



CUL-DE-SAC
Growth in house prices is expected to keep declining until the end of the year, when it will hit zero, according to Standard Bank

PHOTO: JOHN WOODROOF

House prices expected to fall in real terms

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Pretoria – House prices are expected to start rising at a lower rate than inflation from the first quarter of next year. This means that in real terms, the value of houses will start to drop.

Elna Moolman, an economist at Standard Bank, said on Friday that nominal house prices increased by 6 percent in August. This is the slowest rate of growth since December 2002.

She added that the decline in the growth in house prices was expected to continue until it reached zero by the end of the year and stay there for a while.

"Inflation is picking up and expected to peak in the first quarter of next year, when it

could go as high as 7 percent. You could have noticeable real negative growth in house prices then because inflation will be [between] 6 percent and 7 percent and there would be zero house price growth," she said.

Nominal price growth refers to the increase in house prices without considering the impact of inflation.

Moolman's comments follow the release of Standard Bank's latest residential property gauge on Friday.

Jacques du Toit, a senior economist at Absa, agreed that house prices could decline in real terms, especially on a short-term basis.

Du Toit said the real month-on-month growth in house

prices in June this year was 0.1 percent and it seemed growth was just below zero for July.

"This means that in July, the average house price was lower than in June. In the short term, house prices can decline on a month-on-month basis.

"We expect inflation to pick up further towards the end of the year and house price growth to move into single figures in nominal terms. I can definitely see real house price growth turning negative and prices declining," he said.

Du Toit said April 2002 was the last time there was a month-on-month drop in real house prices.

The Standard Bank report said the residential property market continued to wane and house

prices were only 6 percent higher in August than a year earlier.

It said the five-month moving average growth rate decelerated to 8.7 percent year on year last month from an annual 10.2 percent in July.

"The onslaught on consumers' finances from all around – record high petrol prices, soaring food prices and rising interest rates – is taking its toll.

"Softer growth rates in car sales and mortgage applications are indicative of a hesitancy on the part of consumers to open their wallets for new purchases, which, of course, means that there is less demand for houses and that households' ability to pay increasingly high prices for houses is constrained," it said.