

Freehold Outperforms Sectional Title

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Latest house price data released by various banks and other industry players confirm that the widely anticipated slump in housing sales and prices has yet to materialize.

But not all sectors of the residential property market continue to perform equally well. Latest house price index released by Johannesburg-based mortgage risk management company Lightstone shows that owners of free hold houses have earned much higher returns on their properties over the past three years than investors who bought sectional title townhouses, apartments and flats.

According to the Lightstone index, sectional title property recorded annualised growth of around 14% in February, down from a peak of 32% end-2004. That was markedly lower than the 25% price growth recorded for free hold property over the same period, down from a peak of 42% early 2005.

Lightstone figures show that it is only over the past three years that the free hold index clearly outperformed the sectional title one. During most of the early 2000's, price growth in the free hold and sectional title sectors of the property market was roughly on a par.

Property analysts say that the trend can probably be ascribed to the huge increase in new sectional title developments coming to the market over the past few years. Developers entered the sectional title market in droves, driven largely by the strong growth in demand for buy-to-let units.

However, the oversupply that may have been created in the sectional title market in recent years is likely to be mopped up quickly as rapidly rising building costs and higher interest rates make it less viable for developers to create new stock. Latest Stats SA figures show that the growth in building plans passed and completed for sectional title units have already started to slow.

FNB property strategist John Loos says there is little doubt that new building activity in the residential property market will drop off dramatically over the next three years as SA's limited pool of building resources is allocated increasingly to infrastructure and commercial property development.

Loos says that will limit not only the pace at which the residential sector can supply new stock, but will also sharply raise the cost at which new housing units will be built.