

Debts, Loans In The Property Industry

Property has a proven track record for being a solid investment, and potential investors should not fear raising debt to acquire properties, says Trafalgar chairman Neville Schaefer.

His comments come as South Africans adjust to a rising interest rate cycle following a four-year period when bond rates dipped to their lowest point in a quarter century. "The upswing opens opportunities for investors to acquire sound investments in developing neighbourhoods," he says.

According to Standard Bank economist Elna Moolman, the question of whether to raise debt or not should depend upon an individual and his specific situation. "However, it is relatively comforting that interest rates are not likely to rise any further for the time being," she says. "So if an investor can afford a mortgage at these rates, there is not much risk further down the line."

Dennis Dykes, chief economist for Nedbank, agrees that a positive spin off from the latest round of interest rate hikes is that they enable investors to more realistically gauge the affordability of property. "Counter to that though is that when interest rates go up, there is less price performance in the ensuing period," he says. "This is not necessarily the case, but as affordability becomes an issue, it does tend to moderate price performance – at least in the short term."

Furthermore, Schaefer says attitudes to debt should take cognisance of age, with anyone under 30 years being prepared to service 100% bonds on their new investments.

"People in that bracket are still young enough to begin again if the venture does not succeed. Their financial responsibilities are not as onerous as their older counterparts," he says.

He believes investors up to 40 years old can sustain bonds between 80 to 100% on their properties as the chances are they have families and other financial responsibilities to consider.

Those in the next age bracket should limit their bonds to 60 to 80% and once investors reach 50 years old, they should aspire to put down a 50% deposit on new properties in their portfolio.

Anyone acquiring property after 65 years of age can not expect to raise a bond on their new investments.

Moolman has a different take as she believes a potential investor should rather look at how much time he still expects to be employed for, especially taking into account the fact that many people are living far longer than previously. "I would not see age as being the critical factor in determining the proportion of the loan to the value ratio," she says. "So for example, if someone is 40 years old and can afford to take a 100% mortgage, which he believes he will be able to pay before he retires, that's fine."

Dykes is of the opinion that it is not advisable for someone over 65 years of age to take out a 100% mortgage bond. "At that stage in life, one should be using property as an asset rather than an expenditure item," he says. "So age does come into the equation to some degree, but having said that, prospects do also play a role. So likewise if one is young with no prospects, there is no point in taking out a 100% loan."

According to Schaefer, property yields have consistently outweighed cash or bonds, meaning there is scope for investors to secure a solid annuity income from their properties and to benefit from appreciation and market growth when the asset is sold.

He warned potential investors against buying and selling properties too rapidly though due to the high costs associated with entering and exiting the market.

Schaefer adds that investors should leverage their property portfolio to buy further properties. Banks recognise the value of the assets and allow investors to borrow against them to grow the portfolio.