

What to consider before investing in a second property

According to Terence Hogben, broker owner at Leapfrog Durban, a second property can be a great way to earn a passive income but, just like any other investment, it needs to be approached with an open mind and a keen understanding of exactly how it works.



Source: www.unsplash.com

"Patience is definitely a virtue when it comes to property investments - if you're looking for a get-rich-quick investment, property is not the space for you," Hogben cautions.

There are a number of factors to take into consideration before signing on the dotted line for a second property. Affordability is the gold standard when purchasing property and that extends far beyond whether you can theoretically afford to cover the bond costs.

"Affordability includes the expenses related to property ownership, such as municipal rates and taxes, property maintenance, insurance and the fees of managing agents," Hogben explains. He adds that the property needs to take into account that it may happen that a tenant misses a payment or that the property stands empty for a month or two, in which case the owner is fully responsible.



Re/Max Q2 2021 report suggests a return to normal market activity

14 Jul 2021



Prove affordability

Important to note too is that in most cases, you will need to prove to the bank (or other lender) that you can afford the bond on the second property without the potential rental income. As such, the bank is likely to consider your credit record, household income and monthly income-to-expense ratio to ensure your personal finances are in a sound state. All credit

application, including for a second bond, has to adhere to the stipulations of the National Credit Act, hence the extent of the information required to assess an individual's suitability to be granted a(nother) bond.

Once affordability has been established, the next step is to familiarise yourself with the other factors that ultimately determine the merits of the investment. "The demand for rental properties in the area, the anticipated rental income and the potential growth in the area will play a key role and is the kind of information a trusted property advisor will have at the ready," Hogben explains.

The rental price of the property should be comparable (and competitive) with similar properties in the same area, which may be less than you need to cover the total cost of the monthly bond repayments.

"At the end of the day the answer to the question hinges on a number of factors related to the individual's circumstances and financial goals. Generally speaking though, property is a resilient, medium-risk investment that is likely to perform well over time," Hogben concludes.

For more, visit: <https://www.bizcommunity.com>