Crime arrests property growth

Roy Cokayne

A SINGLE year of high crime growth in an established residential area can be detrimental to house price inflation for at least two years thereafter, before the effect starts to slowly taper off.

In residential estates, a 20 percent rise in contact crimes generally resulted in an estimated 0.4 percentage point drop in residential price growth in these estates in the same year, according to an analysis of the impact of crime on property prices by Lightstone.

Paul-Roux De Kock, the data and analytics director at Lightstone, said the impact on residential property prices in estates might not sound like much, but considering that luxury properties currently only grew at about 4.5 percent year on year, homeowners lost out on almost a tenth of the growth they could have experienced during that year.

"Not only does crime growth have a direct impact on property inflation, but past high crime experience in an area has lasting effects that subdue property price growth for years to come," he said.

Bad reputation

De Kock said in established areas where there were few significant new residential developments, such as around the Rosebank, Norwood and Bramley police stations, the growth or decline in residential related crime from 2010 to 2011 had a strong correlation with the property inflation experienced in 2011. It had an even stronger correlation the following two years.

He said the converse was also true and a huge reduction in residential crime would generally have a positive impact on property price growth in the years to come.

However, De Kock said the crime reputation effect was much less pronounced in developing areas because the inflow of more residents distorted the crime growth picture.

It was also important to understand the interplay between different market sectors and different types of crime. Lightstone found a very strong relationship between contact crimes experienced in estates and sectional schemes, and the house price growth experienced in that same year, De Kock said.

One explanation for this would be that the combined effect of these closed communities and the nature of contact crimes normally resulted in people within the community spreading the news faster.

Potential buyers were therefore more likely to get to know about the crime wave and potential sellers were likely to sell at a lower price that same year.

De Kock said the "bad reputation effect" was generally more lagged in the middle income freehold sections of the property market, where property price growth tended to have a closer relationship with crime rates five years ago than crime experienced that year.

This indicated the market might be taking longer to catch on to the idea that it was a bad area and it also took longer to respond to positive improvements because the news travelled slower than in closed communities, he said.