

One-bedroom apartment remains best investment property performer

According to Jonathan Kohler, CEO of Lansdowne Investment Properties, for over 12 years in the residential sectional title space, the one-bedroom apartment has been the best investment property performer, yet South Africans continue to buy two-bedroom apartments with lower returns.



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"The thinking behind this is that two people could rent the property together or two people could perhaps purchase the property. However, this has simply not been the case and investors in this market are not reaching their maximum return. Investors looking to purchase a property must keep two of the key principles in mind – rental return and capital appreciation," says Kohler.

Entry-level apartment for tenants, owners

The one-bedroom apartment has traditionally been your entry-level property in the South African market. "Whether you are a student, living away from home for the first time, a young professional renting your first apartment that you are paying for yourself, a first-time home owner or a first-time investment property buyer, with buy-to-let aspirations, the one bed, one bath is generally a good place to start."

However, with the ever-increasing need for secure lifestyle estates, it has become more generally accepted that the studio or bachelor apartment has become your entry-level apartment for tenants and owners alike.

“The price point for both the studio and one bed, one bath apartments start from around R550,000 and go up to around the R1m mark which is the sweet spot in the property market,” adds Kohler. “The transfer duty rates are the lowest in this market, where properties purchased for R750,000 and less are transfer duty-free and properties purchased between R750,001-R1,250,000 are charged at 3% of the value above R750,000. So even if a purchaser invested in a property for R800,000, the transfer duty would be R1,500.”

Traditionally, property investors like to buy property off plan from developers, so they can save on transfer duty, however if investors remain around the R800,000 mark for a purchase, investors can often get better value in the second-hand market.

Rental return percentage

The rental return percentage is greatest on a studio or a one-bedroom apartment compared to two and three bedroom apartments, which is based on the rental amount. The rental achievable for studio and one-bedroom apartments range from R5,000-8,500/month – dependant on location and positioning within the complex. This rental price point constitutes the largest amount of quality tenants in South Africa. These are people who can afford to pay between R5,500-R8,500/month in rental.

Affordability for these clients should be calculated the same way banks pre-qualify clients for a home loan, their gross monthly income should be three times or greater than that of the monthly rental amount. So, in order to qualify for a monthly rental of R5,000/month, a tenant would need to earn a gross income of R15,000/month. Similarly, in order to qualify for a rental amount of R8,500/month you would need a gross income of R25,500/month. “The largest market of quality tenants, first-time home owners and first time investors would then fall in between the R15,000-R25,000 mark.

Below is an example of two properties in the same complex in the Northern suburbs of Johannesburg. The first is a one-bedroom apartment and the second is a two-bedroom apartment both on the ground floor sold in 2016.

Property A: One-bedroom ground floor apartment

Price: R740,000 (transfer duty free)

Rental: R7000

Levy: R977

Rates: R320

Net rental return: 9.25%/annum

Appreciation: 8%/annum

Total return on investment: 17.25%/annum

Property B: Two-bedroom ground floor apartment

Price: R980,000(transfer duty R6900)

Rental: R8250

Levy: R1650

Rates: R420

Net rental return: 7.25%/annum

Appreciation: 8%/annum

Total return on investment: 15.25%/annum

“It is evident that the one-bedroom apartment has a far better rental return percentage than the two bedrooms, in fact a 2% difference which is substantial. It is also important to remember how much bigger the market is that can afford to pay R7,000/month in comparison to R8,250/month in rental.”

Another factor that needs to be considered is the levy amount, which is far lower on the one-bedroom apartment being R977/month compared to two-bedroom being R1 650/month.

More first-time home owners, investor buyers

“Capital appreciation in the above example is estimated at 8%/annum for both properties, but again it is important to remember that at the lower price point of the one-bedroom apartment, there are far more first-time home owners and first-time investor buyers who can afford to purchase the property from you when it is time to sell. The capital appreciation is only realised when the property is sold. Keep your investment properties in the sweet spot and you will increase your chances of the property always being tenanted, and easily sold at a good price,” concludes Kohler.

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