

Buying Property for Investment

There are various kinds of property investment. Your home is an investment in that it provides you with rent-free accommodation. It may also yield a return in terms of increased value (a capital gain), although that gain may be difficult to realise unless you trade down or move to another region or country where property is cheaper.

Of course, if you buy property other than for your own regular use, e.g. a holiday home, you will be in a position to benefit from a more tangible return on your investment. There are four main categories of investment property:

- A holiday home, which can provide your family and friends with rent-free accommodation while (hopefully) maintaining or increasing its value; you may be able to let it to generate supplementary income.
- A home for your children or relatives, which may increase in value and could also be let when not in use to provide an income.
- A business property, which could be anything from a private home with bed and breakfast or guest accommodation to a shop or office.
- A property purchased purely for investment, which could be a capital investment or provide a regular income, or both. In recent years, many people have invested in property rather than shares or savings to provide an income on their retirement.

A property investment should be considered over the medium to long term, i.e. a minimum of five and preferably 10 to 15 years. Bear in mind that property isn't always 'as safe as houses' and investments can be risky in the short to medium term. You must also take into account income tax, if a property is let, and property taxes.

Capital gains tax is charged at normal income tax rates in South Africa, and you may be liable for tax on any profit made if the property isn't your main residence. You also need to recoup purchase costs of 10 to 12 percent when you sell.

When buying to let, you must ensure that the rent will cover the mortgage (if applicable), running costs and void periods (when the property isn't let). Bear in mind that rental rates and letting seasons vary with the region and town, and an area with high rents and occupancy rates today may not be so fruitful in the future.

Gross rental yields (the annual rent as a percentage of a property's value) are from around 5 to 10 percent per year in most areas (although gross yields of 15 percent or more are possible) and net yields (after expenses have been deducted) 2 to 3 percent lower. Yields vary considerably with the region or city and the type of property.

Before deciding to invest in a property, you should ask yourself the following questions:

- Can I afford to tie up capital in the medium to long term, i.e. at least five years?
- How likely is the value of the property to rise during this period and by how much?
- Can I rely on a regular income from my investment? If so, how easy will it be to generate that income, e.g. to find tenants? Will I be able to pay the mortgage if the property is empty and, if so, for how long?
- Am I aware of all the risks involved and how comfortable am I with taking those risks?
- Do I have enough information to make an objective decision?