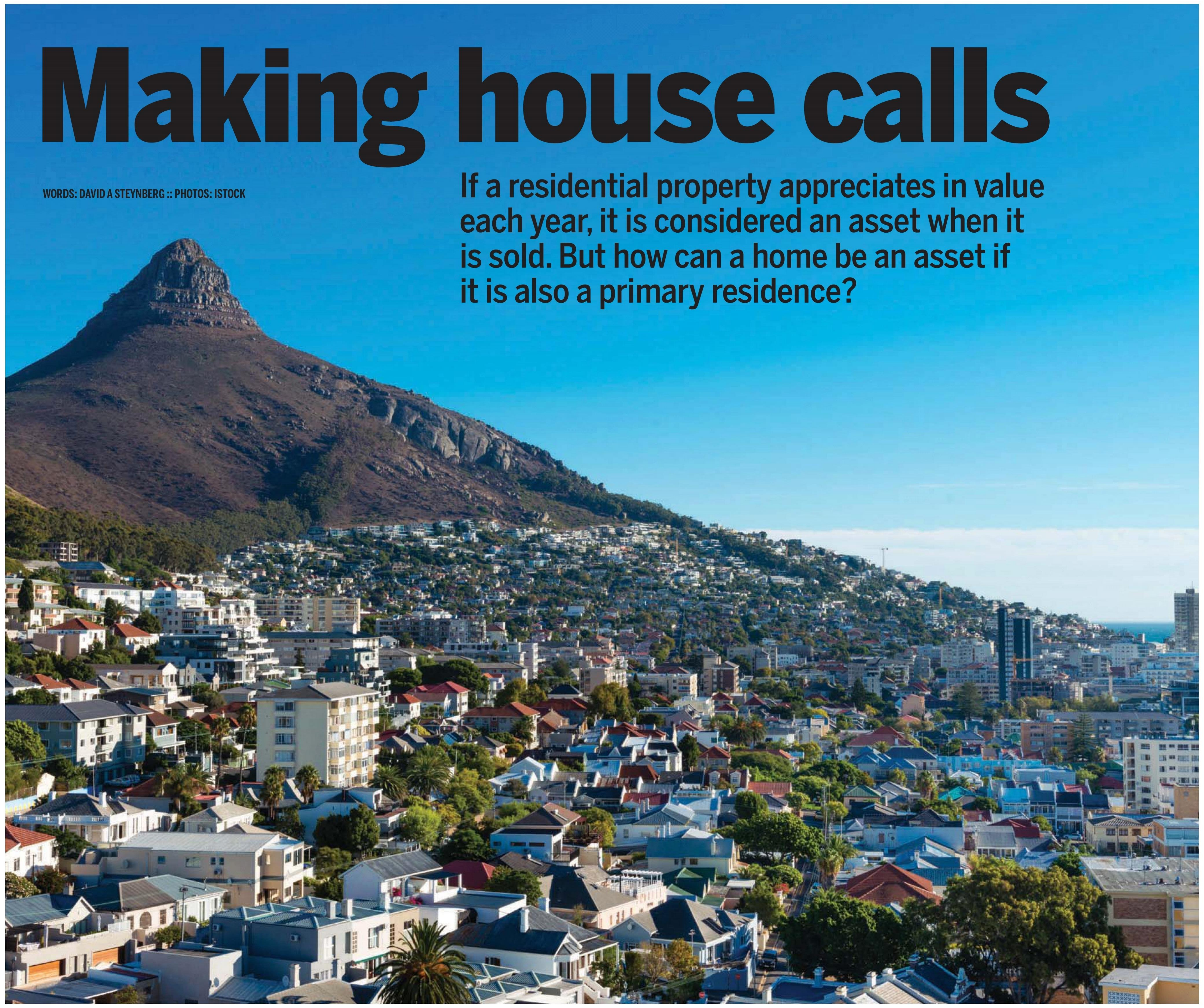
BUSINESS DAY 2015/07/31 Page: 8-9

AVE: 145998.70 (ZAR)

Making house calls

WORDS: DAVID A STEYNBERG :: PHOTOS: ISTOCK

If a residential property appreciates in value each year, it is considered an asset when it is sold. But how can a home be an asset if it is also a primary residence?



A property is an asset when you sell it. But can a property be an asset the day after purchasing? According to industry players, the answer is an emphatic yes.

Nationally, residential property values are growing at an average of 8% to 10% a year. This means that even if it is a geared investment, it can be sold for at least as much as, but likely more than, the original price paid.

"I believe a home is generally an asset from the second you receive the title deed, whether the property is bonded or not," says Lew Geffen, chairman of Lew Geffen Sotheby's International Realty.

The only rider, he adds, is if the new owner has to spend a lot of money making it structurally sound. "There is a vast difference between investing in renovating a property to increase its value and spending money on a property where the foundations are collapsing, the plumbing doesn't work or the roof leaks," says Geffen. "The former is an investment; the latter is a lemon."

But how is a buy-to-live property an asset? It may provide shelter and security and be the source of many years of happy memories, but it comes with a slew of expenses: legal and transfer fees, bond instalments and maintenance and insurance costs.

"For a primary residence, a home being an asset is dependent on whether the value of the property is appreciating or depreciating," says Adrian Goslett, regional director and CEO of RE/MAX of Southern Africa. "This will be determined by several factors, such as the market, growth in the area and demand for property in that area. In terms of a second or investment property, whether or not it is an asset will be based on whether it is generating an income."

IDENTIFY VALUE

Value is a funny thing: it is only useful once you consider selling, right? Not so, says Richard Gray, CEO of Harcourts. "Because a house increases in value over time, I believe it's an asset," he says, adding that it can be a great vehicle to build equity — and not only when it's sold. "It can be an asset against which you borrow for other purchases or expenses, such as university fees or a car. As the value grows, you can apply to borrow more. And since home loans are typically provided at lower interest rates than short-term loans, you can borrow money more cheaply."

The golden rules when buying are: do your homework on the area, and look at its past performance. Estate agents, banks and property portals such as Private Property are good resources to consult when studying a suburb's value trends and pipeline developments.

"In order to look ahead, we need to look at the history of the area," says Goslett. Unless there have been big changes, he says, past performance is a fairly safe gauge of the area's potential for price appreciation.

Geffen agrees: "Looking at the five- to 10-year history of a suburb is likely to tell you a lot about its future, but there are the gold-standard suburbs that are rock-solid investments.

"Many of those are to be found in Northern Johannesburg (Sandton, Bryanston and Morningside), the east of Pretoria (Waterkloof) and in Cape Town (the Atlantic Seaboard, and Constantia and Bishopscourt in the Southern Suburbs)."

Goslett notes that while developments such as shopping malls can add value to homes in their vicinity, education is a far greater driver of growth. "I would say schools have a greater influence on property values," he says. "Many potential buyers look for property with education in mind, whether they have children or not. A good school that offers an exceptional education will increase demand for property surrounding it, which will push up property prices."

> "There is a vast difference between investing in renovating a property to increase its value and spending money on a property where the foundations are collapsing, the plumbing doesn't work or the roof leaks. The former is an investment; the latter is a lemon"
>
> *Lew Geffen, chairman of Lew Geffen Sotheby's International Realty*

Berry Everitt, MD, Chas Everitt International Property Group, weighs in

"By definition, an asset is a resource you purchase or own with the expectation that it will deliver economic benefits in the future. In that sense, your home ought to be regarded as an asset, even if it is not generating revenue at present.

"For one thing, chances are good that your bond repayments will decrease over time as your home loan debt is amortised, while rentals for the same size and type of property are likely to increase, so you'll benefit from cheaper accommodation costs in the future.

"Second, you're likely to benefit from capital growth and make a profit when you resell the property if you follow the old real estate adage, 'The profit is in the purchase, not the sale.'

"What this means is that you should be in a profit position the day after you buy the property, just in case you immediately have to resell.

"So no matter what sort of home you are planning to buy, or what income bracket you fall into, you should research the local market very carefully to make sure you don't overpay for the property, even if you really like it and there are several people bidding to buy.

"You should, of course, steer clear of homes that need expensive repairs to the foundation, roof, electrical system or plumbing, as you would be unlikely to recover their full cost for some time. In other words, you would be in a loss situation if forced to sell immediately.

"It's also important to understand the benefits of optimal gearing when you finance your purchase by means of a home loan. For example, if the purchase price is R1m, you may only pay a R100,000 deposit and finance the other R900,000 through a loan. If prices in the area were then to immediately rise by 10%, you would get all the profit on the whole amount, or R100,000, not only on 10% of your R100,000 deposit.

"Such gearing would, of course, afford some protection if prices in the area started to fall. However, it's important to ensure that the amount you owe on your home loan never exceeds the current market value of your property. This is why you need to be careful about equity loans — and keep a close eye on what is happening to your neighbourhood.

"It's true that all property values fluctuate in line with overall economic conditions, but some areas definitely hold steadier than others in bad times and perform better in good times. Typically, these are areas close to centres of economic activity and are perceived to offer the best combination of other sought-after attributes, such as good schools, convenient shopping and recreation facilities, short commutes, low crime and high levels of home maintenance.

"It often pays to try areas adjacent to the most sought-after ones, but suburbs further afield may also be good prospects, especially if they're close to a new business node. Another good indication that an area is up and coming is when many existing owners are renovating or extending their homes and raising the average home price in the process."

"You should be in a profit position the day after you buy the property, just in case you immediately have to resell"

Berry Everitt, MD, Chas Everitt International Property Group