Are high-end property owners scaling down?

When things get a bit topsy-turvy in the economy, the housing market soon follows. Take, for example, a trend we have started noticing up at the upper end of the property market, where buyers are starting to scale down their homes rather than upgrade to larger or more expensive properties.

Traditionally we have come to expect a general upward value trend as people move ahead on the property ladder. Take a young couple starting out, for example. Their first purchase is likely to be in the low- to mid-value range – up to R700 000. Then, as their income and their family grows, they would look to move to a bigger, more expensive home, closer to work, schools and universities – possibly in the high-value to luxury segment, being anything above R700 000.

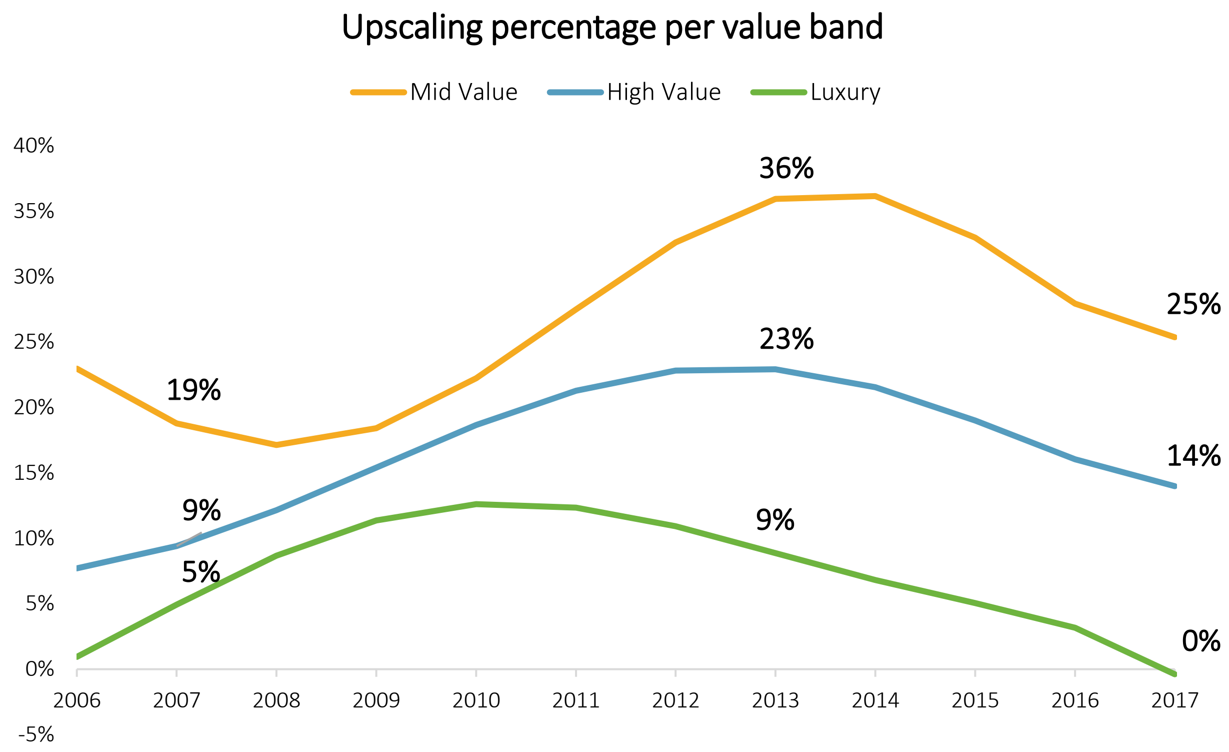
In the past 12 months, Lightstone has picked up a decline in house price inflation in the luxury band, comprising homes with a selling price of more than R1.5-million. This sparked data analysts to ask the question, “Are high-end property owners scaling down?”

Inflation in the luxury housing market dropped from 5.93% in May 2016 to just 0.18% in May 2017. By contrast, the mid-value segment (R250 000 to R700 000) saw an increase in inflation from 4.67% to 7.07% in the same period. Could this be an indicator that owners in the higher value bands are selling their properties to move into cheaper homes? If this were the case, luxury homes would see a reduction in demand coupled with lower inflation, while more affordable properties would become more sought after and, ironically, more expensive.

To test if relocating property owners are scaling up or down, Lightstone looked at the data for all residential property sales over the past 12 months, excluding first time buyers, and compared the purchase price of each buyer’s current home against the price they got for their previous property.

Upscaling vs. downscaling

Upscaling refers to buying a property with a higher value than what you sold your previous property for. If a buyer sells a house for R1-million and buys another property for R1.2-million, the buyer has upscaled by 20%. Similarly, if the new property’s price is R800 000, then the owner can be said to have downscaled by 20%.



The figure above shows the upscaling percentage for repeat property ownership in the mid-value (R250k to R700k), high-value (R700k to R1.5-million) and luxury (more than R1.5-million) bands going back to 2006.

In 2007, when property owners in the luxury segment bought a different property they upscaled by a mere 5%. Property owners who previously owned a high-value property, on the other hand, scaled up by 9%. Mid-value owners upscaled the most at 19%.

The mid- and high-value segments saw the largest increase in upscaling during the recovery period from 2007 to 2013. In this period upscaling increased from 19% to 36% in the mid-value segment and from 9% to 23% in high-value segment.

The recovery had little effect on the luxury segment, however, with upscaling merely increasing from 5% to 9%.

Since 2013, all three value bands have seen substantial reductions in upscaling, which decreased from 9% to 0% in the luxury segment, from 23% to 14% in the high-value segment and from 36% to 25% in the mid-value segment.

As expected, people tend to upscale more during periods of economic prosperity. As such, there is a strong correlation between scaling up and house price inflation in each value band. Interestingly, upscaling has been less prevalent in the luxury segment over the past 11 years. As a matter of fact, buyers who currently own property in the luxury segment seem to consider properties of the same value or cheaper when they move. This would support the hypotheses that reduced demand for luxury property is leading to a reduction in luxury inflation and boosting demand for high- and mid-value properties. As a result, we are seeing high property inflation in the latter two segments.

It should be mentioned that that the percentage by which owners are upscaling has been decreasing over the past four years and this trend is expected to continue until the economy picks up again.

As upscaling in the luxury segment decreases, we should see inflation starting to increase in the mid-value range as demand increases for properties in this price range. On the other end of the spectrum, increased downscaling in the luxury property segment is likely to lead to lower inflation on houses valued at R1.5-million or more.

And the paradox! Contrary to traditional market behaviour, we expect the South African property market to return negative property inflation in the luxury segment and strong property inflation in the mid-value segment.

And while on the surface this might seem all doom and gloom, it could present some exciting opportunities for property owners in the mid-value and luxury segments.

If someone in the luxury segment is looking to scale down from their current property it does not mean they want to move to a different suburb, away from work and school. Very often these owners simply want to move to a cheaper property in the same suburb. If property investors in an area can find a way of increasing the stock of properties within the luxury segment, either by subdividing or building multiple properties on one stand, they could experience an upscaling on their income statement.

A home is more than a house and the land on which it is built, it is a place where memories are made and a safe place in which we can genuinely express ourselves. Consequently, the choice of home and its location are decisions that need to be carefully considered. A key consideration is safety;

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