Latest 0.5% drop in interest repo rate will help - but Rawson MD expects another soon

Tony Clarke, MD of Rawson Properties, was one the few chief executives in the residential real estate sector who has “more or less” expected the latest drop in the Repo rate – despite what he described as the SAR Bank’s “innate conservatism”.

“The weak domestic growth,” said Clarke, “in my view calls for a further drop as soon as possible.”

A month earlier Clarke had, in fact, said that the SA Reserve Bank Governor should go for broke and reduce the interest rate by a full 1% “because it is now accepted by many that the decision not to reduce the rate last time was unwise”.

“I now expect a further 0,5% drop this year,” said Clarke. “This would take the rate down lower than it was in June 2006, when the last tightening cycle started.”

Clarke said this week that the factors indicating that this was the right course to take were

The Cost Price Index is projected to keep easing up – recent reports, he said, have indicated that it will be in the target range of 5 to 6% range from the second quarter of 2010 into 2011.
interest rates on the excessive current consumer debt are hitting South Africans hard although the actual take-home pay of lower middle class South Africans is now improving – with a stimulatory effect on the economy.
the demand for new homes is pent-up, especially at the lower end of the market and these buyers will welcome all the help they can get.

“Obviously,” said Clarke, “the drop from a 15,5% interest rate level in November last year to a 10% level now has helped the market stay alive – on a R1 million bond the monthly payments have now been reduced by R3 560 per month. Those wanting a mortgage bond now on the much-eased lower rates, however, have to be warned that the banks do not foresee the low rates lasting much beyond the second quarter of 2011 so they will be looking for a buffer in the applicant’s earnings – he must down the line be able to pay significantly more each month than he will initially.”

Those who are already paying bonds should, said Clarke, seriously consider not dropping their monthly payments but continuing to pay at the old rate.

“I do not want to go through the tables of figures all over again,” said Clarke, “but at Rawsons we have shown that this is a highly effective way to save. In these lull periods of lower rates the buyer can write off much debt and reduce his payoff time significantly.”