65% of home owners are bond free

There are 6.1 million formal homes in South Africa and 65% do not have a mortgage bond according to Homebid, the low commission estate agency. These fortunate homeowners will be less affected by the looming interest rate hikes over the next 18 months as they have no bond repayments to make.

Property economist Neville Berkowitz, advisor to Homebid says "Over 3.5 million freehold single residential homes, 300 000 sectional title properties and over 120 000 homes in estates are not bonded and these home owners will be less directly affected as interest rates rise."

Homebid has researched Deeds Office registrations and obtained further information from the Census 2011, ABSA, Lightstone, and the Centre for Affordable Housing Finance for Africa to compile this research.

The bulk of the 65% home owners who are bond free come from two market segments - government subsides homeowners and empty nesters.

Approximately 24% of the total homes registered in the Deeds Offices are government subsidised housing stock for people earning from R3500- R15 000/month and are included in the 65% of homes that are not bonded.

Homebid estimates that the empty nesters in the age group 50-75 are 25-30% of the residential market. They sell their larger homes to move into smaller ones and are invariably cash buyers using the proceeds of the sale of their larger homes. Banks are reluctant to lend new mortgages to people over 60 years old.

The primary freehold single residential market place represents the biggest percentage of properties not bonded. This market place comprises 83% of the total 6.1 million homes with the potential of raising mortgage finance. The actual not bonded figure here is 70.5% with only 29.5% bonded.

Of the 6.1 million homes in South Africa, the sectional title market place is 12% or 727 000 homes. Of these homes 59% are bonded and 41% not bonded. This reflects the role of first time homeowners using this market place as their initial stepping stone to home ownership, the majority requiring mortgage finance.

The estates property market place is a relatively new phenomenon in the housing market commencing some 25 years ago in South Africa and comprises 5% of the residential marketplace. There are already some 317 000 homes in these increasingly popular estates which comprise freehold, cluster and sectional title homes. Here bonded homes are some 62% and not bonded homes the balance of 38%.

The investor market place is usually between 5-10% of home buyers in average times and this increases in boom residential times. This investor market place usually uses mortgage finance to purchase their rental homes especially when interest rates are lower than the return on their investments. This positive "gearing or leverage" enables the investor to obtain better returns on their equity invested in their homes for rental.

Foreign buyers usually account for up to 5% of home buyers and they have limited borrowing capacity from South African mortgagees in terms of the ruling legislation.

"Our research reflects that the majority of South African home owners are not going to be directly financially compromised by the looming increase in interest rates as two out of three homeowners do not have mortgage bonds on their homes.

However the first time home buyer above R250 000 as well as the second time and subsequent home buyer usually buying a larger home are likely to require mortgage finance. The residential marketplaces around South Africa where these specific buyers are active in the single residential, sectional title and estates, usually in the price range of R 250 000 - R 5 million, will be adversely affected by rising interest rates as their affordability is reduced," says Berkowitz.

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