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Commercial property ripe with investment opportunities

By Christo Botes

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The property market in South Africa remains unfavourable for real estate agents and sellers following years of low price growth and stagnant sales. However, this depressed market provides many opportunities for investors, provided that the properties are carefully chosen with thorough due diligence and a long-term investment plan in mind.

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The depressed property landscape is the result of several factors, with the most significant being the overall anaemic state of the South African economy. With household spending under stress, businesses under pressure, an overall unemployment rate of 27.7% and GDP growth of below 2%, investors with large deposits and financiers eager to extend property loans are scarce – especially following the recent downgrade of South Africa's long-term foreign currency debt to BB from BB+ by S&P Global.

Real estate has also become a less desirable asset class following the 2008 global financial crash. This is true among global and local investors. The net result is that a property buyer in South Africa today would find himself on a relatively open playing field, with lots of options from which to choose.

Prospective investors who are considering purchasing a property, should keep the following ten points in mind:

1. Location

Certain areas have been more affected by the economic downturn, which is why location is imperative. Property values in metropolitan areas are more favourable as they are more resilient to economic fluctuations.

2. Affordability

One of the biggest mistakes that inexperienced property investors make is to fixate on the bond-repayment figure alone. Rates, levies, utilities, maintenance and security costs all have to be factored in.

It is also very important to test various scenarios to see if the investment is still affordable when interest rates or other costs increase.

Remember not to take the municipal rates that the previous owner has been paying as a given. The municipality will adjust the rates according to the sales price as you register the purchase of the property.

3. Deposit

The bigger the deposit, the lower bond repayments will be, however this can be a difficult calculation for business owners. They must consider the opportunity cost of taking the cash for the deposit out of the business – it may be more lucrative to keep the money in the business compared to the savings gained from having an increased deposit.

4. The cost and supply of utilities

Electricity and water, once a given in nearly all formal properties in South Africa, is no longer to be taken for granted. Conduct a careful study of the reliability of the supply, its costs, and the availability of backup systems.

5. The cost of maintenance

It is easy to underestimate the cost of maintenance, especially in old buildings that may be seen as a bargain. Be sure to do an accurate survey of the state of repair of the building.

6. The cost of security

The buyer may need to invest a large once-off installation such as an electric fence, or add in the ongoing cost of around-the-clock security if the property is particularly vulnerable to crime.

7. Access

Ease of access can be key to making a property investment worthwhile. Consider issues such as road infrastructure, as well as parking, congestion, and the proximity of public transport.

8. Defects

Calculating the ongoing maintenance of a building is one thing, but ensuring that there are no hidden defects in the property is another element that must not be neglected.

Make a careful study of the water and electricity connections to the property, the state of the building itself, the infrastructure such as air conditioning and nowadays, the fibre connections and cellphone coverage.

9. Approved building plans

Many investors have had the misfortune of buying a property, only to be slapped with a demolition order because the seller had built without the requisite approval. Thus it is advisable to request the approved building plans of the property before it is bought.

10. Sectional title

If an investment is part of a sectional title scheme, it adds another layer of due diligence. Make sure that the body corporate that runs the complex is well managed and healthy. It is also vital to view the financials of the body corporate.

ABOUT THE AUTHOR

Christo Botes, executive director at Business Partners Limited.