

Slower house price growth an advantage for less affluent buyers

Since January 2014 house prices have more or less declined steadily, according to ABSA's 10th April Home Loans Report...



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There are various ways of looking at this. Some, says van Mike van Alphen, National Manager of Rawson Finance, might take the view that with middle sector year-on-year house price growth now down to 6,2% (significantly lower than the 10% recorded in August, September and October last year) property investment is no longer as rewarding as it was hitherto.

"Those who are inclined to feel this way," says Van Alphen, "are probably overlooking the other highly relevant figure in the ABSA April report - which is that year-on-year real price growth, i.e. allowing for inflation, was still at 3,3% in February this year. That is satisfactory in any struggling economy and even if, as predicted, rising fuel and other increases push inflation above 6% by the end of 2015, it seems likely that house price growth will remain $\pm 2\%$ ahead of the cost price index. Any talk, therefore, of opting out of property for other investment channels is, in my view, misguided."

Ironically, adds Van Alphen, the lower recent house price growth could also work to the benefit of some of the keenest house buyers in South Africa today - those planning and hoping to buy in the small (80 to 140 square metres) category.

"All our surveys," says Van Alphen, "show that today the demand for home ownership in the lower middle and lower income brackets has never been stronger. It is significant, therefore, that the lower price bracket homes are always the most severely affected by any movement in the economy, whether upwards or downwards. In 2010 to 2012, for example, house values in this price category dropped by a staggering 35%, far more than that of middle and upper bracket homes. Now that stable conditions are making themselves felt, lower value homes have, conversely, been rising faster in price than any other bracket - in fact year-on-year by a massive 10,5%.

"One has to realise that increases of this size make it very difficult for those struggling to come right on small incomes to become homeowners. In fact anyone with a household income below R18,000 per month now really has to work hard to get

together the necessary deposits and the sums required to cover the purchase costs. A slightly slower growth rate will, I believe, therefore work to the benefit of these buyers, probably bringing down the house price growth in the lower price bracket to $\pm 8\%$ over the coming year. If that does happen, it will certainly make easier for the many would-be buyers in this category to get onto the home owning ladder."

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