How to identify a sound property investment

By Linda Erasmus

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Logic and intensive research will make investment in property a lot easier than it seems. Buyers should tap into the expertise of reputable property professionals for guidance in buying property.

Whether buyers are looking to buy property to live in or to lease out, the basics that make for a sound property investment will always apply. Commissioning the services of a qualified property expert is first prize; however, buyers also need to have the savvy to know what questions to ask.

Location, location, location

This maxim may have been used ad nauseum, but it's never to be trivialised. Discuss these important factors with your property agent:

- In which areas have properties shown consistent growth - like the Colosseum Hotel penthouses in Cape Town's Century City, that are managed by Fine & Country International Realty SA and yield a guaranteed 5 percent per annum income for the first two years; also ask about those sectional title complexes that are well-managed
- City hubs that will make for a sound property investment, making it easy to lease to younger people who have to live in the city - close to work due to high petrol prices
- Details about the existing rental market in an area, if you're looking to lease the property out
- The proximity of the property to popular primary schools, secondary schools and universities, to enable a seamless future lease or sale
- Whether any improvement projects are planned for that area, because this will increase the property value
- Land is only a good option if it is in close proximity to urban development.

Value growth or high rental return?

Return on investment is critical when deciding on your property of choice. Choosing between capital growth rate and rental return will depend largely on your financial situation. Get an understanding of both:

- Capital growth rate: the increase in value over time; if the market climbs, property price increases have a compounding effect
- Rental return: how much rental income you're likely to earn in relation to what you paid for the property. Your gross percentage of rental return is calculated as follows: annual rent divided by the purchase price or property value. Rental payments don't compound, they help pay interest payments, rates and so on. There is no guarantee that the rent will increase annually although this may well be the case.

Traditionally, buyers with less cash flow tend to go for properties that have shown high rental return, whereas their affluent counterparts look for historical growth in value. Ultimately, it's not about bargain shopping, it's about striking a good balance between the two.

Mass appeal

The mercurial nature of economies around the world calls for property investors/buyers to choose a property with the realisation that they may have to sell or lease it out. For this reason, it's advisable for them to find the middle ground between their unique preferences and common appeal in a property.

Rands and cents

If your property of choice needs fixing and renovating, get an estimate from a qualified contractor as to the anticipated cost. Then, with the help of your property agent, weigh these costs against the property's projected growth in value - based on historical performance - before signing on the proverbial dotted line.

Whether you're buying an investment property or one in which to create lasting memories, always keep it in good nick.

ABOUT THE AUTHOR

Linda Erasmus is the CEO of Fine & Country International Realty SA.