



Properties further from the beach see greater growth

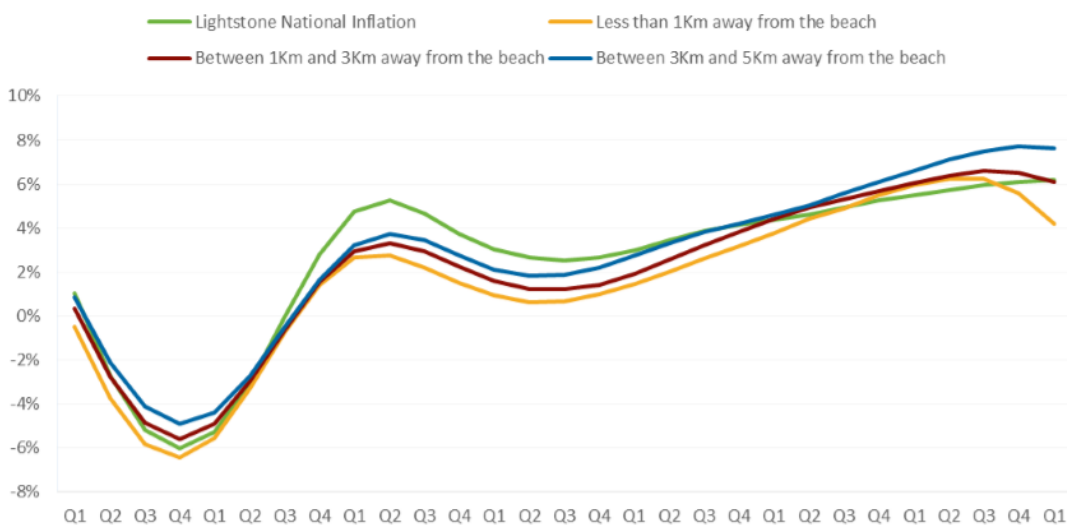
September 2015

In the past few months we've released research focusing on residential and commercial properties in cities. This month we've decided to look at something a little different as we snowball toward the holiday season where more South Africans head to the coastal areas. Our latest research looks at the various price dynamics of properties in the coastal segment, with rather interesting results.

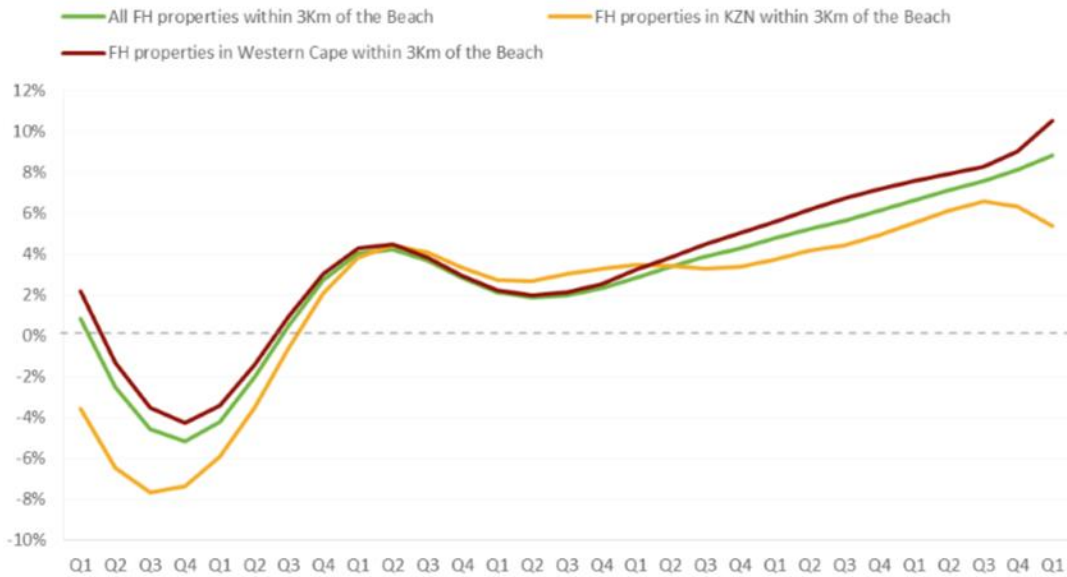
The most obvious observation is that fluctuations in the coastal market segment are similar to that of the luxury property segment, but are a lot more pronounced during aggressive booms and dips. A large portion of these properties are utilised as secondary or holiday homes and price growth is therefore more sensitive to up-and-down swings in the economy. Between 2014 and 2015, inflation in the coastal property segment generally surpassed national inflation. In November 2014 national inflation was at 6.13% with coastal inflation sitting at roughly 8.7%, but since then inflation in both indices has started to slow down due to sluggish economic conditions.

Another noticeable observation is that the average price and Rand per square meter drops significantly the further a property is from the beach and in general, residential property inflation of properties closer to the beach climbs at a slower rate than those that are more inland. The higher average value of beachfront properties makes aggressive price growth of an already high base price less likely.

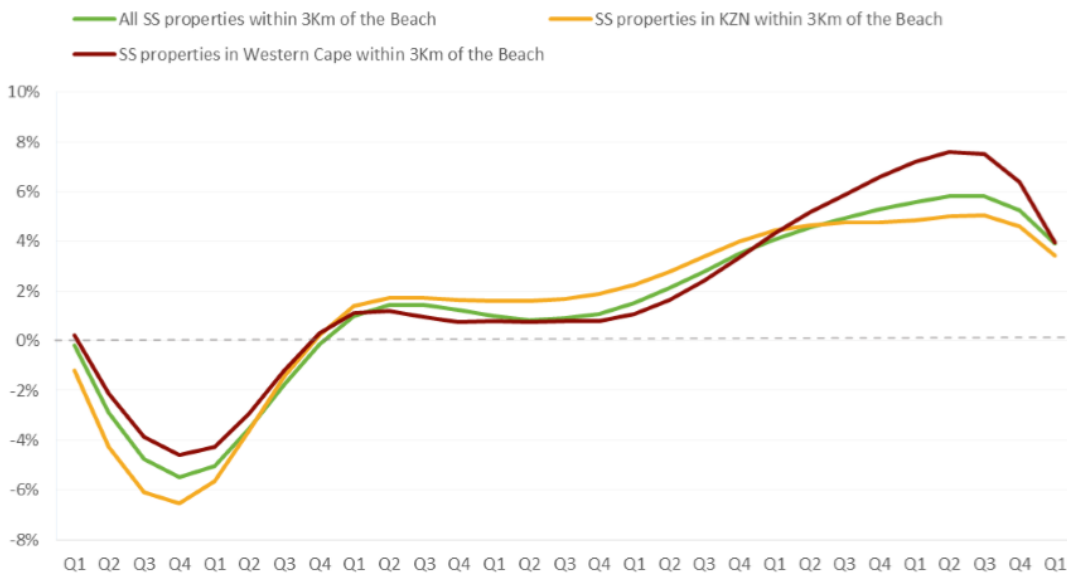
Residential property inflation at different distances from the beach



Freehold (FH) property infaltion of properties less than 3KM from the beach



Sectional scheme (SS) infaltion of properties less than 3KM from the beach



Freehold property prices within 3km from the beach are rising at roughly 9%, while sectional title properties rise at a much more sluggish 4%. This then begs the question: why are sectional title beach properties seeing slower inflation growth?

Sectional title beachfront properties are often flats or apartments bought as income generating assets for the purpose of renting it out as affordable holiday accommodation. The quality of the investment is heavily dependent on the financial ability of the general population to take holidays - which is severely compromised during tougher economic times. As the pool of holiday goers shrink potential investors see less value in these properties, putting pressure on the capital growth. Freehold beachfront properties are more likely to be bought as primary homes or secondary holiday homes by the super wealthy and there is not necessarily a dependency on fixed cash flow out of the asset. The owners of these properties are less affected by adverse economic conditions and also less likely to accept lower offers on their homes.

