

Affordable housing: dodging the slump?

by Heather D'Alton

Just how good a bet is affordable housing? Well, some pundits reckon opportunities abound in the low-income sector. Their reasons? Demand and supply are now well out of kilter – there are fewer houses available in the sector, and more first-time and “affordable” property buyers entering the market. And they reckon, even the one crucial factor blocking new entrants in the property market – banks – will loosen their tough lending criteria over the medium-term. But just how is the affordable market performing in the current environment?

The answer to that depends on who you ask. According to FNB property strategist John Loos, the lower-income segment's been one of the worst hit – with these owners under considerable financial strain. FNB found, in the first quarter of this year, the average freehold two-bedroom house price tumbled 13.2% year on year, now costing R315 468. That's even worse than the previous quarter's fall of 10.3%. According to the bank, most of the lower income groups are represented in this segment.

Still, Lightstone's recently released Residential Property Index has found the affordable market – which it measures

as properties worth less than R250 000 – is the only segment showing significant annual house price inflation. It jumped 14.1% year on year in November 2008. And although the residential property market's taken a turn for the worse since then, the sector still outperformed all other value bands. Mid value property prices inched up just 0.6%, while high value and luxury prices fell 2% and 2.6% respectively. The group found the discrepancy between this and other value groups first appeared in 2006 – when it became the top performing segment. Back then, house prices in the affordable segment jumped 38% – considerably higher than any of the value bands.

Lightstone does, however, have a warning for the sector: affordable property price growth is coming down. And with a number of negatives still working their way through the system, including looming job losses and the increasing debt burden, it could be well into 2010 before house prices in general start enjoying strong growth again. On the upside, the group says: “Increasing access to finance from lenders focused on growing this market may provide some cushioning to house prices.”

Lightstone isn't alone in having some good news about the sector. Bill

Rawson, chairman of Rawson Properties, says there's more action in the lower and lower-middle income categories than elsewhere, thanks to first-time buyers. “Homes priced below R700k are appreciating at an above average rate, the prices being boosted by the racial integration that's taking place in the better previously disadvantaged areas.”

And according to MD of International Housing Solutions, Soula Proxenos: “New housing starts in SA are down, which will increase the disparity between houses available and entrants in the market.” She says with mortgage rates coming down, as interest rates fall, homeownership's becoming affordable in SA. Moreover, in the medium-term banks are expected to be “back to business as usual” and when that happens, “investors and developers who've taken advantage of the opportunities in the current dislocated market will reap the benefits”. Still, there's a warning for those looking to enter the market: Loos warns nothing in the property market will enjoy any rebound in the near term. He forecasts a “mild residential demand recovery as 2009 progresses”, but average year on year house price deflation will remain for most of this year.