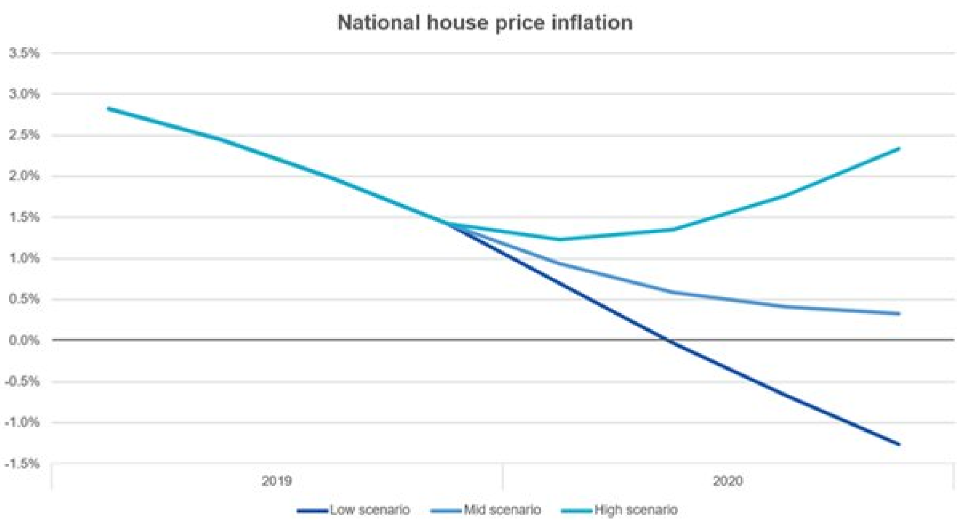
BIZCOMMUNITY

Lightstone predicts positive turnaround of house price inflation in Q2 2020

After the economic recession in 2008 house price inflation in the last decade showed lacklustre growth only peaking at 6.35% at the end of 2014. Fast forward to 2019 where house price inflation for the year ended just below 2%, and Lightstone's low road scenario was forecasted at exactly 2%. According to Paul-Roux de Kock, analytics director at Lightstone, this is the first time that actual inflation came in under the low road scenario forecast.

Image source: Gallo/Getty

"After starting the year off with negative GDP growth in the first quarter, South Africans were desperately looking for an economic silver lining throughout 2019. With not much of an economic turnaround, we saw the low road scenario play out which means we are starting 2020 off with the possibility of house price inflation breaking through the 0% barrier in the second half of 2020 and ending off the year with an 1.3% decline in home values should the low road scenario play out again," says De Kock.

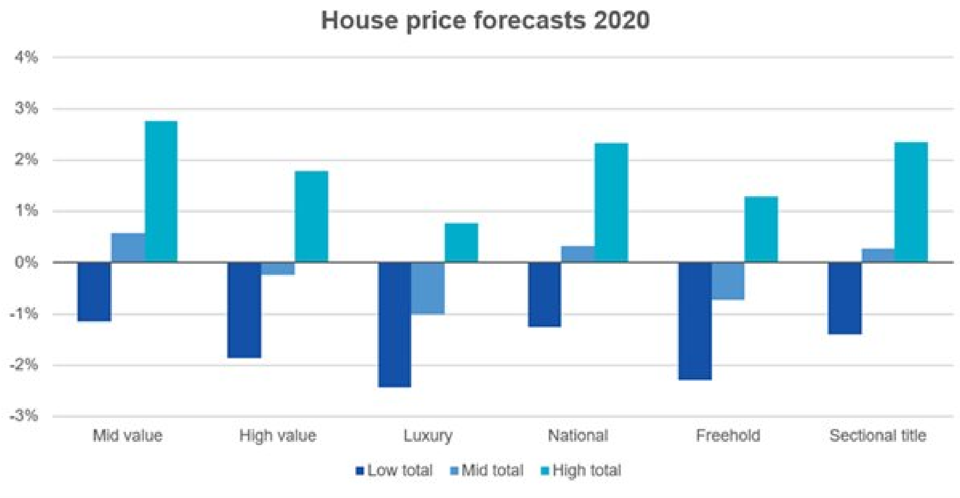


The Lightstone prediction model includes CPI and GDP estimates and change in prime interest rate.

According to De Kock, under the most realistic scenario, we can expect more of the same and that house price inflation will end the year still in positive territory but just barely above 0%. “Although the current economic status quo does not bode well for the health of the property market, the positive news here is if you are looking to purchase a home, it’s a great time to do some bargain hunting.”

Suffice to say the current grim outlook will likely not last forever with property still being a sound long-term investment. This is supported by a high road scenario forecast where Lightstone predicts a positive turnaround of house price inflation in the second quarter to end the year off on a positive trajectory.

When evaluating the different value bands’ performance, the trend is similar to what was experienced in the last two years. The affordable market is expected to remain the fastest growing value band, which was more robust during the last four years when the higher end of the market increasingly suffered at the hands of low economic growth and policy uncertainty. During 2019, the luxury property sector entered nominal house price decline for the first time since the 2008 recession and is predicted to experience further negative growth during 2020. “Another unique finding within the value band forecasts is that during 2020, sectional scheme growth is projected to outperform the freehold property sector with positive house price growth,” explains de Kock.



With the continued revelations of mismanagement across the public sector, corruption and the looming threat of a junk status downgrade by Moody’s, there is no doubt that consumers are finding it hard to stay positive. There are, however, real opportunities to be found for potential buyers and investors specifically in the low-end affordable market. “South Africans look to policy makers to urgently implement growth-inducing policies and remove uncertainty from the political sphere, but until that happens it is incredibly important that home buyers and investors engage with knowledgeable partners to understand the hyperlocal factors that could protect their investment through the tough times,” concludes de Kock.