

PRESS RELEASE

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**PRICE GAP BETWEEN NEW AND SECOND HAND HOMES STILL UNCOMFORTABLY LARGE, SAYS MULTI NET MORTGAGES CEO**

One of the factors holding back the South African residential sector is the large gap between the cost of new homes and similar quality/size second-hand homes.  Discussing this recently John Smyth, the CEO of Multi Net Mortgages, said that the latest (20th May) FNB Property Barometer makes it clear that the gap is now calculated at 25.3% - and this is the highest that it has been since 2004.

“What this tells us,” said Smyth, “is that in *real terms* South African housing is still good value because in general it is costing one-quarter less than the replacement of the same home.  However until new buildings and second hand buildings are priced at approximately the same levels (as they were in 2007/2008) we cannot expect the housing sector to boom as we would all like to see it doing.

“That situation is now clearly shown to be a long way off by FNB’s residential fixed investment statistics.  In 1986  Residential Fixed Investment (RFI)  amounted to 3,6% of South Africa’s GDP and in 2007 the figure was 2,7%.  However today it is down to 1,3%.

“At this level,” said Smyth, “the backlog in housing will grow and that inevitably will cause dissatisfaction and frustration.”

Asked why new building prices continue to run ahead of second hand prices, Smyth said that even in the toughest economic conditions building material and labour costs will reflect inflationary pressures which in the second hand house market can very often be shrugged off.

Does the large price difference between new and older homes mean that the former are a less sound investment?

“That,” said Smyth, “would appear to be the case, but in reality it is not so.  New homes in the more popular multi-unit estates like Burgundy in Cape Town and North Riding and Fourways in Johannesburg have appreciated by an annual rate of 9% to 12%, i.e. faster than second hand homes.  Particularly successful have been compact, multi-unit suburban sectional title units in blocks of two to six storeys high where the prices, although high on a metre square basis, are kept at affordable levels by the limited size of the units.”

Buyers here, said Smyth, are prepared to pay 30% to 50% more per metre square and to live with considerably less floor space for the sake of such factors as convenient position viz a viz public transport and their work or educational institution, greatly enhanced security and in some cases the ability to use in-house communal facilities like swimming pools, gymnasia, launderettes and squash courts.

It is not surprising therefore that today (according to FNB) flats and townhouses, said Smyth, now comprise 37% of all completed buildings –a marked upturn since the 29% of last year and one that is likely to increase.

Also performing well despite a severe slowdown in the last year, said Smyth, are homes at the lower end of the market, i.e. those less than 80 m2 in size.  These now comprise 33% of the sales market.  Here there have been no significant price rises for some time – but the strong demand will ensure the health and rising prices of this sector in the fairly near future.

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For further information, contact John Smyth on 083 309 6816.

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