

South Africans embrace new home builds: A look at the growing trend in residential developments

According to StatSA's latest figures, there is strong interest in new builds, with the total value of new residential building plans approved in 2022 recovering to the pre-Covid-19 pandemic levels.



Source: Supplied. Rhys Dyer, chief executive officer of ooba Home Loans.

"Many of these new building plans are located in residential developments," explains Rhys Dyer, chief executive officer of ooba Home Loans.

"New residential developments have experienced a noticeable surge in popularity among South African homebuyers, particularly first-time homebuyers," he continues. "Our statistics show that the total value of bonds granted for new developments has quadrupled since 2021."

The financial benefits of buying into a new development

The banks' enthusiasm for investing in new developments is driven by a growing homebuyer preference for these kinds of properties. New builds offer numerous advantages including reduced initial maintenance costs, potential savings on electricity and running costs (when built to the latest specifications), as well as the added benefits of community living and enhanced security (when building in an estate or development).

Buying into a new development before construction is completed does require a level of trust but is often more cost-effective than if you were to buy an existing unit. Some of the financial benefits:

- Bond repayments are delayed until construction is complete – giving you up to 24 months to put money aside and budget accordingly.
- Investing at today's property price, the chances are the property value will already have appreciated by the time you move into the unit.
- Lower initial costs, such as the absence of transfer duty. "However," Dyer adds, "you will still be responsible for paying Vat which is included in the purchase price."
- The transaction costs for purchasing a new build are likely to be less expensive compared to buying an existing property.

"Choosing to purchase a home in a new development may be a savvy financial decision, but you should still maximise your potential savings on your home loan by using a bond originator such as ooba Home Loans to secure the best possible interest rate on your home loan," Dyer shares.

The majority of new build plans' value is concentrated in South Africa's three key regions. The Western Cape accounted for more than a third (33.7%) of the value of all residential plans passed in South Africa last year, followed closely by Gauteng (30.8%) and then Kwa-Zulu Natal with 15.6%.

"However, if the recent robust rate of growth in the value of residential plans passed in the Western Cape relative to Gauteng is sustained, the Western Cape will continue to dominate the new residential housing market in years to come," says Dyer.

Interestingly, while the Eastern Cape accounted for only 6% of the total value of building plans passed in 2022, it has seen growth to the value of 218%-plus since 2010, making it one of only three regions registering growth of over 200% during this period. In contrast, the Free State registered the lowest increase (+12.5%) in the value of residential building plans passed last year relative to 2010.

Western Cape comes out on top for building activity

ooba Home Loans onboarded 137 new residential developments in 2022, with the majority of these located in the Western Cape (46); followed by Kwa-Zulu Natal (18) and then Gauteng (16).

This trend aligns closely to the StatsSA finding that a whopping 79.7% of all building plans passed in 2022 were for homes in these same three provinces. "In 2010 they accounted for just 68.1% of all plans passed – suggesting that there has been a concentration of residential building activity in these three regions," comments Dyer.



Buy-to-let demand surges in Western Cape

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The Western Cape ranks highest with 19,250 building plans passed in 2022 and was responsible for 38.5% of the total number of plans passed nationally in the same year.

"It is interesting to note that the number of building plans passed in the province declined sharply in 2019 and fell further during the pandemic, before rebounding sharply in 2021, a recovery we attribute to the ongoing semigration trend," Dyer adds.

"Sought-after areas along the Garden Route such as George, Overstrand, Mosselbay and Knysna account for 40% of all

building plans passed in the region.

Most plots sold along the Garden Route over the 12 months are in estates, offering buyers an abundance of space, lifestyle benefits and security that they would be hard-pressed to find in the major metros.

In Cape Town itself, there is a growing trend from Gauteng's semigrants to purchase new builds in the Northern Suburbs. "25.7% of the value of building plans passed in Cape Town in 2022 were for this area, with property owners attracted to the Northern Suburbs for its relative affordability and higher availability of vacant land for new residential developments."

In contrast, Gauteng experienced robust growth pre-pandemic but has since been subject to a steady decline. With 14,702 building plans passed in 2022, the region has experienced an 18.2% drop in new building plans passed since 2010.

Looking to other inland provinces, demand for new builds in Limpopo has grown exponentially, comprising 5.2% of all building plans passed nationally in 2022 and registering a 122.3% plus uptick in the number of new building plans passed since 2010, the highest of any province.

Giving buyers maximum protection

"Homebuyers concerned about buying into a new development and relying on a developer's vision rather than a finished home, can find reassurance in the banks' thorough due diligence before funding new development projects," explains Dyer.

He shares that new developments undergo rigorous quality assessments, contractors are carefully vetted, and banks require that the unit selling prices align with local property values. Additionally, buyers benefit from National Home Builders Registration Council (NHBRC) protection, with builders required to be registered and routine quality inspections conducted during construction.

"The NHBRC also provides buyers with structural warranty coverage for up to five years from the date of occupancy," Dyer concludes.

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