

Banks are key to market growth

PROPERTY REPORTER

THE huge demand for low income housing in South Africa, combined with declining interest rates and relative political and economic stability, continues to drive investment in the affordable end of the market.

This is the view of Soula Proxenos, managing director of International Housing Solutions.

The company manages one of the largest non-government housing funds, the R1.3 billion South Africa Workforce Housing Fund.

Proxenos, which is based in London but is responsible for the company's global and South Africa operations, said much of the sheen had come off emerging markets.

But, she said, these markets were not necessarily alike and were responding differently to the economic recession.

"If we look at the so-called BRIC countries – Brazil, Russia, India and China – it is readily apparent that Brazil is holding up reasonably well, Russia is in terrible shape and India is overheated and correcting sharply.

"As for China, we are all holding our breath – as it increasingly assumes the role of engine to the world's economy, its fate is ultimately ours too," she said.

"In South Africa, there are a number of fundamentals in place which favour continued growth in the affordable housing segment. In addition to the huge gap between

demand and supply, South Africa is relatively politically stable and has a transparent and good environ-

ment for doing business. "New housing starts in South Africa are down, which will increase the dis-

parity between houses available and entrants in the market. Mortgage rates, not only here, but across

the world, are coming down as inflation takes a nose-dive, making debt and therefore home ownership more affordable."

Proxenos said prices were softening on land and construction costs as the economy and inflation turn down.

"The much discussed credit crunch has impacted on banking around the world. More seriously, the contagion has moved from Wall Street to the High Street – millions of people are losing their jobs and the retail sector is being beaten to a pulp.

Recovery

"US housing starts are significantly down while UK housing starts are down to 1924 levels.

"The UK market has been hit more negatively and subjected to a much slower recovery than the US market."

Proxenos said South Africa's finance system most closely resembled the UK debt market.

She said the immediate future of the residential real estate market in South Africa would depend on the banks continuing to lend for construction and end user finance.

She said current short-term downturn offered good opportunities over the longer term.

"In the medium term the banks will be back to business as usual. When that happens, investors and developers who have taken advantage of the opportunities in the current dislocated market will reap the benefits.