Understanding the economic factors that affect property prices

By Adrian Goslett

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Not all of us have a degree in economics. Understanding how external forces impact the price of property can be confusing. But if you are in the market, then you do need to grasp its ebbs and flows or face the risk of being dragged under with its undercurrents.

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When it comes to factors that increase property values, there are certain aspects that are not difficult to understand. For example, it is easy to grasp that the location of the property and the features of the property will have a big influence on the valuation. However, it's less obvious to understand how the country's inflation levels, interest rates and unemployment proportions affects the property market.

This is because these factors have a secondary or indirect influence on what you will be able to buy or sell property for. The lower these factors are, the greater price you can fetch for your property and vice versa.

Demand and supply

The main principal that contributes to growth in property prices is the same that governs all other fields of trade: demand and supply. The higher the demand, the more the seller can charge. When a country's economy has hit a dip, this will have a knock-on effect on consumer's buying power, which means that the demand for property will drop and sellers will have to drop their prices in order to sell to a market with a pinched pocket.

Smart sellers will keep an eye on the country's economic climate and wait for signs of positive growth before they put their property on the market. Investor confidence indexes are a great way of getting an idea of where the market stands. If investors are willing to spend in a country, then it means that more money will be coming into the country, which usually results in higher buying power for consumers.

Economic outlook

Likewise, buyers need to keep an eye on the economic outlook of the country if they want to get a good deal on a property. Seeing as it directly affects your own pocket as well, purchasing property when the economy hits a dip is not the easiest thing to do. But, property prices can drop dramatically during an economic downturn and you can end up purchasing a property at a much lower price than you would have spent on the same property during an economic high. The biggest downside to this is that interest rates are likely to be higher during these times so your monthly instalments on your home loan will be higher as a result.

As complicated as all of this might sound, buyers and sellers must remember that they need not figure it all out on their own. Property investment might seem daunting, but buyers shouldn't allow the economic jargon to intimidate them. If you have a good real estate agent, you can always bounce any questions you might have off them even after they've helped you find your dream home.

ABOUT ADRIAN GOSLETT

Adrian Goslett is CEO and regional director of RE/MAX Southern Africa. He joined RE/MAX Southern Africa in 2005 as a franchise development consultant, supporting various regions and offices. Throughout his career at RE/MAX he has held various positions. In 2010, after successfully leading 160 offices and over 1500 agents in six countries through the worst years real estate has ever seen in South Africa in 30 years, Goslett was appointed as CEO of RE/MAX Southern Africa.

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