Property investment: Exploring opportunity in adversity

Paul Stevens, CEO of Just Property, weighs in on the property investment opportunities available in the current climate of low interest rates and recession, while also providing tips, along with Andrew Walker, CEO of the SA Property Investors Network (SAPIN), for new investors.

Paul Stevens, CEO of Just Property

"In May 2020, Lightstone predicted an 8.8% drop in property prices if South Africa's GDP falls to -6%," he says, but warns, "The current GDP forecast is bleaker than that as South Africa's situation has worsened since finance minister Tito Mboweni announced in his emergency budget speech in June that the South African economy is now expected to contract by 7.2% in 2020. If GDP has a negative GDP growth of 10%, Lightstone predicts house price index will fall to -14.5% by the end of the year."

Variances across price brackets

Stevens notes that there are variances across the price brackets, however: "One needs to dig a little deeper to see what's happening in your area and price range." Lightstone's Residential Property Indices, published in July 2020, indicate that "despite stable growth in the mid and low value segment, house price in the high and luxury segment continues to decrease".

"We are not yet seeing a drop in prices for the sector up to R1.5m," Stevens points out. "This market is still being fueled by high demand – Lightstone's data analysts report house price inflation of 9.4% in the low value market (R1.5m) is falling back at -0.8% inflation."

Stevens finds it interesting that the opportunities right now are not typically in investment properties but should appeal to buyers looking for homes to buy now in the higher price brackets.

With regard to opportunities in the holiday-/ second-home and sectional title markets, Stevens is cautious. Until the deeds offices become fully operational and backlogs are cleared, the data that analysts currently extract from Deeds Office registrations may not accurately reflect real-time market activity. A trusted property professional who is also a local area specialist will have the best insight to offer, he notes.

Stevens says that available data with regard to property in vacation and retirement towns is showing variances up and down on 2019 median prices.

Property sales decline

In terms of property sales, data from Lightstone's Town Reports shows a not-surprising decline:

- 122,346 freehold sales in 2019 vs 35,645 in 2020 so far.
- 68,480 sectional scheme sales in 2019 vs 20,504 in 2020 so far.
- A 4% decline in average, year-on-year prices changes in sectional title properties and a 1% decline in freeholds.
- Properties in the

"Savvy buyers will look beyond just the purchase price and see the value that can be unpacked in a property," Stevens says. "For example, adding a garage or en-suite bathroom to a property will instantly improve its appeal to future buyers and the opportunity to make money on resale can be maximised if the renovations (and associated budget) is carefully managed.”

Properties that can be repurposed also present an opportunity, says Stevens, noting that a residential house could be rezoned for business rights, and a large house could be subdivided into multiple dwellings.

Risks with every investment

“There are risks associated with every investment and it is important to remember that buying and selling property costs money and takes time. If liquidity is important to you, then buying bricks and mortar is probably not right for you.” The property market is sometimes influenced by factors that may not be immediately apparent, he explains.

“Take time to investigate local government’s spatial plans, investment / development activity in the neighbourhood you’re considering, and the sentiment of the residents and/or business owners.”

Stevens concludes: “Interest rates will almost certainly rise and, with them, your repayments if you finance the purchase. Do not over-extend yourself. Manage your cash flow carefully.”

Top tips for new property investors

Stevens and Andrew Walker, CEO of the SA Property Investors Network (SAPIN), give their top tips for buyers looking to start building a property portfolio in the current recessionary climate.

Paul Stevens, CEO of Just Property:

1. Have a clear goal in mind and articulate it in detail. Consider using the SMART methodology to achieve your goals in a way that is smart, measurable, achievable, realistic and time-bound. For someone looking to buy their first-ever investment property, it may look something like this:

S = I want to buy a property on the beachfront,
M = that will give me a rental yield of 9%,
A = using the savings I have and the pre-qualified amount that I can bond,
R = assuming that I can get a fixed interest rate lower than 10% and that the Deeds Office functions properly again,
T = by the end of November 2020, so that I can start 2021 with a tenant in place.

2. Make sure that you can commit to this property investment for the medium- to long-term. “Flipping” property (buying low with the idea of selling when the market recovers) can be a risky business and while the property market is geared for buyers rather than sellers right now, this is unlikely to change quickly. Hope for the best and plan for the worst. For example, can you maintain the bond repayments in the event that you cannot secure a tenant or if the rental yield is lower than you anticipated?

3. Do your research; solicit feedback from a range of people, including local residents, real estate practitioners, financial consultants and tax advisors but beware of sentiment or bias that may be unfounded. Ask for evidence and data that validates their positions and opinions. Revisit your search parameters in case you are inadvertently narrowing your possible opportunities - there may be high demand in a nearby area that you have not considered. Balance all this against your personal circumstances and trust yourself; no-one knows what you want to achieve better than you do and, remember, even with the best will in the world, not everyone gives good advice.

4. Be patient. It may take you some time to find the investment that best suits your needs. This is a huge commitment so don’t rush or allow yourself to be pushed by the fear of losing out on a good deal. It’s far better to put in a few offers even if you lose out on multiple properties to secure the deal that is right for you and your budget. And to that point, don’t be afraid to make an offer that is lower than asking price to ensure you will get the right yield. If it's not accepted, walk away and start with the next property on your list.

<>b5. Shop around for the right agent to represent you. Finding potential investments is a time-consuming exercise and the better your agent knows you, the better s/he will be able to scour the market for the property that best suits your needs. A good agent will also be able to give sound advice on other topics, from how to secure the best finance to securing you that dream tenant.

Andrew Walker, CEO of the SA Property Investors Network (SAPIN):

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1. Always be conservative when running the numbers. As with most investment opportunities, property investment has risks. For example, the current interest rates look favourable and are at record lows, so this seems good, right? Let’s say that you go and buy your first buy-to-let (BTL) and it's just scraping you a positive cashflow at a 7% interest rate. Within two years, the interest rates could go up, which will precipitate a negative cash flow… That's not quite where you wanted to be and you’ll have to re-evaluate your deal.

Don't get too caught up in the low interest rates as they will be temporary! Plan for the long term when you do buy your first investment property, and make sure that you can still afford it if interest rates go up to 10% or even 13%.

2. Make sure you get the right advice and buy in the correct structure. There are different entities that you can use to purchase property. Should you be investing in your personal capacity, as a company or a trust? Each comes with different tax obligations and each option has its positives and negatives. Speak to an attorney who specialises in trusts, if this is the route you want to take. Speak to a bond originator who can ‘pre- qualify’ you. You might find a property that you fall in love with but, you need to make sure that you have correctly structured the finance for it.

3. Be prepared to pay your school fees. As a new property investor, you are going to pay for the knowledge you acquire in the process, either for up-front learning or after making costly mistakes. Our students find it valuable to network with and learn from like-minded people who have tried and tested various strategies, and are happy to share the experience with you. This is where the SA Property Investors Network comes in. It’s free to join and you can start learning today via our free ebooks and free webinars. It’s also a great way to connect with others in the property space.

There are also property training academies out there, such as The Property Academy. These offer virtual live workshops, online short courses such as the 1st-time-home-buyer and the SA Fundamental course, as well as individual coaching.

4. Don’t forget to factor in maintenance and management. It's one thing buying your first property but it's another thing looking after your investment and most people don't consider these costs when they run the numbers. If you are purchasing a BTL, then make sure you can afford to put away 5-10% of the gross rental, so that when you need to fix something, you have the funds available. As a landlord, you are required to maintain certain aspects of your property on an annual basis.

5. Plan your exit strategy. No-one can say for sure what's going to happen in the property industry so you need to plan for your exit strategy in case your personal circumstances change or the economy takes a severe knock. In our workshops we talk about the various exit strategies that you can apply and we help you plan for the worst scenario so you get out of the deal without losing money.