



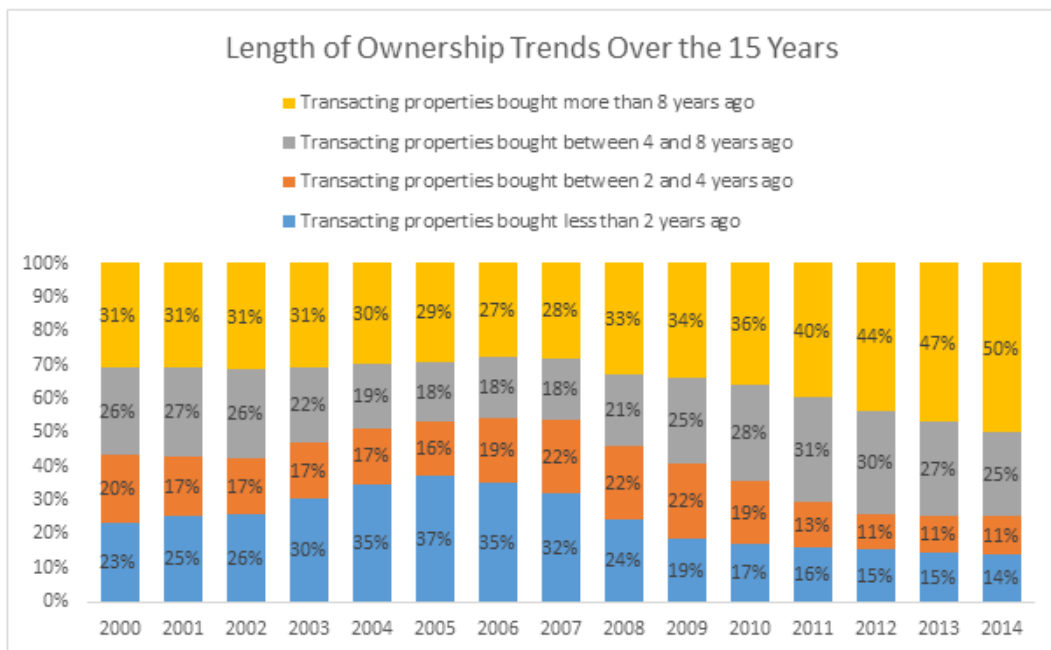
Looking for a bargain when speculation is low

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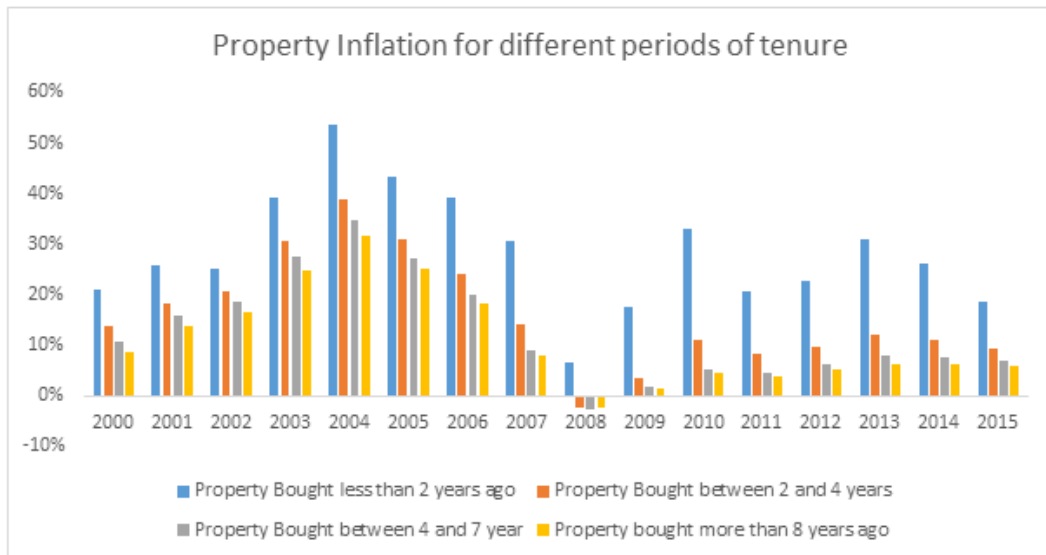
Residential property speculation seems to be at its lowest levels in more than a decade. During the previous housing boom, it was not uncommon to hear of speculators, renovators and investors buying properties, fixing them up and selling them for a profit. Lightstone’s latest analysis shows that while this behaviour was popular during that period, it has reduced significantly in the past five years.

Whilst properties sold within two years of being bought still transact at a significant premium, they are a rare occurrence when compared to transactions between 2004-2007.

Between 2004 and 2007, nearly 50% of transacting properties had been bought less than four years earlier. When the housing boom reached a peak in 2005, not only did we see property inflation of more than 30%, but we also found that 37% of properties that were sold during that time had been bought within the past two years. This indicates that many of these properties were bought with the intent of being sold in the near future at a profit. During the sub-prime crash of 2007 this figure started declining rapidly and was recorded at 14% in 2014, indicating that speculation in the market had reduced significantly. Furthermore, owners were holding onto properties for longer, with about half of all properties transacting in 2014 having been bought more than eight years prior. The majority of properties that are currently transacting are therefore stock that were purchased before the housing crash in 2007/8.



Even though only 14 % of the number of properties sold in 2014 were bought within the past two years, the average house price growth still remains significantly higher than those bought more than four years ago. Where national house price inflation is currently 6.66%, properties sold in 2014 that were bought within the previous two years experienced an annual house price inflation of 19%. This indicates that developers and renovators are still able to capture value by improving and renovating properties and selling it on at an additional premium.



This then begs the question: "Is there still value in 'fixer uppers' in 2015?"

Despite a decline in speculation activity in the residential property market over the past decade, there is definitely still value in buying properties, fixing them up and selling them at a premium. Since the majority of housing stock currently sold were last bought more than eight years ago, potential buyers should be conscious of the amount of property maintenance performed over the tenure of the property, since the degree of care applied by homeowners differs significantly. Subsequently, this market might yield the perfect opportunity for potential investors who are willing to buy somewhat neglected properties at a discount and restore it themselves.

Research by Roland Du Plessis

