Time to revisit the five year rule says Richard Gray, Harcourts Real Estate

It's time to the revisit the five year rule for buying a home, says Richard Gray, CEO of Harcourts Real Estate. Speaking after the release of FNB's first Property Barometer for 2013, which shows that the average house price in South Africa for 2012 as a whole rose by 5% compared with 2011, Gray said home buyers needed to take a longer term view than they had since the country's real estate boom, which peaked in 2008.

"FNB reports a slight improvement on the average house price growth of 2011 (3.3%), and is expecting property's appeal as an asset class to continue improving as the year unravels," says Gray. "This is indicative that the market is moving in the right direction and supportive of the traditional appeal of property as a strongly performing asset class over the long-term."

However, he stresses that the key to making money out of real estate is in holding it until it has built up enough to make a profit when it comes to selling. "Post-boom, property has to be viewed as a medium-to-long-term asset class rather than a get-rich-quick investment vehicle, hence the validity of the five year rule. Taking a one or two year view is financially short-sighted in the current market - rather aim to be in the house for at least five years and up to 10 years so that you can be sure of capital growth and making a healthy profit when the time comes to sell."

Caught up in an upgrade cycle

First-time buyers are particularly vulnerable to making short-term decisions, he continues, driven as they are by affordability. "They often get unwittingly caught up in an upgrade cycle that starts with them buying a small flat or townhouse when they first start working. Then, when they get married or have children a year or two down the line, they are forced to upgrade to a larger home. At this point, three things become apparent to many of them: the first is that their bond repayments during this time have only managed to service the interest on the principal amount; the second is that, while the brick-and-mortar value of their property has grown, they still have a way to go before being able to sell for a profit; and thirdly, they will have to find money for transfer fees and the other costs that are an inevitable part of buying and selling."

It's a scenario that sees short-term home owners either failing to make a profit when selling, or worse, making a financial loss, he says, hence the need for buyers to look not only at their current life stage but to plan accordingly for the future.

Gray's advice is for buyers to jump straight to level two of the home buying cycle, if possible. "Start by identifying a property's resale value before you buy it: consider the importance of location and research the neighbourhood before you even start looking at homes. Find out what's happening with regard to zoning, development and security; have a good look at surrounding homes to ascertain quality and standards of upkeep, and bear in mind that while there are still a lot of properties on the market, there's a growing reduction of quality stock in many areas."

"The same goes for investment properties," he continues. "Take into consideration changes in areas with regard to infrastructure, both good and bad. The Gautrain is one of many examples: by making it easier for people to commute to work, it has increased the popularity of certain suburbs. On the flip side of the coin, be aware of negative changes such as encroaching industrialisation."

Against buying the most expensive house in the area

It's also important to take into account condition, accommodation, access to schools and transport as well as a property's common appeal in terms of architecture. "Even if you have no intention of having children or making any other life-changing decisions, these factors will add value to your property and make it more saleable down the line."

That said, he's against buying the most expensive house in the area, saying that it will take a long time to get a good return on the capital investment. "Ideally, buy one of the cheaper homes in the best area, provided it has potential and makes financial sense in terms of upgrading. Upgrading shouldn't take its value up to the most expensive home around but should put it on a par with the average house in the area. And remember that the most expensive kitchen and bathrooms won't guarantee the best price down the line when it comes to selling - again, stick to middle-of-the-road upgrades."

Other considerations are the size of both the erf and the house - "Not too big, not too small," is Gray's advice. "One and two bedroom freestanding houses with single bathrooms tend to be a lot less saleable than those with three or four bedrooms and at least one and a half bathrooms," he points out.

For those limited with regard to the size of the property they can afford to buy right now, he suggests trying to find a home that can be extended as and when time and money dictate.

"It would also be a good idea to consider keeping your first home and using it as collateral on a bigger property while renting it out. If it's showing good capital growth and attracting good rental yields, it's likely to prove an excellent long-term investment."

He concludes by saying: "Don't lose sight of the importance of buying in a comfortable price range so that your dream doesn't turn into a nightmare if rates start rising."