The idea of not only earning a good income but also acquiring assets that grow in value is undoubtedly appealing to all. However, buy-to-let real estate is not for everyone. If you’re serious about investing in physical property, rather than any other forms of investing such as the stock market, you must commit to running this venture as a business. And, as any CEO would for their business, you’ll need to be as informed as possible, keep yourself educated and be aware of the costs and risks involved.

Take a look online and you’ll soon find an abundance of properties for sale, but less than 2% of these are investment-grade stock. So, how do you tell the difference between an average and a high-performing property? How do successful investors choose the right kind of real estate to speed up the growth in their portfolios? Fundamentally, successful investors select the right type of properties, in the right areas and buy them at the right time.

It is essential to do your homework in preparation for buying an investment property, taking the following into consideration:

- **Price:** what will the property initially cost to buy?
- **Yield:** what will you earn in the short term, being rental income minus your expenses?
- **Risks:** such as problematic tenants (and the costs associated with having them evicted, as well as how long your property may stand empty between tenants).

To mimic the results of the most successful property investors there is a step-by-step approach you can follow to help ensure you get your money to work for you at its highest potential rate, beat the market and ensure success:

**Know exactly what you’re looking for when shopping for property**

Before you begin the search for that perfect deal you should determine your buying criteria and commit to them. How many bedrooms and bathrooms do you want? Will you buy a house or an apartment? Do you want a sectional title or own title property?

A certain amount of flexibility is needed so don’t be too rigid, but you should know what your range is for things like price, shortfall, cash flow and ROI before you start looking.
Consider the economic factors influencing your purchase

Take a step back and look at the big picture of how the economy is performing. Mistiming the market may mean receiving a lower rental than you anticipate, and only being able to sell the property at a much lower price than you’d hoped. Carefully choosing when you buy a property is vital to the success or failure of your venture. Is the economy booming, in a downturn, bust or in an upturn? You need to buy a property at the best possible price at the right stage of the economic cycle to maximise the efficacy of your investment.

The most successful investors are counter-cyclical investors: ideally, you want to buy when everyone is selling and sell when everyone is buying. Never buy too close to the top of the economic cycle.

Be committed to a long-term timeframe

With the IGrow’s philosophy of real estate investment the aim is to keep your properties for the long term, while you strategically refinancing and build your asset base.

The old adage about location still holds true

Province
Buying in the right province is all about assessing the right stage of the specific property cycle. Each province has its own economic cycle and, as an investor, you don’t want to buy at the peak and have to wait too long to see growth in your investment or even risk experiencing an initial decline in the value of your property. So, choose the right province within the right stage of the economic cycle.

For example, currently, the Western Cape is far outstripping the national average for year-on-year property appreciation, by an average of about 5%. But within Cape Town itself the different areas vary greatly. For example, according to the FNB House Price Index Atlantic seaboard properties are growing at nearly 30% per year; real estate in the City Bowl is growing by about 21% and properties in the southern suburbs by nearly 15%.

Suburb
Where you buy is important: some areas experience higher price growth, but other areas may have a higher demand for rental properties and their yields may be higher. This is usually where there are multiple economic pillars driving the population growth, and thereby pushing up property values. Strong demographics in a suburb is a prominent driver for sustainable rental income and capital growth. Where there is demand there is growth and that’s where the money is made.

Look for an area with a proven track record of sustainable capital growth, because a strong proven history of rental and capital growth may indicate sustainable growth in the future.
Consider the ratio of supply and demand for rental properties

Ideally you want to buy a property that is highly desirable for your ideal tenant – this will make it less likely that your property will ever stand empty. Again, this is where research plays an important role. TPN produces a market strength indicator for rental properties, and when rental demand equals supply this average is indicated as 50%.

According to this indicator, rental demand looks like this:

- **Gauteng:** 50%
- **KwaZulu-Natal:** 53.98%
- **Eastern Cape:** 62.86%
- **Western Cape:** 73.25%

Consider the type of property your tenant is looking for

Once you have found your location, you need to find the right type of property to suit the tenants you’re looking to attract. Find out which type of property is performing the best in the area in which you plan to invest.

Keep in mind that just because you might not necessarily choose to live in a particular type of property does not mean it isn’t ideal for your tenant. So, in terms of both rental yield and quality of tenant you need to consider whether higher-value properties are better rental propositions than lower-value ones.

Your choices are likely to include:

- **Ownership structure:** sectional title or full title
- **Size:** 1, 2 or 3 bedroom units
- **Property type:** apartment, townhouse or house

Again, in this case, the past is a good predictor of future performance.

Sectional-title units tend to have higher gross yields (rental yields before expenses) than own title units. This is because sectional-title properties are generally smaller and more affordable – for the tenants and the owner.

If you buy a property that is desirable to your tenants, as well as within their price-range for rent, you will have the pick of the litter when it comes to renting out your property. Typically, properties charging between R3 000 and R12 000 a month have the lowest vacancy rates and also tend to have the highest percentage of tenants who pay their rental on time.
As a landlord having good-quality, long-term tenants is ideal. They are more likely to look after the place and hopefully want to renew their lease. This means regular income for you and fewer vacancy periods for the property. To attract or keep such tenants, it is worth being slightly negotiable on the rental.

Rental increases, when renewing a lease, are currently between 10% a year (in the Western Cape) to as little as 0.68% in KwaZulu-Natal so again, make this part of your research before you buy.

You can also structure the lease agreement to cover some expenses from sectional-title tenants that previously you could not, such as water, sewerage, electricity, refuse removal and parking.

Remember, when buying a sectional-title property, larger complexes do run the risk of some owners defaulting on their levy payments, which will impact on the levy increases, so ask to see the complex's financial to make sure the scheme is financially sound. Also, ask the body corporate about any possible special levies that could be coming up.

That said, if a complex has a high rate of owner-occupiers this is a very good thing: owner-residents tend to take better care of units and be actively involved in the management and maintenance of the complex.

**Your ROI will influence your purchasing decision**

This is a vital calculation that will ensure you make the right financial decision and buy with your head rather than your heart. Work out the annual return on your investment before buying a property you are considering, as follows:

\[
\frac{\text{your expected annual rental income} - \text{ongoing expenses such as levies, insurance, rates and maintenance}}{\text{purchase price + transfer duty + conveyancing and bond costs + renovation costs}} \times 100
\]

= your net return as a percentage before tax.
Structure your investment business to maximise your benefit

There are different ways in which you can own rental property, such as in your personal capacity, or in the name of a company, or in a trust. There are pros and cons to each structure, and one of the deciding factors will depend on how big you intend to grow your property investment business. At its core, the business model is that you are using other people’s money to make money for yourself, by using a loan from the bank to buy a property and then using money paid to you by a tenant to repay that loan.

You need to consider several factors when deciding whether to buy properties in your personal capacity, as a business or CC, or within a trust structure.

**Personal capacity:**

- It can be difficult to get a number of mortgage bonds to buy several properties.
- You will pay income tax on your rental income which can be as high as 45%.
- All your individual properties have to be reported separately to the tax man.
- Individuals pay an effective 18% capital gains tax on the highest 45% marginal rate.

**Companies:**

- A property purchased by a company will pay tax on profits at a flat rate of 28%.
- Owning several properties within a company structure means the losses on one property can be offset against gains on others when reporting to SARS.
- Companies pay a flat 22.4% capital gains tax.

**Trusts:**

- Because of the changes in Trust law, people view them as largely uneconomical because of their high tax rates.
- However, they can still be structured effectively, often in conjunction with company structures, to maximise tax benefits and protect your legacy.

Proper planning will allow you to create a business for yourself that is largely self-operating and create the kind of retirement that most people only dream of. So start your property investment portfolio today.
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