

Foreign Buyers' Do Not Influence Affordable House Prices

Sales to foreign investors of free market properties can influence top end property prices, but have no effect on the affordable end of the market.

So says Barak Geffen, Executive Director of Sotheby's International Realty South Africa who says statistics from South America's property market shows despite high average house prices, foreign investors do not affect the price of affordable homes in that market.

Figures show Brazil's shortage of affordable housing is far worse than SA and growing.

"Brazil has government legislated financial mechanisms in place to relieve pressure and build more affordable housing.

"About 20% of its wage bill is put into a UIF fund and of which 65% must be spent on housing either directly by providing home loans or by lending to developers.

"Brazil's population is about 185 million and the shortage of formal housing stock is about 8-million housing units or 14% of the total market requirement. In South Africa where the population is about 44 million we have a shortage in this segment of 2,6, which is acute but not as bad as the Brazil model."

Figures from the SA Banking Association show a growing demand for housing in SA which financial institutions and developers are unable to meet, causing the current housing deficit to grow by about 180 000 units each year.

In SA, government has subsidised the construction of about 2.2 million homes since 1994, but it is not able to keep up with the growing demand.

Geffen says Brazil has several developers who are focused at the bottom end and have gained considerable market intelligence on building in this sector, something SA sadly lacks.

Industry figures show average sales price in the affordable segment in Brazil are around R225 000, yet their average price of a home in Cococabana or Ipanema is between R3 and R6-million equivalent which is far higher than in SA.

In, Cococabana the average sales price is R3-million for a 3 bedroomed unit of 180m² or R22 000 per m² while in Ipanema it is virtually double that rate.

Geffen says local market insight in Brazil shows that prices spent by foreign purchasers can and do drive up prices in the markets where they purchase, if they represent a considerable portion of the buying market.

“But these sales to foreigners have no effect on affordable housing in those countries in which they invest.”

In the wake of renewed government and industry debate about foreign ownership of property in SA, Sotheby’s reports a growing trend in investors from Africa buying property in Johannesburg.

“But many of these are not foreigners but South Africans who have been operating successful business in the rest of Africa who are returning to buy property locally for investment purposes.

“There has also been an influx of multinational operations that are establishing bases in South Africa, and relocating their staff – many of whom are buying property themselves for short-term investments during their stay here,” says Geffen.

This trend is noticeable particularly within the Johannesburg area and is further strengthening the city’s rise as a financial power house on the African continent.

“We’re also seeing a rise in foreigners purchasing investment properties outside of their own time zones – buyers from the USA and China, for example, are showing huge interest.

“In addition, there is ever-increasing interest from countries in the United Arab Emirates, particularly with the change of the political climate over the past few years in countries such as the USA and Europe.”