Smaller properties yield great investments

By Bill Rawson

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Prospective investors disheartened by the price of properties in South Africa at present may be interested to learn that smaller and more affordable properties are almost invariably the highest performers. In fact, the latest statistics released by FNB show that affordable properties in major metros are appreciating more than twice as fast as their high-end counterparts - a trend that is likely to continue as political turmoil weakens consumer spending power.

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Low and mid-range homes tend to appreciate faster than luxury properties on the residential market for several reasons. The first of these is the consistently high demand seen for properties of this type.

Smaller properties appeal to a much broader target market than other housing segments, attracting low income earners, first-time buyers, professionals looking for low-maintenance lifestyles, and elderly people scaling down.

Ongoing demand

Having such a wide pool of potential and repeat buyers ensures ongoing demand for these types of properties, regardless of economic conditions. If the economy is strong, and spending power is high, more first-time buyers and low income earners feed into the market on this entry level. If the economy weakens and consumers are forced to cut back on spending as we're seeing at present, buyers who may have qualified for mid-range homes in better times feed into this market from above.

In addition to affordability, smaller homes also tend to require less maintenance, are easier to secure, have lower rates and taxes and lend themselves to a lock-up-and-go lifestyle. These factors are becoming increasingly sought-after by modern homeowners and are bolstering the already high demand for compact properties in all price ranges.

As in any market, high demand is inextricably linked to price growth and, historically, smaller homes have seen healthy appreciation even when other market segments have struggled.

House price inflation for small homes between $20m^2$ and $80m^2$ in South Africa was 8.1% in 2016 according to FNB's Property Barometer report on House Price Indices by Size, released in November 2016. In contrast, medium sized homes of $80m^2$ to $230m^2$ appreciated by 5.8%, and large homes between $230m^2$ and $800m^2$ grew by a mere 3% on average, nationally.

Steady growth to continue

While the outlook for 2017 is uncertain thanks to the recent government reshuffle and resulting damage to the rand, small properties in South Africa's major metros will continue to see steady growth.

Small homes have consistently outperformed larger properties for the last 15 years, during growth and recession periods alike. We may be entering tough times as a country, but people will always need somewhere to live, and compact properties are going to be the most attractive and accessible option for many of our citizens.

For investors, this could be a great opportunity – particularly when weighed together with the recently increased transfer duty threshold.

Property sales under R900,000 are exempt from transfer duty from 1 March 2017, which does help with the short-term affordability of an investment. It also opens the door for bigger investors to acquire a portfolio of small properties, avoiding the burden of transfer duty altogether, and capitalising on the superior growth potential of this market.

ABOUT BILL RAWSON

Bill Rawson is chairman of the Rawson Property Group.