photovoltaic (PV) panels (capped at R15,000) to those individuals who invest in solar. Goosen notes that this will only really benefit higher income households as the initial outlay to instal solar is expensive and out of reach of most South Africans. However, he also notes that homes with solar installed will have an advantage over other properties that don’t when it comes to house sales and rental appeal.

Another announcement that made headlines after the budget speech was National Treasury proposing a total debt-relief arrangement for Eskom of R254bn. This means Eskom will not require further borrowing during the relief period.

These announcements will have an impact on how investors view South Africa as well as how confident the local market is to invest in residential property. All in all, Goosen feels the property market is and will remain resilient, even though volumes may have slowed, and buyers are cautious. He says rentals will continue to be on the rise in entry level to mid-level properties. However, those with the means will capitalise on the rental boom by buying property as an investment. The high-end market will remain the most robust segment with semigration continuing and foreign property investment returning to places like the Western Cape.

Overall, the key to selling in other provinces remains marketing the property at the right price as buyers are looking for value in their purchases. Goosen concludes that the medium outlook in the property market will be determined by the implementation of what is outlined in the budget speech, which will also include upgrades to infrastructure and law enforcement, giving South Africans piece of mind and confidence to make the decision to invest in a home.

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