BIZCOMMUNITY

Choosing the right investment property

By Paul Stevens

9 Jun 2016

Selecting the right investment properties is fundamental to the success of your property investment success. If you choose the right property, you can be almost assured that you will enjoy good capital growth for many years, and that the property will rarely - if ever - be vacant, which will practically guarantee your property investment success.

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Here is a ten point program to help prospective buyers evaluate each potential investment property before making a decision.

1. Price: Not every property you invest in has to be a “bargain”, but you should never pay too much for a property.

2. Rental income: The rental factor is the ratio between the purchase price and the monthly rental. If the purchase price is R500,000 and the rental is R5,000, the rental factor is 1%. The higher rental factor, the more income your property produces for less money out of your pocket. Keep in mind that the levies and rates and taxes on a property can also influence the bottom line on a property.

3. Break-even: Most investment properties have an initial monthly shortfall, which diminishes as the rental increases and eventually covers all the property expenses. This is the break-even point, after which the property starts generating a monthly surplus. The acceptable period for a property to reach break-even point depends on many factors. But this, along with the total out-of-pocket investment required, is critically important information.

4. Condition of the property: The older the building, the higher the maintenance and repair costs are likely to be. The better the condition of the building, the higher the rental potential. There are however exceptions, like inner city properties, which have a totally different dynamic.

5. Vacancy: The rental demand in the area in which the property in located is crucial, but even where the demand is high, smart investors calculate a vacancy factor into their cash flow calculations.

6. Area: What is the general condition of the area in which the property is situated and its longer term prospects for growth and development?

7. Levies and taxes: How do the levies, as well as rates and taxes, compare to other areas, and how your money will be applied by the sectional title scheme or the municipality?

8. Affordability: Can you comfortably fund the initial shortfalls, as well as events such as a series of interest rate increases, vacancies or a defaulting tenant?

9. Control: How much control will you have over the property in terms of implementing changes that could increase the yield? Can you subdivide, extend the unit or renovate?

10. Bank valuation: Does the bank validate your decision to acquire the property by granting a mortgage bond?

ABOUT PAUL STEVENS

Since 2013, Paul Stevens has been the CEO of Just Property Group Holding (Pty) Ltd which controls an international group of property franchises specialising in residential sales, rentals and management. He joined as a franchisee in 2003 and now, as CEO, drives the strategic direction of the Just Property brand with his charismatic optimism. He is also actively involved in the evolution of the South African property landscape, working closely with high-level industry stakeholders.

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