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How junk status will affect the property market

Written by eProperty News

News broke last week that The Fitch ratings agency could affirm SA's rand-denominated credit rating one level above junk at BBB-, a move that no doubt makes us question what this means for the property development and real estate sectors.



Jacques van Embden, Managing Director of urban property developer, Blok, unpacks the potential impacts:

"Some of the main challenges facing ours and the real estate sector, due to junk status, are heavily linked to the banking division and the ability to work with consumers who are under increasing financial pressure.

To a certain extent, this translates to a high level of uncertainty. Home owners with mortgages won't be certain of their lending levels which will create financial insecurity. However, the slow-moving nature of property pricing means that the industry will be shielded from the immediate reactions felt in the currency and the listed sector.

Junk status will affect both buyers and sellers in terms of slow decision making. A purchaser is going to spend more of his or her time weighing up options and potentially making a conservative decision versus a bolder move. This will obviously impact sellers as property starts to move a little slower. If one is considering postponing their property purchase, I think in primary cities the demand and pricing pressure is still prevalent, meaning the longer you are out of the market the more out of reach the pricing becomes. The best option would be to make an investment, but do your homework on

affordability and be a little more conservative with your financial planning so you don't put yourself under financial pressure.

If we look at whether property prices will be lowered, micro economics should play a role here. Cities or towns with strong demand will continue to grow positively while those with flat demand or growth over the past two years could see negative growth.

Regarding home and property loans, affordability will definitely come under pressure as the banking sector will look to tighten criteria and put more pressure on the consumer to make conservative decisions.

Although it might appear that overseas investors might be more inclined to dip into South African property, which is seemingly more affordable now, this might not be the case at all. An investor wants to have certain levels of security in their investment. So, while the pricing might be interpreted as affordable, there is political and currency risk which far outweigh the opportunity."

Things looking up for first-time home-owners

Despite the junk status attribution, there are some encouraging earlier developments that work in favour of first-time home buyers. Samuel Seeff, Chairperson of the Seeff Group, notes that the raising of the threshold for transfer duty exemption from R750 000 to R900 000, effective as of 1 March, is the most positive and welcomed outcome for the property market. "It will certainly enable more first-time home buyers to get onto the property ladder."

"That said, the cost of home ownership remains high, with home owners burdened with rising property taxes, sectional title levies and ever-higher basic utility costs."

Seeff continues that the local market needs a good economy to kick-start the property market. "Nonetheless, we remain upbeat that the market should hold up for the time being. It continues to be business as usual and hopefully the higher exemption threshold will boost demand from first-time buyers."

For property developers, junk status needn't spell doom and gloom either. "Those who innovate and work with their customers will get through any uncertainty and market risk," concludes van Embden.