Be streetwise before buying to let

FOR some investors, buy-to-let again looks appealing — even though the recent rate increase and a swathe of economic data point to the likelihood of more enforced fiscal belt tightening.

The premise is that interest-rate pressure is causing more households to rent — either because they can't afford current bond repayments, or because they've postponed the decision to purchase until the next interest rate decline.

This, combined with a growing middle class, means there's *increased demand for rental property.*

But while this may seem a compelling argument, the reality is more complex.

Despite the interest rate rise, there's an enduring perception that buy-to-let is a low-risk, high-reward investment.

But for most people buying a property means taking out a bond, and in the current environment people need to be careful before they make what is a significant long-term commitment.

While some fortunate buyers may be able pay cash for a property investment, most will have to dip into home loans to pay the deposit and then take on substantial debt.

Would-be landlords need to understand some of the factors that can influence the rental market and have a clear idea of the return they'll need to make to cover their costs.

The SA rental market is still comparatively volatile when compared with the established overseas markets.

Interest rate increases and declining rentals because of a glut of rental properties in an area suddenly increases, or a spate of crime that causes a suburb to fall out of favour, are just some of the factors that can affect returns. And while most property experts seem to agree that rentals are likely to increase over the next 12 months, these returns are likely to be offset by rate increases and higher inflation.

This, combined with a slowdown in the property market, may make it difficult for buyers who've overextended themselves to recoup losses.

Property isn't as flexible as other investments, so you can't suddenly switch your money if the environment changes.

A growing middle class and increased rental returns can make buying-to-let a good way to grow wealth, but like any other investment buyers must do their homework and be realistic about the costs and returns. — *Old Mutual Bank CEO Japie van Niekerk*

CASH COW: A buy-to-let near an institution like the Cape Technikon makes sense Picture: AMBROSE PETERS

YOUR SURVIVAL GUIDE

WHEN it comes to a buy-to-let property, don't overextend yourself.

If you take a 100% bond on the property, you're less likely to be able to cover the costs and get a return if the interest rate increases or the rentals decline.

By making a larger deposit you give yourself more flexibility and increase your chances of making a reasonable return.

Find out as much as you can about an area before you buy. For example, what are the average rentals in the area and have these increased or decreased in real terms over the previous few years?

Will this cover your costs? Is it an established area or are new developments planned?

If so, how are these likely to affect rentals?

What type of tenant does the area attract? Student accommodation is often in demand, but rentals can be quite low.

Alternatively, if you're hoping to attract young families, are there schools nearby?

Also include costs such as levies, if the property is sectional title; routine maintenance; emergency maintenance, such as replacing a burst geyser; and advertising for a tenant.

Leave a reserve in case a tenant fails to pay rent, pays late or moves out and you need to find someone else.