



Residential Property Investment

The United States saw a 4.8% year on year increase in the median existing-home sales price, reaching \$393,500 in March 2024. While slightly off the highs of mid 2022, residential prices remain exceptionally robust, making home ownership a real challenge for many. At the same time, rising financing costs on property loans exacerbates the dilemma.

For investors, seeking to hedge against inflation, price appreciation is exactly what they are looking for, and **residential property has been a sound investment**. Certainly, this asset class has benefitted from several tailwinds and it's crucial to analyze the various factors influencing this.

Positives of Property Investment

On the positive side:

- 1) Property is proven to be one of, if not the best asset to apply leverage against. The recipe of nominal price appreciation and declining interest rates has been a winning formula.
- 2) The general scarcity of new residential supply relative to the existing stock, driven in part by regulations and cautious developers, contribute to price stability and appreciation.
- 3) Property's lack of a unified trading market, unlike financial services, leads to more gradual price discovery, which reduces the risk of panic selling.
- 4) Stability is provided by long term property owners, who primarily use the property for shelter purposes.
- 5) Over the last decade, demand has increased in the form of pure investment into this asset class. Many investors access property through mutual funds which have provided capital growth and yield.

Negatives of Property Investment

However, there are also some drawbacks to consider:

- 1) One of the single biggest negatives is the dramatic increase in mortgage interest rates over the last few years. With most, but not all purchases being financed, this should start to put a brake on demand. At the same time however, the higher interest rates restrict some sales where the owner remains locked in more attractive lower fixed rates.
- 2) Inflation has meant that there has been a steep escalation in the holding cost of property. This includes HOA (homeowners association) costs, insurances, property taxes and maintenance costs. Because property itself deteriorates, it requires ongoing maintenance.

Final Thoughts

Naturally residential property is not a ubiquitous asset, with investment potential hinging significantly on "*location, location, location*". Certain prime areas like waterfront property and sought after cities command higher prices given the added scarcity. Think of property in places like Miami, across the French Riviera, New York, Vancouver, etc.

At the same time, there are many residential properties in many parts of the world that simply do not retain their value. This typically occurs in low or negative growth towns, cities and countries, and especially where there is a massive decline in municipal support services.

In conclusion, residential property offers solid investment potential, but is multifaceted and influenced by so many diverse market dynamics. As with all investments, it's crucial to weigh in on all the factors noted above and continue to approach with a degree of caution.



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We would love to hear from you.

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