

It is against this background that voices are beginning to rise for government intervention to effect a return to an almost forgotten era of fixed interest rates for generation-long mortgage loans in particularly the residential property market.

Analysing the state of the property market recently, Soula Proxenos of International Housing Solutions (IHS) referred to this issue.

She noted that mortgage providers "have made their credit criteria more exacting and have, until very recently, required large deposits from households that conventionally have little or no savings. In recent weeks [mid-December 2009], the mortgage supply appears to have loosened up a bit, but is still constrained."

She added that the time has come for the government to encourage financial institutions to introduce fixed rate mortgages for families that qualify at current low interest rates. "These borrowers might not be able to sustain a 3% or larger increase when interest rates start climbing again and this is preventing them from taking the plunge now while rates are relatively low.

"Fixed rates or a cap on how high interest rates can go are critical for households with less disposable income. These households are the most negatively impacted on when interest rates increase, and this inevitably leads to foreclosure and bank lending being withdrawn and in return impacts on the ability of developers to produce stock.

"This will make affordable housing remain in a boom-bust cycle instead of a more robust sustainable pattern," said Proxenos.

The South African private housing industry, and particularly the financing of the growth thereof, changed dramatically

in the late 1970s when then Minister of Finance Professor Owen Horwood allowed the building society industry to be gobbled up by the major banks.

Up to that point, the private housing industry had seen a massive boom of residential suburb development countrywide on the back of a financing dispensation provided by a building societies sector, which offered financing based on interest rates aggregated over the life of the loan of 20, 25 or 30 years.

The dispensation helped to ensure stability and security via regulations that included deposit thresholds and repayment ceilings of not more than 25% of proven fixed household incomes.

With the absorption of building societies into the banks and their retail banking business style, long-term housing loans became subject to short- and medium-term economic fluctuations.

The result was that particularly lower and middle-income households became massively more vulnerable to these short-term fluctuations.

Home ownership changed in many instances from being a basis of long-term security into a factor of short-term risk to financial well-being – as the latest financial crisis has proven yet again.

In the meantime, there seems to be wide consensus among property market analysts that the outlook for property during 2010 will remain mild, but far better than during 2009.

According to the Alliance Group auctioneers, during 2010 "people will start spending more as the stock market continues to rally and the economic outlook improves."

The challenge during 2010 will be to refocus on the long term and what the post-World Cup period will bring.

"We must not forget that 2010 may well be a tale of two halves," said Alli-

ance chief executive officer Rael Levitt, adding that the impact of the World Cup in the first half of the year could not be underestimated.

However, South Africans should remember that the economic headwinds were still strong and unemployment, above 20%, was still alarmingly high.

"The property market, still burdened by debt, faces a long, hard slog. In fact, our view is that the property market is indeed in a period of slow, weak and dull recovery," he said.

Property economist Erwin Rode foresees low rental-growth rates across the board for industrial, office and residential sectors. "As residential rentals have a heavy weighting of 16.4% in the Consumer Price Index, these figures (for low rental-growth rates) are good news for inflation, as measured by the CPI," he said.

According to Rode, the outlook for building activity also looks bleak, as building input costs and tender prices continue to decelerate.

However, he also sees good news, with housing prices seemingly having bottomed out in April last year.

But it is too early to celebrate, as it remains highly unlikely that the recovery in nominal house prices will result in a change of direction of real house prices any time soon.

Reasons for this are, according to Rode:

- The grim prospect for the country's finances, which will put pressure on taxes;
- Rising unemployment;
- House prices are in real terms still very high;
- The high debt levels of households; and
- Constraints on economic growth through the electricity debacle and the gloomy outlook for the world economy.