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Oversupply leads to mild improvement in property market

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THE First National Bank (FNB) residential property barometer has shown some improvement in residential demand since late last year, but this is attributed to the significant oversupply of stock still prevalent in the market.

FNB property strategist John Loos said yesterday this oversupply came from a household sector that still faced significant financial stress.

"The weak economic environment is contributing to a significant amount of 'offloading' of property, with the survey reporting estate agents' estimates that about 26% of total sellers are selling in order to downscale due to financial pressure," he said.

Loos said because of the oversupply, it remained likely that the annual house price decline would continue for most of this year.

Month-on-month deflation of 2% was recorded last month, unchanged from February.

The FNB house price index continued to drop last month to about 7,8%, much as expected, down from a revised February rate of 6,2%.

For the first quarter of this year, the average freehold two-bedroom house price of R315468 declined 13,2% annually, representing a further deterioration from 10,3% annual deflation in the previous quarter.

"This is believed to be reflective of the financial strain lower-income groups are experiencing, as much of this segment is believed to be found in such lower-income areas," Loos said.

The average price of a sectional title two-bedroom unit, R623613, showed a mild 1,2% annual rise using revised figures, while the average price of sectional title units with less than two bedrooms, R442896, declined 3,3%.

The three-bedroom market has seen most of its recent price inflation coming to an end. The average price for three-bedroom sectional title units, R903544, showed a slight annual price inflation of 0,2% in the first quarter, down from 2,2% in the previous quarter.

The Reserve Bank has cut interest rates by 250 basis points in total since December, implying that the cumulative decline in a monthly bond repayment

on a R500000 bond at prime rate is about R912.

“In such an interest rate sensitive market as the residential market, interest rate cuts and the prospect of more coming, should boost demand, and indeed the survey points to estate agents believing that for two successive quarters there has been a mild uptick in demand activity,” Loos said.

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