

How Housing Developments Affect the Value of Existing Homes

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THERE IS A general understanding that new housing developments increase the value of the existing homes in a neighbourhood. This sounds comforting, isn't it? The real estate market and its growth depend on various factors.

What happens if it is just that one new luxury home development in your neighbourhood? What does it mean for your home value? Will this have a negative or positive impact on the value of your older house? And what if it's several new homes, and not just one new home? Will the impact be negative or positive?

But who cares! The truth is that we have a national housing backlog of 110 000 units, which is growing annually by 3 700 units. Ten years ago, the City of Windhoek approved the extension of various suburbs in Windhoek such as Rocky Crest, Otjomuise, Goreangab, Khomasdal, Academia, Cimbebasia and Kleine Kuppe. This is good for the nation, isn't it?

For instance, Rocky Crest Extension 5 measuring 43 hectares is expected to yield 307 erven, of which 256 are for single residential purposes, while the rest are designated for a service station, a playground and a private school. So, the question is, what effect will the 307 erven have on the value of existing property in Rocky Crest? Has the impact of flooding the housing market with new homes ever been part of the discussion of the strategical transformation of our cities and the national development plans (NDPs)?

I believe that the question of the impact on house prices is never directly addressed during the planning process, as price impacts are not a material consideration in planning decisions. Yet, prices can be expected to adjust to changes in amenities and local services arising from the development, and to the number of dwellings on the market.

The biggest question that many homeowners ask is: what causes property value to increase because of which prevailing factors? Real estate appreciation takes place because of factors like economic trends, household finances, and consumer confidence. These factors, among others, are major drivers influencing property values.

Many people fear that new housing developments will worsen local amenities, reduce their well-being, and perhaps even undermine the capital values of their home – often regardless of the quality of the development envisaged, or whether there is a shortage of homes to meet local needs.

Uncertainty about potential price reductions, or even just slower capital appreciation, is often part of people's objections to change, not only in the immediate neighbourhood, but also in the general locality.

Studies have shown that house prices do not always decline because of new developments, despite widely held fears that they do, which in itself fuels much opposition to a new housing development. Those living in the developing area should not be concerned that they will lose out just because a new development occurs in their neighbourhood.

If the new construction brings more people with more money to your area, the surrounding establishments will improve, and your property values will go up. However, if the demand doesn't hold and they build all new homes near you and nobody is willing to move into them (or at least not at that price level), then your property value will decline.

Also, if there is a sudden increase in the number of new houses available, it will push property prices down.

On the other hand, if there is an increasing demand for homes or a limited addition to the number of available houses, then the prices might move up. But if people are buying in the new development after it's been built or at pre-construction prices, then there shouldn't be any worries.

One thing that may affect you is that if there are plenty of empty new houses/units which are not selling fast, then yes, it can affect your property value because buyers will have a wide range to choose from, and may have strong bargaining power. Prevailing logic suggests that if a potential buyer is faced with a choice between two houses of the same characteristics: one being old and the other being new in the same area for the same price, he will buy the newer one.

All things being the same, nobody will want to spend N\$800 000 or more on an old house which will need hundreds of thousands of dollars in repairs if they can get a brand-new home of the same characteristics for N\$950 000. Besides, it is widely believed that many homeowners rarely maintain their properties, but live in anticipation that their properties would fetch the same value as the new home.

Realistically, there is a need for homeowners to be mindful of changes in the current housing situation and upcoming municipal developments such as plans for new schools, hospitals, shopping malls and public infrastructure in the area that may impact their property value.

In a nutshell, I would, therefore, recommend that homeowners should seek real estate professionals' advice to gather information about current market trends in their area for informed decision-making. They should ask about the sales trends of units, stock levels and sales prices in the neighbourhood. What are the percentages of new home sales vs the existing stock of property? Ask about the absorption rate, or how long it takes for a property to be sold (in months) in your area.

Finally, a home is an investment that comes with many investment benefits and risks. Thus, knowing about essential factors that might affect your property value will help you protect your investment and make an informed decision.

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