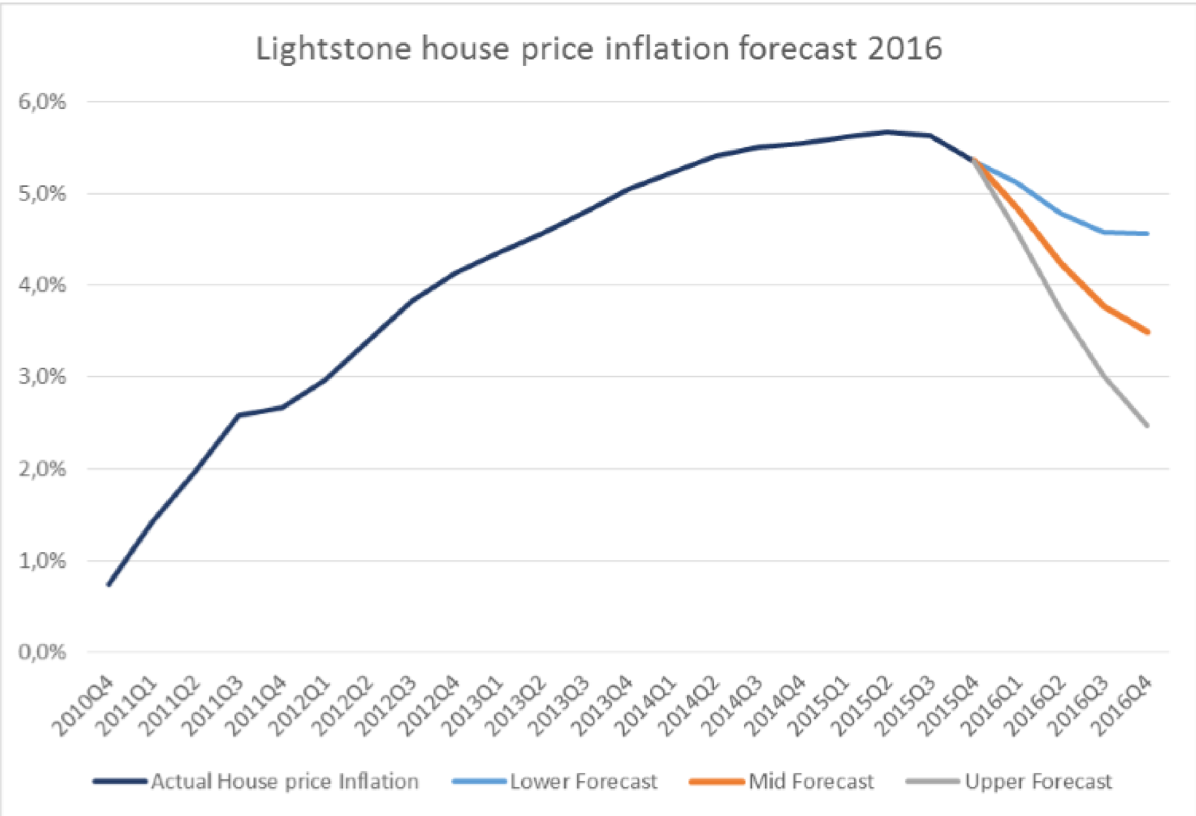
Homeowners will lose wealth for the first time since 2011

At the start of 2015 Lightstone forecast that national house price inflation would end the year off at 5.8% with significant downside should the economy take more strain. By the second half of the year there was very little positive momentum left in the economy and this resulted in national house price inflation ending the year slightly below our forecast at 5.5%

In the absence of a significant positive economic turnaround with an investment friendly political climate we will see national house price inflation dropping below CPI, resulting in the loss of real wealth for the majority of homeowners this year. Lightstone's forecast for 2016 is that nominal house price inflation will end at around 3.5% resulting in real deflation of home values as the Reserve Bank battles to keep CPI within the 6% upper band. If we see a positive turnaround in the economy the best case scenario is that the drop will be subdued and end the year off at around 4.6%, but on the flip side if we have to weather any more major economic storms house price growth could drop to 2.5% or even lower.



The 3 main factors that influence this depressed forecast are:

- **A looming recession**

With barely positive GDP growth experienced in 2015 and a strong likelihood that GDP growth will slow down further this year, there is a real possibility of South Africa going into a recession during 2016. This will result in even fewer people being employed and able to buy homes, more people being forced to sell their homes and generally less money available to service debt and put down deposits on homes. This absence of eligible buyers and desperation of some homeowners to sell will noticeably stifle property price growth.

- **Less speculation and home improvements**

A Lightstone analysis conducted in 2015 showed that property speculation is at its lowest levels in more than a decade with only 14% (compared to 37% ten years ago) of properties currently being sold within two years of its previous transaction date. Property speculation generally goes hand-in-hand with renovations and this kind of activity in the market drives up house price inflation. Under the tough economic conditions, existing homeowners are also less likely to maintain and improve their homes, resulting in less valuable homes coming onto the market.

- **Currency induced inflation double whammy**

With worldwide investment risk aversion, combined with credit rating downgrades, "Nene-gate", the drought and the unfriendly investment climate that exists, it is unlikely that the weak currency position will be corrected soon. South Africa is heavily reliant on imports of oil and consumer goods and the CPI basket will be hit hard by the weak Rand. This means that not only will every Rand invested in a home by the start of 2016 be worth much less by the end of the year, but it will also prompt the reserve bank's monetary policy committee to push up the repo rate to try to keep consumer price inflation below the 6% target. This increased cost of credit will take even more potential buyers out of the market resulting in a double whammy for real house price growth.

We've seen the luxury property market index, which in the past led the rest of the market through recessions, already growing at lower than CPI in 2015 with the high value market index in hot pursuit. It is unfortunately only a matter of time until the mid-value market – where the majority of South African homeowner wealth resides – follows suit.

For most South Africans owning or aspiring to own a home this unfortunately means that one of the last remaining "safe investments" is not watertight anymore and careful research should be conducted when evaluating whether and when to buy or sell a home. As always there will be micro economies in certain areas and market segments that will buck the trend and create opportunities for good capital growth.

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