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HAS THE VALUE OF YOUR PROPERTY DECLINED BY 25%?

The circulation boosting headline of "25% drop in house prices" was misleading to say the least. The article referred to the fact that existing houses can be currently bought at a 25% discount when compared to the current cost of building.

This is merely a confirmation that the new build cycle is depressed by the lack of available mortgage finance, bank's inflexible adherence to the National Credit Act and the difficult economic conditions of the past four years, where most households are making every attempt to either contain or reduce indebtedness in whatever way they can.

The other contention "It is better to rent than to buy", also needs comment, our simplistic response is, If you bought a property for R 1 500 000 with a 25% deposit, bond repayments for a 20 year mortgage at 9% would be R 10 122 per month, a total of R 1 214 630 in bond payments.

If you rented the same property for 10 years, assuming a market related starting rental of R 7 500.00 per month, over 10 years you would pay R 900 000 in rent.

After 10 years the bond debt would be R 757 678, so at the very worst you have an asset worth at least what you paid for it, R 1 500 000 and equity of R 742 322.

If you rented you have no asset and no equity.

If a prospective purchaser needs a detailed analysis, we use a program developed by Wall & Smith Property Consultants that takes into consideration changes in borrowing rates, rental escalations, ownership costs, rates, insurance, repairs and maintenance etc and tenant costs such as electricity, water etc.

In order to look at an actual comparison we tracked prices on two properties in an established Cape Town suburb that has not seen excessive development, and the results are noteworthy:

Property 1 - Bought in December 2006 for R 2 150 000 bonded for R 1 800 000 (own cash R 350 000) and sold in June 2011 for R 2 700 000.

Ostensible profit of R 550 000 = 25.58%

Return on own cash R 550 000/R 350 000 = 157.14%.

Property 2 - Bought in May 1995 for R 455 000 bonded for R 400 000 (own cash R 55 000) sold in February 2011 for R 2 950 000.

Ostensible profit of R 2 495 000 = 548.35%.

Return on own cash R 55 000/R 2 495 000 = 4536.36%.

The increases may have been influenced by alterations, renovations and general improvements. Notwithstanding this, the examples clearly illustrate that owning your own property will, in the long run, protect and increase your capital.

Buying a property is one of the few ways that a private individual can use gearing, i.e.

mortgage finance, to increase returns and is probably the best way to create wealth, not necessarily for yourself but for your heirs.

Notwithstanding the banks reluctance to lend, it is interesting to note that when assessing an individual's credit profile one of the first questions the bank invariably asks is "do you own your own home?" Getting them to lend you the money so that you can meet their own criteria is another story.

The long term rewards of owning your own property, commercial or residential, are convincing.

A successful office park in Kenilworth is an example,

A 573m² unit bought when the development was first completed in 2001 sold at R 2 024 982 and for R 5 562 000 in 2008 capital growth of 174.67% in 7 years;

A 627m² unit in 2001 sold for R 2 312 162 and for R 3 600 000 in 2004, growth of 55.70% in 3 years;

A 675m² unit sold for R 3 000 000 in 2002 and for R 4 100 000 in 2004, growth of 36.67% in 2 years.

We currently have units for sale in Greenford Phase 2 from R14 400/sqm. If you would like to buy a unit at Greenford, please contact Debbie@wsproperty.co.za or have a look at Greenford on <http://www.wsproperty.co.za/> Reference No: 290

Conclusions:

In the long term it is better to own than to rent. Ownership will build personal wealth.

Under current conditions it is better to buy than to build.

Approved land is finite i.e. values will increase because of scarcity.

Inflation will continue to push up both the build cost and the value of existing properties.

Properties located close to schools and amenities will increase in value faster than more remote properties.

Please contact Wall & Smith Property Consultants if you are looking for offices, shops or a property investment – please view our website to see what we have to offer.

Wall & Smith Property Consultants specialise in commercial property in the southern suburbs of Cape Town.

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