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Buy-to-let investors bail out

May 22 2007 2:55PM

Joan Muller

Johannesburg - Buy-to-let investors - particularly those who recently entered at the top of the market - have started to offload rental properties as many battle to service mortgage repayments on the back of higher interest rates and lower income yields.

Affordability issues are also forcing more potential first-time homeowners to rent rather than buy.

The combined effect is a growing shortage of rental accommodation in many areas, creating potential upside for investors who hold on to properties or want to add new stock to their portfolios.

But upmarket apartments in Sandton and converted lofts in Cape Town's CBD - typically priced at R1.5m plus - are no longer the place to be. Industry players say if you still want to make money over the next three to five years, you have to look at the cheaper end of the market: affordable, sectional title apartments typically priced below R500 000.

Dino Joannou, Western Cape regional manager of rental agents Just Letting, says there's a serious shortage of rental accommodation priced between R2 700 and R3 400/month, particularly in areas close to Cape Town's CBD.

Cheap stock

Joannou says investors who have rental stock in that price bracket can fetch gross income yields of at least 8% (annual rental as a percentage of buying price) compared with yields of 3% to 5% on Cape properties priced at more than R800 000.

Key question is where to find buy-to-let stock for less than R500 000. Joannou says CBD fringe areas such as Rugby, Brooklyn and Woodstock are good buys.

Parklands towards Bloubergstrand, the northern suburb of Bellville as well as Muizenberg in the south also offer value, with more developers bringing

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Joannou says although Century City is less affordable than the above-mentioned areas, the mixed-use precinct is a strong growth node, as it's conveniently located on major transport routes between the CBD and the northern suburbs.

FNB property strategist John Loos agrees that buy-to-let investors should turn to the cheaper end of the market. "The lower you buy, the better the returns."

Close to work

He says investors should still be able to find stock priced below R500 000 - either in townships or rundown, former white suburbs that offer turnaround potential. In Johannesburg, the latter include areas on the outskirts of the inner city, such as Bertrams and Troyeville.

Loos says these areas will benefit from inner city rejuvenation projects, which should bring more middle-income workers to the CBD looking to live close to employment opportunities.

Apartment living near the proposed Gautrain stations at Rosebank, Sandton, Midrand and Hatfield (Pretoria) is also bound to take off over the next few years. Says Loos: "Accessibility to business nodes and transport routes will in future become a major driver of residential property demand and values."

Tony Ketcher, Randburg licensee of Seeff Properties, echoes a similar sentiment. "Traffic congestion in areas such as Fourways and down the main arterial routes, such as Beyers Naudé, Hans Strydom and William Nicol, are forcing commuters to start looking for homes inside the ring road."

Ketcher places his bets for best future income and capital growth on apartments and clusters in Windsor, Fairland, Blackheath, Berario, Melville and Westdene.

Bargains galore

Ketcher says although investors in freestanding homes in established areas such as Linden, Robindale, Robin Hills, Malanshof and Ferndale Ridge can still find property with acceptable returns, the big negative would be maintenance costs given the age of properties in those areas.

While Sandton is generally more expensive than Randburg, Charles Vining of Seeff's Sandton office says investors will still earn good capital growth in newer areas, including Sunninghill, Paulshof and Lonehill.

In those areas, Vining advises investors to opt for units in modern lifestyle complexes priced between R600 000 and R800 000 that offer swimming pools, recreation clubs and gyms.

A similar rental pattern is emerging in Pretoria, with strong demand for accommodation in areas close to major road networks. Gerhard van der Linde, of Seeff's Pretoria East office, says the entire new east of Pretoria is popular among tenants, specifically near Menlyn Park shopping centre. Proximity to Pretoria University also plays a major role in the student rental market.

the continued growth in property prices, albeit not at the same levels as last year, investors can peg the price at current levels while transfer is usually expected only 12 to 18 months later."

Double-digit growth

However, industry commentators agree that affordable units in inner cities offer investors with more appetite for risk the best future returns. Andrew Schaefer, MD of residential letting group Trafalgar, says most inner city areas promise investors double-digit rental growth within the next five years, particularly on units priced below R4 000/month.

But Schaefer says most properties bought for less than R1m will offer investors yields of around 10%/year against the 4% to 5% generally available in more expensive suburbs.

Aengus Property Holdings, one of the most active developers in downtown Jo'burg, is bringing 700 apartments for sale to the market this year at prices ranging roughly between R200 000 and R500 000. Others, such as Atterbury Property Development and Amdec Property Development, are also involved in inner city conversion projects aimed at the lower to middle end of the market.

Aengus MD Richard Rubin says it makes more sense for buy-to-let investors to buy in the inner city than in the northern suburbs of Johannesburg. Rubin says while the CBD may have been regarded as a no-go area for investors a few years ago, the northern suburbs are in fact now the riskier bet.

Rubin says inner city investors can earn an average income yield of 11%/year while investors in Sandton generally have to be satisfied with no more than 5%. Inner city investors can expect to boost monthly rental income by 20% to 25% by letting furnished apartments.


However, CBD investors aren't all doing equally well. Those who recently bought upmarket luxury apartments in Cape Town's CBD aren't seeing the returns initially anticipated. Joannou says upper-end CBD investments have generally been overpriced and investors are lucky to get yields of 3%/year.

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Remember on 8/7/2007 8:56:59 AM - Property is a great investment but be careful

Whenever an asset class is flying people believe it is the greatest investment..Property is a good investment only if u buy wisely. In any bull market prices go up not matter the location and price. Remember Japan , it had the highest priced real estate in the world. Prices fell 80% ten years ago and has still to this day not recovered. So dont always say I am in for the long term . How long is long term ? Its about being careful and not greedy..

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LM on 8/7/2007 8:56:58 AM - **Re: Chris**

Rating: ★★☆☆☆

You and many other people always forget about the main important concept behind buy to let. Someone else pays your investment for you! You comparisons of fees and all other things are therefore irrelevant. The return of buy to let exceeds playing around with shares by far. Take an Excell spreadsheet and create some graphs. 20 years and a minimum growth in capital of 10% per year. Plus the income you generate after about 6 years. Remember from then on you do not pay anything! It is like someone using someone elses money to play shares that always grows, unlike shares. Imagine owning 10 properties with a steady income when you retire. Shares cannot come close. Shares is instant loss or gain. Property is a long term win-win. Worldwide.

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ZK Ndhlovu on 8/7/2007 8:56:58 AM - **Education is the key**

Rating: ★★☆☆☆

The key to all this is education. Why is that one finds people buying into areas that others consider risky? Its either blind faith, or the fact that that person knows something you dont. Too many people have been buying because they saw everyone buying. The key is to buy into places that have less hype, and have excellent potential. Ive got 4 places in Eastern Joburg + 1 in Rivonia (2bed 1 bath), and have been getting excellent capital growth and return. Fully let for ages. For those that have been buying foolishly, look my way, Im looking at expanding. Property is a long term investment, no quick buck. I too feel I got in a bit late, but hey, Im only 25, I have many cycles still to ride.

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