


Look for capital growth in your home investment

 By [Ronald Ennik](#)

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Gauteng homeowners – both existing and aspirant – should not be daunted by the current flat-lining trend in residential property prices, but rather focus on the growth of the capital portion of the investment at the time of purchase.



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This is a point I made at the start of the 2008/9 property downturn – and it applies equally today.

Granted, South Africa now faces a particularly difficult, and different, economic and political climate – overshadowed by succession issues surrounding the Zuma presidency; the yet-unresolved challenge of state capture; perceived rampant corruption at virtually all levels of government; the education crisis; alarming levels of unemployment; and, not least, the ever-threatening shadow of the global rating agency downgrade that overhangs our economy.

It is easy to succumb to negativity in the face of the waning sentiment caused by these circumstances. However, the fact that the residential property market avoided a slump in the tough operating conditions of 2016 is a clear indication it is now well poised to move into a new phase of growth.

The silver lining

It is the extent of the growth of the capital portion of the home purchase that is the silver lining of the transaction.

Simply put, if you bought a R2m property – by way of a R400,000 deposit and an 80% bond of R1.6m – and the investment grew in value by no more than 5% a year (in line with inflation), the home would achieve a value of around R2.55m over five years.

The point is that your initial personal capital investment of R400,000 would thus have more than doubled over the five years to close to R1m – while the value growth of the property as a whole would have been only 35% over the same period!

Remember, whether we are paying rent or a bond, we all have to live somewhere. For a buyer, it is more relevant to calculate the growth of the capital invested, rather than establish the value growth of the property as a whole. It is the capital growth that counts.

Opportunities to buy at a discount

Meanwhile, history is repeating itself in the sense that right now, as at the end of 2008, there are opportunities to buy at a discount in the residential property market in Gauteng – and, probably, in other major urban areas - with the obvious exception of Cape Town, which is surfing a wave of re-location (or 'semigration') buying from the hinterland.

In the current market circumstances, do your homework thoroughly, but understand the price cycles. That way you will know that now is fundamentally a good time to buy – after eight years of no real growth.

Buying a home is a lifestyle thing – and if you see something that really fits your lifestyle and your family needs, act now. You will be buying at a discount anyway. By holding on for a further price dip that may not happen, you could miss out on the ideal home.

ABOUT RONALD ENNIK

Ronald Ennik is the founder and CEO of Ennik Estates.

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