Costs to consider when investing in property

By Adrian Goslett

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Purchasing an investment property can offer great financial rewards over the long term. However, it is important to bear in mind that when buying an investment home, there is more to consider financially than just the purchase price. Property investors need to take into account the significant costs involved in purchasing an investment property before they decide that it is a financially viable option for them.

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If a property is purchased as an investment, the primary objective is for the investor is to get as great a return on their investment as possible. For an investor to achieve their goal, they need to consider all of the costs involved in the process of buying, and at a later stage, selling their investment property.

Here are a few costs, apart from the purchase price, that will have an impact on investors' return on investment:

Transfer duty – this is defined by the South African Revenue Service (SARS) as a tax levied on the value of any property acquired by any person by way of a transaction or in any other way. Transfer duty is due to be paid within six months from the date of acquisition of the property. If it is not paid within this time, interest will accrue at 10% per annum for each complete month.

Something to consider as an investor is that any property purchased on or after 1 March 2017 for R900,000 or less will be exempt from transfer duty. Not having to pay transfer duty on a property will put the investor ahead of the curve right from the get-go. Also, the Transfer Duty Act exempts the acquisition of property that falls into the category of goods supplied subject to VAT. In the instance where the seller is a VAT vendor, the payment of the VAT takes precedence over transfer duty. Developers with often market properties by pointing out that buyers will not pay transfer duty. Instead, buyers will pay 14% VAT, which has already been included in the asking price.

Transfer costs – not to be confused with transfer duty. While transfer duty is a tax paid to the government, transfer costs are the fees paid to an attorney for the work they do in the transfer process. A conveyancing attorney will be required to effect the transfer of a property and attend to the matter of transferring the property from the seller's name into the buyer's. The amount that investors will pay for transfer costs is set out in a tariff guideline and varies depending on the value of the property.

Bond registration costs – the large majority of the population is loan dependent when it comes to purchasing a property. The financial institution that provides the funds to purchase the property will require some form of security, which is usually a bond registered over the property. The investor will be required to pay bond registration costs, which includes a bank initiation fee. The bond registration costs payable will be based on the size of the bond registered over the property. The costs will be paid to a conveyancing attorney who will attend to the necessary paperwork and get the bond registered with the deeds office.

The cost of ownership – aside from the costs involved in the actual purchase of the property, there are also the ongoing monthly costs involved with owning property, such as home insurance, household insurance, levies, rates and taxes, water and electricity, and so on. There is also the matter of maintaining and repairing the property when necessary.

Invariably an investment property will be let out by the investor, which means that they will have to ensure that the property remains in a well-maintained, habitable state. In fact, depending on the initial condition of the property, some money may need to be spent renovating and fixing up the property before a tenant moves in, which will also need to be taken into account. Ongoing maintenance of the property will keep the tenant happy while protecting the investment.

Understanding the full cost of an investment property purchase will give investors insight into the level of risk they are taking, and help them to discern whether they are making the right decision.

ABOUT ADRIAN GOSLETT

Adrian Goslett is CEO and regional director of RE/MAX Southern Africa. He joined RE/MAX Southern Africa in 2005 as a franchise development consultant, supporting various regions and offices. Throughout his career at RE/MAX he has held various positions. In 2010, after successfully leading 160 offices and over 1500 agents in six countries through the worst years real estate has ever seen in South Africa in 30 years, Goslett was appointed as CEO of RE/MAX Southern Africa.

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