

FUTURE OF SA PROPERTY LOOKS POSITIVE - 2007/01/02

PROPERTY24 -

2006 was a relatively good year for property in South Africa, and even though the appreciation figures were not as high as previous years, some areas around the country have continued to outperform the national average.

Elite and sought after suburbs in both Johannesburg and Cape Town have been faring exceptionally well. For example, according to Knowledge Factory's SAPTG statistics, Llandudno has seen a yearly growth of 38,06% for the year 1 November 2005 to 31 October 2006, while Westcliff has seen appreciation of 51,58% during the same period.

This trend is expected to continue, even with all the warnings of additional interest rate hikes. Absa's latest House Price Index notes that a nominal house price growth of 12,7% year-on-year was recorded in October compared to the revised growth rate of 13,5% in September. This brought the average price of a house in the middle segment of the market to R830 700.

It says that inflationary pressures are still visible in the economy and CPIX inflation is forecast to move towards the 6% level by the end of this year and into early 2007. However, Duncan Gray, CEO of Century 21 South Africa, says that even though inflation increases are anticipated, it is believed that they will stay within the 6% ceiling of the SARB Inflation Targeting Programme. Against this background, interest rates are projected to rise further, which is fuelling the concern that these market factors will contribute to the further slowing of the market.

Absa further notes that as a result of these expectations, house prices are forecast to increase by about 14% in nominal terms in 2006, with a nominal house price growth of approximately 6% anticipated in 2007. However, other forecasts are more bullish.

Drawing comparisons with international markets, the USA is currently experiencing a slump, but the UK on the other hand is going through a period of renewed growth. A report released by the UK's Land Registry in early November notes that the average house price in England and Wales topped £200 000 (R2,748m) and for the UK as a whole it is pegged at £179 000 (R2,460m).

This quarterly report showed that the figure attached to a typical property was around £211 453(R2,904m) between July and September this year, which, when compared with the same period last year, shows an increase of almost £17 000.

The report notes that the price for a property in London rose by more than £30 000 over the same period meaning that a property in the capital now costs on average £330 838(R4,546m), compared with £300 329 (R4,125m) a year ago. The price of a detached house in the suburbs of Kensington and Chelsea increased from £4.5m to an incredible £5.6m with the average price in Chelsea posting an enormous 57% per annum increase to £790 000.

Commenting on the figures, David Stubbs, senior economist at the Royal Institution of Chartered Surveyors, said: "The Land Registry figures show that house prices are rising at the fastest pace since early 2005, confirming

the rude health of the property market."

It is interesting to note that the increase in UK house prices came despite a quarter point rise in the Bank of England base rate in August. Stubbs says the strong economy and still accommodative financing conditions are helping support strong housing demand and above average activity in the market. He also notes, however, that the widely expected interest rate increase will help to cool the UK property market but he expects conditions will remain firm into 2007.

In comparison Llandudno's house prices increased from an average of around R4,7m during the 2004/2005 period to around R7,1m during the 2005/2006 period. The number of sales also increased from 17 to 22.

In Westcliff although the number of sales have decreased from 21 during the 2004/2005 period to 13 during the 2005/2006 period, the average house price has increased from R4,82m to R7,18m.

Even with tougher market conditions prevailing, people should still remain positive about the local property market. Everyone agrees that the high levels of appreciation were not sustainable, but there is still an acceptable level of growth in the market. If the local property market continues to mirror the UK trends, then once our market has stabilised, we could be in for more boom times.