How Will Higher Interest Rates Affect Sa's Property Market?

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This month marks the third Monetary Policy Committee meeting this year, where the Reserve Bank will decide tomorrow whether the prime lending rate will be hiked or remain at its current level of 10.5%.

Prospective home buyers and homeowners alike should draw up a budget to assist them in dealing with the challenging economic environment they find themselves in, advises Goslett. Consumers will be in for hard times ahead, if they don't streamline their spending and build up their cash reserves."

Given the fact that inflation is on the rise and has once again breached the top end of the target band, and the continued weakening of the currency, the Reserve Bank will be under pressure to raise the interest rates despite low economic growth.

Regional Director and CEO of RE/MAX of Southern Africa, Adrian Goslett, says that with inflation expected to reach around 8% towards the end of the year, the Reserve Bank will be hard pressed not to push rates up, even though previous hikes have not done anything to curb inflation.

He says that another interest rate increase at this point amid petrol price hikes, rising food prices and electricity tariff increases, would only "heap burning coals onto consumers heads".

"With the compounding effect of the ever-increasing cost of living, even a marginal increase in rates could be the proverbial 'straw that broke the camel's back' for numerous consumers. Many households are already struggling to make ends meet, so further hikes will be a tough pill to swallow," says Goslett.

The majority of prospective home buyers are reliant on loans to purchase property, so increases in the rates are likely to slow the market to some degree, he says.

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Goslett comments on how this will affect SA's property market: "Credit will cost consumers more and they will be paying higher repayments on their bonds. Essentially buyers will be paying more and getting the same, or in some cases less. Rate increases will impact affordability levels so potential buyers may be forced to compromise on certain homes features. Those who are not prepared to compromise will have to stay within the rental market until they can afford the home they want. Bearing in mind those rentals will also likely increase in order for landlords to meet their growing financial constraints."

He adds that banks place a lot of emphasis on affordability ratios during the bond application process. An increasing interest rate makes it more and more difficult for aspirant home buyers to show the necessary levels of available finances for bond approval. However, the interest rate is not the only element that will have a bearing on the buyer's potential to afford a bond. The buyer's personal finances will play a far greater role in determining how much the buyer will be able to repay on bond instalments. A rise in the interest rate will have less of an effect on the buyer's affordability ratio than high levels of personal debt.

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