

How to become a landlord

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So you're interested in investing in a rental property. Investing in rental property is a great way to diversify a property portfolio and can be lucrative - if done correctly.



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Rental properties have long attracted investors because the return is twofold. Firstly, investors benefit from capital appreciation and secondly, there is the benefit of the monthly rental income.

Structured correctly, the property should eventually pay for the bulk of the monthly bond repayments in line with rental-income appreciation. What's more is that once the property is paid off, the rental income translates into an additional revenue stream.

Of course it is vitally important to thoroughly consider the costs relating to a rental property before purchasing it. Initial costs include bond costs, attorneys' fees, bank initiation fees and transfer duty. Ongoing costs include sectional title levies (if applicable) rates and taxes, insurance and maintenance.

Consider the legalities

It's also important to consider the legalities involved with rental properties. For instance, in whose name will the property be registered? Will it be registered in your own name, a family trust or a property holding company? In whose name will the loan/debt be taken out? It is important to know this for tax purposes and for estate planning.

And then of course there is the issue of the rent. The rent you charge will depend on several factors. These include property type, location and proximity to amenities as well as supply and demand.

In terms of property type, there's no real 'limit' as to what constitutes a rental property. A rental property can take the form of an apartment, a house, a retirement home or a lodge for that matter. That said, the market for each differs greatly.

If for example you buy a flat, it would probably appeal mainly to bachelors, young, small families or students. In other words, it will appeal to a fairly broad cross-section of tenants. Houses on the other hand tend to appeal mainly to large families seeking space to spread their wings.

Flats are generally cheaper to purchase than houses. At the end of the day, the type of property you purchase will depend entirely on your affordability and long-term goals.

Location

Obviously the property's location will also play an important role in how much rent you can charge. The nature of the area, as well as the property's proximity to shopping malls, schools and transport routes are all key points tenants consider when looking at rental properties.

General supply and demand in the area will also dictate what you can charge. If there are a lot of similar properties available for rent in the area, chances are you will have to offer a competitive rate to attract tenants. If there is a shortage of rental stock and the area is in high demand, you should be able to charge a premium.

Another important factor to consider when weighing up whether or not to buy a rental property is whether you want to manage the rental yourself or if you want to use a rental agency to do this for you. If you do handle the rental yourself, you will need to undertake all the rental duties relating to the property which can be stressful and time consuming. An agency will essentially carry out the same duties but at a cost.

Lastly, should you choose to invest in a rental property, do everything you can to ensure that your financial affairs are in order before applying for a bond. Qualification for a bond will depend entirely on your unique financial circumstances and your ability to reliably service a loan.

ABOUT THE AUTHOR

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