How to invest R3m into offshore property

Issued by One Touch Solution

25 May 2020

For those of you wondering "How should I invest R3m in overseas property?". This article, sponsored by One Touch Investment, will set out the steps of how to invest R3m in property. Do not fret if your budget won't stretch to R3m... some sage investment options are provided for those with lower amounts of cash to deploy.

The first decision is “Where to invest?”, which country and location. Choose somewhere with the best potential for growth, and a stable economic environment. South African property sales volumes were down 40% year on year – that’s before Coronavirus hit. It is possible infection rate could accelerate as South Africa heads into the cooler months. This could mean that the virus has a bigger impact on property sales for a long period of time. Conversely in the UK, due to the so-called “Boris Bounce” there was a 2.3% monthly rise in the average price of property coming to the market between 8 December and 11 January. This was largest increase ever for that time of year since Rightmove began recording data in 2002. The UK has also passed the peak of infection, and so is ahead of South Africa in terms of recovery.

South Africa also has a smaller economy that is more vulnerable to fluctuations. The Coronavirus outbreak could see it badly affected as the country relies heavily on its exports. As there is a worldwide slowdown in demand for resources and ports closed, it is increasingly difficult to trade with other countries. In March South Africa’s economy was downgraded to “Junk” status by Moody’s, and with the fall in price in the commodities it exports coupled with economic downturn due to Coronavirus, it’s difficult to see how the situation will improve. In fact, World Bank has already predicted that sub-Saharan Africa will tip back into recession in 2020.

Where should South Africans consider investing?

Those who are considering investment property need to decipher how much money they have available to invest. To a lot of people, R3.44m is a big sum of money. Perhaps surprisingly, in many parts of the UK you would struggle to find a house under that amount. According to Statista, the average house price in the United Kingdom in July 2019 was just shy of R5.35m. Of course, that is an average and investors can source cheaper properties for buy-to-let, but these properties run the risk of being in an undesirable location or requiring maintenance work to bring the house up to date, which will affect rental yields.

Investors with R3m to invest may wish to have some expert guidance on how to invest it. The second step could be to form a property investment strategy to clarify what sort of property one is comfortable with. Considering these seven tips on how to invest in property could save one a fortune. Some suggestions can be found below which highlight property sectors for investors with limited capital, and how to make traditional buy-to-let work.

How to invest R3m in buy-to-let property, what are the advantages of choosing buy-to-let and which places should I consider?

Buy-to-let property is on the more expensive end of the scale when it comes to property investment. As mentioned before, average house prices in the UK are just shy of R5.35m compared with student property investments or care home investments which start around the R1.3m mark.

Mortgage availability and stage payments for off-plan property

The advantage of buy to let investing - for those with limited available funds - is the availability of mortgage finance to cover most of the purchase price. A deposit of 35 percent is typically required for non-residential landlords. Acquisition costs typically include transfer fees (stamp duty), mortgage arrangement and legal fees. When buying off-plan stage payments could be made staggered over a set period until the property is completed. This could be convenient for South Africans wishing to stay under their personal investment allowance of R1m per annum.

Towns and cities where property is still affordable

R5.35m is the average in the UK overall, but there are many places where property is less expensive. Buying property in London is going to be very expensive in rand terms and the yields are not as high as other cities. The average price in Liverpool is R4.19m, just over R1.14m more affordable. Not only are property prices cheaper and therefore more accessible to the average investor, but rental yields are also some of the best in the country.

It's also worth exploring towns and cities, or areas of certain towns and cities that are undergoing regeneration. Places like Luton don't often feature in the Sunday Times Best Place to Live table, but it's an affordable alternative to London with excellent transport links into the capital. Commuters can be in London in as little as 22 minutes by train. £1.5 billion pounds is being invested in the town to regenerate the town centre and bring about the creation of 18,500 new jobs. Key elements of the regeneration plan include three linked enterprise zones surrounding the airport that will host aerospace businesses, support services to airlines and hotels, the development of Butterfield Business Park and improvements to Luton's shopping centre. These improvement plans have earmarked Luton as one of the best places to invest, according to the *Sunday*

Times.

It would be a prudent idea for investors to consider places such as Luton if they are investing for capital growth. Average property prices in the London commuter town are R6.25m, but with regeneration plans we can see that skyrocketing in the coming years. One-bedroom apartments in properties such as The Orion start at R4.13m. Although that is slightly over the R3.44m-mark, completion is not until the end of 2020, so investors have some time to raise funds.

Alternatively, if investors are looking for good value property that will achieve rental yields as opposed to capital growth, they could consider Liverpool buy-to-let investments. Liverpool dominates the tables when it comes to the best location for buy-to-let yields. In TotallyMoney's list of the top 25 buy-to-let areas in the UK, six Liverpool postcodes featured (L1, L2, L3, L4, L6 and L11). In L1, yields of up to 10% can be achieved.

Investors may benefit from reading the best places to invest in UK property to get a more in-depth understanding of places they should be considering in 2020.

Buy-to-let alternatives – How to invest 150k in commercial property investments

Student and care homes are classed as commercial property investments and are ideal for investors with R3m or less in cash. These are usually cash-only investments, but they start from a lower base compared to traditional buy-to-let. Buy-to-let student accommodation for example, can start from R1.5m and offer guaranteed yields often at 7%+ for a set number of years. Care home investments also start from the R1.3m mark and offer yields of up to 10% that are underwritten in a contract.

The major benefit of investing in purpose-built student accommodation (PBSA), or care homes, is that they always come with a management company in place. They remove the burden of the day-to-day running of the property, thereby ensuring it is maintained and organising tenancies. You will often receive a guaranteed rental yield or a long-term lease for a certain number of years and after that rental income will be dictated by the market. These types of investments are ideal for people looking for high yield properties. As a general rule of thumb, commercial investments such as student and care home are less likely to achieve the levels of capital growth you'd find with a traditional buy-to-let.

How to invest in property with less than R3m

There are several ways investors could buy property with less than R3m. One is property crowdfunding. This is where a small number of investors group together and purchase a property between them. There are a few benefits to property crowdfunding, one is that investors can access property investment with a small amount of capital, and it allows investors to diversify their portfolio more easily. Property crowdfunding could be a good choice for those with limited funds as one can invest from as little as R2200. However, it is less flexible than traditional property investment in that you might be tied into a contract with no clear exit opportunity where there could be a penalty for withdrawing funds early may be higher that the returns made. Additionally, returns may not be as good as other high-yield property investment options.

Commercial property investments such as student and care start from a lower amount. If these are bought off-plan, often only a small deposit is needed and investors would have a few years depending on completion date to raise the capital as the remainder would be paid in installments. Off-plan investment properties could be ideal for someone who currently has a low cash deposit but is anticipating more available funds in the future.

Other costs to bear in mind when investing in property on a budget

It's worth noting that stamp duty will be applicable on buy to let property. One should keep this in mind when considering UK property investment as these additional costs might overstretch a budget of R3m.

Student property and care homes are classed as commercial transactions and are exempt from stamp duty if the purchase price is under R3.44m. For those who wish to invest R3.44m or thereabouts in commercial property such as student or care homes, we suggest ensuring the total amount does not exceed R3.44m to avoid paying stamp duty. Investors should also take into consideration other costs such as legal fees and property sourcing fees for those with bespoke requirements.

One Touch Property has over ten years' experience of sourcing investment property and their investment consultants can provide guidance on a property investment that will help investors achieve their financial goals. Contact us today to take the first step and learn more about property investment opportunities available or how to invest in property with R3m or less in capital.