Demystifying 6 of SA's property market risks

As key players within the residential property markets, commercial banks have become expert in managing the associated risks of being exposed to the mortgage market.

FNB’s recent report on the South African residential property market categorises the various risks as follows in its Housing Market Risk index:
1. Household debt service risk,
2. Household sector savings risk,
3. Disposable income windfall risk,
4. Residential property speculative, over-exuberance and panic risk,
5. Housing affordability risk' and
6. New building over-supply risk.

Seeff Dolphin Coast licensee Andreas Wassenaar demystifies these risks.

“The debt service risk attempts to look at the vulnerability of households and their ability to service future debt. This will no doubt be a key concern for any mortgage provider. It determines how vulnerable a household is to future economic shocks and interest rate increases.

“Three variables impact this risk. Our household saving risk remains critically high, as we simply do not save enough.

However, this has shown some improvement in the past three years. The disposable income windfall risk is very low at the moment. This is the risk of stronger economic growth leading to poor decisions in terms of taking on more debt and then being over-committed. The speculative, panic and over-exuberance risk is currently low. With current interest rates being far higher than the average growth rate in property prices, there is little incentive in the market to borrow money to buy property in order to simply resell at a higher price.

“The ‘panic’ aspect refers to first-time buyer panic-buying in an attempt to lock in prices when they are expected to rise dramatically in the near future. This is not descriptive of our current market.

Home prices remain high

“Our home affordability risk is high – but significantly improved on the peak reached toward the end of the boom cycle in 2007. South African home prices remain high relative to per capita disposable income, average rentals and the consumer price index.

“The new building over-supply risk is currently classified as low. New builds currently cost on average 29.4% more than existing homes – and this gap has widened in recent quarters. This means that the cost of building is inflating at a higher rate than the price and the existing stock of homes.

“Putting all of these risk indices together in a single composite household sector Housing Market Risk index, FNB provides an excellent overall representation of the risk within the housing market – which is currently at a medium-risk rating.

Research the area and pricing achieved

“With the current market favouring buyers, the opportunity exists to secure properties at pricing that may typically be harder to achieve. Once you have decided on the suburb or area that meets your requirements, do some research. Using a professional and knowledgeable specialist estate agent that can show that they are very active in the area can save you hours of research and money. Consider the transferred sales within an area and the pricing achieved and the reasons behind the results. This will provide an excellent benchmark to use to compare current available options.

Value drivers

“Once you have earmarked a property, consider how easy it would be to add value to the home and at what cost this could be done. Some properties lend themselves to improvement while others may be a struggle, regardless of what is done to them. Look out for the value drivers outside of the property itself, such as location relative to amenities, traffic noise, views and impact of neighbouring properties. Any surrounding vacant land should be carefully assessed to determine the risk it could pose to the home you are considering, once that property is developed. Armed with your specialist area knowledge you will be well equipped to negotiate the most favourable outcome possible.”