Property Market Review –

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There's blood on floor in the residential property market and if the pundits are to be believed, more will be spilt before the year is out, even if the interest rate drops. It's scary stuff, but in the words of one veteran estate agent: "When there's greed in the market, be fearful. When there's fear in the market, be greedy. My advice is: buy now."

For most people the talk of securing a market steal is academic: they barely have enough money to pay the bills, let alone service another bond. But for those who have cash, there will be bargains to be had soon. The longer you can hold out towards the end of the year, the better the buy, experts say.

Carmen Altenkirch, an economist with Nedbank, explains how dire the situation is for many people. Stats SA released insolvency and liquidation statistics this week and revealed how many households were bankrupt. "There has been a steady increase this year and we expect this to continue until 2010".

"You also have to take into account the lag effect of this economy. It takes time for people to adjust to the economic climate and to higher bills. Simply put, interest levels increase and unemployment increases. In this economy people have less disposable income. This has a direct impact on companies who can't employ as many people. Some have to retrench staff and this makes people more reluctant to spend."

Altenkirch says Gross Domestic Product statistics released this week show that the manufacturing sector in South Africa has shrunk by 20% compared to this time last year.

“This is very hectic. The world crisis is affecting us. We live in an integrated global economy.”

Altenkirch says there were 206 company liquidations in December 2007 and 347 in December last year. The number of household bankruptcies also leapt from 215 to 273. The monthly average for household bankruptcies last year was 262.

“These numbers will increase this year,” Altenkirch says, “There is less money around this year and less job security. If there is a chance you may lose your job then you aren’t likely to buy a house or a car. This becomes a negative downward spiral.”

Luthando Vutula, the managing executive in the Home Loans division at Absa, says the GDP figures released this week point to more rapid economic slowdown than was previously expected. This is obviously having an adverse effect on the property market, though it does also present opportunities for astute buyers and investors.

Repossessed properties, or “properties in possession” as the banks call them, offer good value for investors. Vutula says the bank has seen a 200% increase in the number of repossessed properties since 2007.

Although it’s a huge percentage increase, this translates to fewer than 50 properties a month, he says. “What is noteworthy, however, is that we’ve seen an increase of 115% in the ticket value – not the option price – of properties in possession since 2007. Basically this means that it’s the more expensive properties that are being repossessed, which goes to show that the recession is hitting all segments of the market.” Sure, there are good deals to be had right now, he says. “Now certainly is the time to invest. In spite of the dip in house price growth since January 2008, property is still a good investment. You can buy for cheaper than two years ago.”

John Rivers-Moore is the director of Sales and Strategy for Standard Bank Home Loans. He says there are a number of mechanisms to buy properties 'in distress'. "Properties can be bought directly from customers who realise their best alternative to avoiding a worsening debt position is a well-planned and executed disposal before really going into distress. This is done primarily through customers assisted by real estate agents (sometimes with special Power of Attorney given to the bank)."

Similarly, sales occur during the legal process up until execution of a judgement, when a court appointed date is set for the sale of the asset by a sheriff under auction. Finally, properties in possession are those bought by the bank at a public auction to recover the outstanding debt on the home loan account. These will then be subsequently sold but. They did not meet the minimum price set by the bank at auction.

A prospective buyer at a public auction needs to consider various issues such as outstanding rates and taxes or body corporate fees, which they would become liable

to settle. They should also check whether the property is subject to a lease or not. Buyers pay transfer duty, conveyancing fees and bond registration costs. Rivers-Moore said details of Standard Bank properties in possession can be viewed at http://www.standardbank.co.za/SBIC/Frontdoor_02_02/0,2454,176061_8796173_0,00.html

"There are some good value purchases to be had because the bank looks to recover only its outstanding loan, which might be short of the 'non-distressed market value. We advise buyers to establish the value of the property themselves. Will they be buying to live in the property themselves or are they investors? If so, will they be able to attract suitable tenants? These are the questions they have to ask before buying a property in possession," Rivers-Moore said.

Vutula says that Absa has a value proposition for investors looking to purchase two or three investment properties to let. "We offer packages that include a deal with a company tasked with managing your rental properties, for instance. This is just one of the ways that Absa is seeking to add value."

For clients facing the bleak prospect of having their properties repossessed, Vutula offers this advice: "Talk to your bank sooner rather than later! "We encourage clients to talk to us the moment they foresee problems or the likelihood of defaulting. Don't wait until you're a month or two in arrears. Contact your bank immediately. We can't overemphasize the importance of communicating with your bank. We want people to keep their homes. Repossession is the last thing we want to do."

The outlook is not entirely bleak. The upside for South Africans, says Altenkirch, is that the country is committed to stimulating the economy and because interest rates are high by emerging market standards, there is room to reduce rates and improve consumer confidence.

http://www.privateproperty.co.za/news/newsarticle.asp?articleid=202