Gordhan's appointment a step in the right direction for real estate

The real estate industry is breathing a sigh of relief this week following President Zuma's decision to reverse the appointment of David van Rooyen as Finance Minister and give the position to Pravin Gordhan instead.

Gordhan, who was also South Africa's Finance Minister from 2009 to 2014, is well respected and has a proven track record of prudent fiscal management. The markets like and trust him, as evidenced by the fact that the rand exchange rates against major currencies immediately began to improve following the news of his appointment.

Now he has also said he will be working hard to restore the business and consumer confidence that has been eroded over the past year – and that will be positive for the real estate market, which is sentiment driven.

That is, if consumers feel more confident about the economy as a whole and more certain about their own financial futures, they are much more likely to commit to major purchases such as homes and cars – just as more confidence in the business sector drives more investment in new equipment and production facilities.

2016 is still likely to be a challenging year for local real estate. The rand will probably take quite some time to recover from the battering it has taken in recent months as the result of the slowing economy, rising national debt and a series of credit rating downgrades by all the major agencies.

This means that interest rates will most likely have to be raised further, not only to combat higher inflation, but to try to attract some much-needed foreign investment. And that will of course make it tougher for prospective buyers to qualify for home loans.

At the same time, higher interest rates will boost the cost of goods, services and all types of debt, which will place further limits on affordability. However, it must also be said that large number of South African consumers believe property is a good investment, and housing demand is still high, even among first-time buyers.

So we do not believe there will be a huge falloff in the volume of transactions over the coming year. Rather, we expect to see consumers lowering their sights somewhat and opting for smaller and less expensive properties in order to keep their utility and maintenance costs down and their bond repayments affordable.

We also expect them to become even more price and value-conscious than they are at the moment, while the banks are likely to be conservative in their valuations for bond approvals.

Consequently, sellers will need to price their properties very accurately in order to achieve sales within a reasonable time-frame, and should make sure that they are working with a really knowledgeable and experienced agent who is able to keep them abreast of market conditions and give them the correct advice.

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