SA residential prices performing better than most of Western world

By Bill Rawson

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Among my friends and business associates there are several who have invested in residential properties overseas in the last year or two - especially in Europe and the UK. There is a certain logic in this as many European homes are still at low price levels (for example: Spain's house prices are down by 24.3%, since the fourth quarter of 2007).

Any home purchase in the southern half of Europe is likely to represent good value at the moment. Nevertheless, such purchases will be financially unsatisfactory because European growth prospects in the foreseeable future are dismal.

Such homes can, of course, provide good holiday accommodation and, in the event of the rand destabilising, could gain significant value. However, what they really represent is a bolt hole and they provide another choice to the owners, should the SA economy go bottoms up. From a financial point of view they are very definitely a long-term prospect.

SA outperforms 85%

I would draw attention to the "Home Truths" article, published in the 12 January, 2013, issue of The Economist, which shows that South African home prices, in 2012, performed significantly better than those of 85% of the world's developed countries.

South African homes increased in value by 5% year-on-year in 2012. Only Hong Kong (with a 21.8% growth rate) and Austria (with 10.1% growth) performed better. Nine of the 18 countries listed in the survey saw their homes lose further value in 2012, the worst being: Spain with a 9.3% drop, The Netherlands with 6.8%, Ireland with 5.7% and Italy with 4%.

Less encouraging news for the SA residential investor is that since the first quarter of 2007, again according to The Economist, home prices have risen by only 12.2%.

Here again, however, we look fairly stable in comparison with such front runners in housing as the US (whose homes, although now at last appreciating in value, have devalued by 20.5% since the first quarter of 2007) and Japan (whose homes have lost 14.2% since late 2007).

Lower priced homes still gaining

John Loos, FNB's property economist, has predicted a slower 2.5% South African home growth rate for 2013. This would mean that, in real terms, South African homes will lose value in the coming year.

Although this may be true of the market as a whole, it hides the fact that in the lower priced brackets, particularly those priced below R1 million, increases of up to 10% are still being seen annually.

I am closely in touch with many reputable estate agents and the general consensus among the vast majority is that the market is now on a recovery path and that Loos' forecasts could prove overly pessimistic.

Particularly significant in The Economist's survey is the fact that South African residential property is still undervalued by 5% on the price-to-rent ratio index. This means that SA property investors can look forward to further significant rental growth as well as steady capital growth.

The fact that South African rentals are well above average, in relation to the global figures, suggests that capital values must continue to rise.

ABOUT THE AUTHOR

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