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BUSINESSDAY

Business Law & Tax Review

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November 2008

A review of the Government Gazette and new developments in law

Property owners must avoid panic selling

WE HAVE heard enough threats of a global recession looming during the past year or so. There is now even talk of a deep global depression. Even while all the signs were there that the US economy is firmly in a recession, while market commentators speculated about the downturn in that economy and about the possible effect of the sub-prime crises, the mere thought of a recession was denied by the US authorities.

Recently US President George Bush (together with the other decision makers of the most prominent economies around the world), devised a $700bn rescue plan to save the global economy.

The jury is still out on the extent to which these efforts have been successful. For a while (at least), it seemed as if we (on the southern most tip of Africa) have been spared.

Being part of the global economy comes with huge benefits, but it also implies that one is not spared the consequences of a global downswing.

Even though none of our banks have gone under (as has been the case in the US, Europe and the UK) and we do not have any of our major banks in trouble, it no longer seems as though we have been spared the effect of the global credit crunch, as investors are pulling out of the emerging markets and emerging currencies are hard hit by the global turmoil.

Graphic: KAREN MOOLMAN

The JSE has lost at least a third of its value, from a high (earlier this year) of 32 000 and the rand is under huge pressure — having weakened significantly against most major currencies in the past few weeks.

What is the effect of all of this on the South African property market? The property market has experienced a huge "long boom" over the past decade or so and provided investors with growth figures that were previously unheard of. During this period, property speculators came to the fore and many more properties were built and put onto the market than the market could actually absorb.

This perceived over supply did not immediately have the effect of pushing down property prices, as SA enjoyed a lengthy period of relatively low interest rates, so that many people who would otherwise not have been able to enter the property market, entered it as first time buyers. In addition many middle income property owners acquired second, third and even fourth properties for investment purposes.

The euphoria surrounding the property market, started to recede during the past year to eighteen months, maybe due to the effect of the National Credit Act on the one hand and significantly higher interest rates on the other hand.

The South African Reserve Bank has been increasing the repo rate steadily since June 2006 to its current level of 12% (with a prime rate of 15,5%). These steps already had the effect of a significant slowdown in the residential market in particular, which preceded the current credit crunch.

ONE of the possible reasons why there was quite a significant delay in the effect of the global credit crunch hitting our shores, could be because our banks were forced out of "reckless lending practices" some time ago already (by, among other things, the National Credit Act).

However, now the panic seems to have hit us as well. Panic selling (of shares and of fixed property) is quite evident in times such as these — people merely dump their shares on the market, as they fear that it has not "bottomed out".

On the property side, many people attempt to sell their properties at whatever price they can obtain. It must be borne in mind that one's primary residence is often one's biggest asset and to sell it for a price well below its actual value amounts to seriously diminishing one's net asset value.

Most South African properties (with marked exceptions) still offer very good value (to both local and international buyers) — even though one might have to look harder for the properties offering good value than was the case in the past.

The message is that the right property (location, location, location) will always sell in any market, if it is priced correctly. It might just take longer to find a buyer in the current environment. In these turbulent times, panic selling should be avoided as far as possible.

Rather engage with your bank negotiating more flexible repayment terms by for example extending the repayment period to 30 years instead of the usual 20 years. Negotiate a lesser payment for a period of time, but then religiously stick to the agreed revised repayment terms or engage the services of a debt councilor as provided for under the National Credit Act.

The effect of the credit crunch will pass in time. The South African property market overcame many obstacles in the past such as a prime interest rate at nearly 25% in the late 1990's.

During that time, when the market also slumped, the market persevered and afterwards entered the phenomenal growth phase that only ended at the end of last year. It may take time, but the market will rebound. History has proven it.

This market now requires patience and realism in one's expectation of a fair purchase price.

Do not act in haste. In most instances there may well be a more appropriate solution to selling your home at any price.

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