

Buy-to-let homes are now in high demand. Here's what you need to know

Buy-to-let homes are gaining in popularity once again, with Ooba recently reporting a year-on-year growth of just over 13% in applications for buy-to-let/investment properties. This level of demand was last seen in 2009.



Rhys Dyer, CEO of Ooba Home Loans

“In this case, a homebuyer purchases a property for the sole purpose of renting it out in order to cover one’s bond and to yield a profit in the long run,” explains Rhys Dyer, CEO of Ooba Home Loans.

Obtaining the best possible interest rate on your home loan is crucial in maximising your return on investment. “Putting down a deposit will also reduce any gap between your rental income and your home loan repayment,” he adds.

Despite heightened interest rates, Dyer adds that homeowners can stand to make a rental yield of between 5% and 10%, depending on their interest rate, where the home is located, the rental amount charged and the size of the bond.

When asked who’s currently purchasing buy-to-let properties, Dyer says, “It’s the ideal avenue for first-time homebuyers to sink their teeth into property investment. We are also seeing demand from both second-time homebuyers looking to start their investment portfolio as well as seasoned property investors.”

Lock-up-and-go properties remain a popular choice among savvy investors. “These units generally attract a large pool of tenants, offer safety and security, and they’re easier to maintain.”



FirstRand to double 'green energy' home loans by next year

Tannur Anders and Promit Mukherjee 28 Mar 2023



Regional overview

At a regional level, the Western Cape registered a sharp increase in applications for investment/rental properties as a percentage of total applications in February 2023 - rising from 18.1% in January to 21.9% in February.

“This figure now exceeds the pre-Covid-19 high of 21.5% in March 2020, and is largely driven by the ongoing semigration, the return of foreign investors and growing appeal of property located in financially sustainable municipalities.”

Applications have declined across Gauteng and the Free State in recent months, however there has been a notable demand in KwaZulu-Natal and Mpumalanga. “Applications for investment/rental properties have also rebounded modestly in the Northern Cape in recent months,” Dyer adds.

Homeowners remain hopeful of interest rate nearing its peak



Am I ready to buy to let? Key considerations

Speaking to aspiring landlords, Dyer suggests that you consider the following questions when weighing up whether buy-to-let property investment is for you:

1. Does it make financial sense?

“Everyone’s financial situation is different,” comments Dyer. “Prepare a budget, know your credit score and receive a home loan pre-approval prior to shopping around for an investment property.”

2. Deposits and financing

“We strongly suggest saving up for a deposit and using a home loan comparison service to shop around for the best possible interest rate on your home loan.

3. Do the math

Most banks do not take into consideration the potential rental income on the property when assessing your bond application. “Based on this, you need to ensure that your current earnings can cover the bond and that you have the affordability to do so. Remember, there might be months where you don’t have a tenant so factor periods without an income into your budgeting.”

It’s also vitally important that you determine whether the rental amount will help cover your bond expenses. “In a higher interest rate environment, rental prices are going up so it’s important that you check what’s currently on the market and what you need to charge to cover your bills. Remember to factor in levies, rates and general upkeep, not forgetting that there are tax concessions around interest and maintenance costs which can be off-set against the rental income earned.”

4. Do I have the time to invest?

In addition to this, Dyer believes that being a landlord goes far beyond offering a tenant a home to live in. “Landlords with the upperhand are those who maintain the property, foster a business relationship with the tenant and stay on top of administration such as monthly invoices and statements.”

While some investors request that an estate agent handles the day-to-day dealings with the tenant, ultimately, the buck still stops with you and you will be required to make some time for property management.

“This is a rewarding and exciting wealth creation journey to embark on. Weigh up all your considerations carefully,” Dyer concludes.