

# Residential property is a good investment

Many have warned against investing in the residential market due to economic uncertainty, rising municipal rates, difficulty obtaining mortgages and low rental returns. In fact, in 2012 property economist Erwin Rode made waves with his statement that property prices were overvalued by at least 25%.



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Jan le Roux, CEO of the Leapfrog Property Group, has long refuted this claim stating that: "The issue I had, and still have, with Rode's statement then is that in a country with a housing shortage and inflation, property values will always increase over time. If one takes a long-term perspective, property is an appreciating asset."

Gerald Leissner, a veteran real estate investor and CEO of Arrowhead Properties, recently announced that the company planned to acquire a R500 million portfolio of residential rental apartments towards the end of July 2013. Leissner is certainly no newcomer to the property market having been active in the sector for almost 50 years.

The portfolio, owned by a single private property owner, consists of around 70 buildings in various lower income areas, such as the Johannesburg CBD. Typically, the rental on apartments in these blocks is around R2000 to R5000 per month. Leissner and company aren't planning on stopping there either, stating that they'll look into any building granted that they provide "forward nett yields of at least 10%".

## My money is on the investor

Le Roux views the investment as follows: "On the one hand, Rode is making an academic argument by predicting a downwards price correction of 25%, while, on the other hand, a realistic business man is investing R500 million in residential real estate. My money is on the investor."

According to the Financial Mail, Leissner "believes perceived risks in terms of residential rental arrears and defaults are

often overstated". In fact, he goes on to say that: "We see the residential market as an important new avenue for growth. And it offers great diversification from commercial property."

"I couldn't agree more with Leissner," said Le Roux, "clearly at major investor like Arrowhead Properties wouldn't even think of investing in a market that is so supposedly overvalued - it would be business suicide - which just enforces my view that the residential property market is far from being overvalued."

## **House prices are climbing**

Recent housing figures released in the House Price Indexes from FNB have consistently reflected increases in house prices. The June Property Barometer indicates that the average house price has grown from May's revised 6.2% to 6.6% with the average value of homes transacted being R891, 266.

John Loos, Household and Property Sector Strategist at FNB, goes on to point out that "compared to June 2003, 10 years ago, the index is up 44.8% in real terms and 148.8% in nominal terms, suggesting that the price effects of last decade's residential demand boom have far from worn off despite a significant downward real correction since late-2007".

The latest FNB Estate Agent Survey also indicates that "housing affordability levels as having improved significantly since 2008, to levels comparable with those seen around 2004". Loos explained his comment stating that; "Some may find it strange that we point to affordability measures back down at relative lows last seen around 2003/4, but yet those years were a time of extreme house price growth whereas the current period is definitely not".

Where does this leave the property owner and buyer?

"My advice to home owners over the past few years has been to hold onto their property if possible as prices will continue to increase over time", says le Roux. His advice to buyers is that it is still a good time to buy.

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