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RATE RISE SHOULD NOT BE A MAJOR OBSTACLE FOR REAL ESTATE

The Reserve Bank's decision to raise interest rates by 25 basis points this week was generally expected and is only likely to have a slightly negative effect on the real estate market, according to Jors van Niekerk.

The rate increase, announced on Thursday by Reserve Bank Governor Lesetja Kganyago, takes the **repo rate** from 5,75% to **6%** and
the prime lending and **variable mortgage rate to 9,5%**. It was widely forecast after the US Federal Reserve announced its intention to start hiking rates later this year and early increases in other large developing economies such as China and Brazil.

"And clearly," van Niekerk says, "the Monetary Policy Committee has taken the view increasingly expressed by economists that it is primarily responsible for keeping inflation in check – and not for boosting economic growth, even though Governor Kganyago did speak extensively this week about the factors that are holding growth back."

The **headline inflation rate** recorded for June was **4,7%**, which was somewhat lower than expected, but rising utility costs and food prices and the declining value of the rand are serious risk factors for inflation, which is expected to breach the MPC's upper target of
6% in the next two quarters and average 5% this year.

"At the moment, as the Governor also noted, consumers still have lower oil prices in their favour, although **this could change at any time** due to the volatile political situation in major oil producing countries and regions."

Fortunately, van Niekerk says, there is still **strong and growing demand for residential property in SA**, due to the **"youth bubble"** in the population, economic empowerment and the growth of the middle class, relatively slow home price increases for the last few years and the banks' increased appetite for long-term rather than unsecured lending.

"In addition, many consumers have worked very hard since 2009 to put themselves in a position where they can stop dreaming about home ownership and do something about it. They have cleaned up their credit records and reduced their debt loads to give themselves a **much better chance of qualifying for home loans**."

Turning to specifics, he says the rate increase means that a homeowner with an existing 20-year bond of R785 000 (the current national average) taken at 9,25%, for example, will now see the minimum monthly repayment rise by around R127, to from R7317.

"But it must also be said that a variable mortgage rate of 9,5% is **still extremely low by SA standards** – and that bonds granted at prime rate have in any case been a very rare occurrence for the past five years, with most being granted at one or two percentage points above prime."

In addition, he says, first-time buyers should not be put off entering the market by the rate's increase, but rather prompted to move quickly while it is **still relatively easy to qualify for home loans** – and before a steadily growing shortage of rental properties pushes rentals up even further. They also should **enlist the help of a reputable originator such as BondExcel** to ensure that they get the best available rate.