

Cheaper to buy than to build

The latest data from Absa Home Loans indicates that building a new home is just becoming too expensive, especially during this period of economic uncertainty and rising electricity costs.



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"We are seeing demand for existing housing, especially in the lower end of the market (i.e. properties under R1.5m) but new housing developments have become scarcer (save in a few areas) as construction costs soar," explains Bruce Swain, MD of Leapfrog Property Group.

The data from Absa reveals that the average price gap between existing homes and new homes was a mere 1% or R9,500 in 2007 - based on a housing sized of 80 to 400m². In 2014 that gap had increased to 30.5% or R458,000.

Average price gap between new and existing houses:

- 2014: 30.5% or R458,000
- 2013: 35.1% or R615,000
- 2012: 34.5% or R553,000
- 2011: 31.6% or R478,000
- 2010: 27.5% or R386,000
- 2009: 20.5% or R256,100
- 2008: 11.9% or R128,400
- 2007: 1% or R9,500
- 2006: 2% or R16,700

During the first quarter of 2015 existing house prices rose by 7.2% year on year to R1,291,300 while the cost of building a new home rose by 3.9% to R1,869,400, making it R578,100 more expensive to build than to buy.

Jacques du Toit, a property analyst for Absa Home Loans, concurs that this disparity is caused by escalating building costs which he says has continued to increase faster than consumer price inflation in recent years.

Good news for sellers

While prohibitive construction costs are good news for sellers in the short term - because more prospective home owners will look to rather buy than build - the situation could eventually put too much pressure on the built market where buyers will struggle to find a home to buy and / or the cost of existing homes will become too high.

"This situation can't go on forever as we're a growing nation that will need more property development, and it is my belief that government and the private sector will need to join hands to make this more financially viable for new home owners," says Swain.

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