

Why Warren Buffett thinks rental homes are a good investment

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In recent months, Warren Buffett, CEO of Berkshire Hathaway and arguably the world's top investment brain, has repeatedly said that private investors should now be buying up as many single family homes to rent out as they can afford.

"And he has given several good reasons for this unequivocal advice which we believe are just as relevant in the SA property market now as in the US and other property markets around the world," says Jan Davel, MD of the RealNet estate agency group.

In an interview on CNBC television and again in the International Business Times, Buffett said that both equities and single family homes were attractive investments at the moment in terms of price, but that if they could be purchased at low rates and held for a long time, the houses would be a better investment. Indeed, he said, he would buy up "a couple of hundred thousand" homes right now if he could only find a practical way to manage them.

"Then, asked what he would say to young investors trying to decide between equities and property, he immediately replied that they should buy a couple of single family homes at distressed prices and find renters," notes Davel.

"One reason for this was that as long as the management of such individual properties remained a logistical nightmare for big corporations, they would be drawn more to commercial properties and apartment complexes, leaving the single family homes field wide open for private investors to acquire good assets very cheaply."

And such homes are not only available at low prices, says Davel, but more affordable at the moment thanks to the fact that mortgage interest rates are at historic lows. "This reduces the minimum monthly repayment and makes it more likely that it will be covered by the rent that tenants are paying. In addition, although home loans are harder to come by, it is still possible in most cases to gear a large percentage of the purchase price – which is not something one can do when buying equities."

As it is, the number of buy-to-let purchases is already starting to rise, although not as fast in SA as in other parts of the world. In SA, the FNB Estate Agent Survey for the first quarter of 2012 found that buy-to-let purchasing had risen to account for 9% of all purchases, up from 8% in the previous four quarters and from a 7% low point late in 2010.

However in March the US National Association of Realtors reported that investment purchases made up 27% of all new and existing home sales in the US during 2011, and NAR economist Lawrence Yun said investors were "swooping in" to take advantage of low home prices.

He also noted that while optimism for the recovery of the market was part of the picture, a very big factor in the increased investor activity was the fact that rising rental incomes were easily expected to beat the returns one could get on cash "just sitting in the bank".

"It must be said that this is increasingly also the case in SA," says Davel, "especially in areas where rental homes are in short supply and there is high demand due to expanded mining activity or infrastructure development. And we believe it will shortly give significant additional impetus to the buy-to-let market."

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