9 tips to choosing the right neighbourhood for an investment property

According to Cobus Odendaal, CEO of Lew Geffen Sotheby's International Realty in Johannesburg and Randburg, property remains one of the best long-term investments and if you can subsidise the cost through a rental income, even better. But when deciding on where to buy your investment property, you will need to consider a number of factors to ensure the best possible returns.

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“Unless you are a veteran investor who already has a property portfolio, it’s always a good idea to chat to a property professional who can advise about the markets in the areas you are considering as they will be able to give you insights into what tenants are looking for, the average rentals prices and so on.”

Odendaal suggests the following tips to consider when selecting a neighbourhood for your property investment:

1. The overall quality of the neighbourhood

This is especially important if you are buying to enter the rental market, because the better the neighbourhood, the better the quality of tenant you are likely to have. In this instance, it’s always better to buy the smallest place in a good area than the biggest house in a shoddy neighbourhood.

2. Vacancies and demand

It’s worth doing a little online research to see how many properties are available to rent in a suburb you’re considering because if there are loads of properties for rent, you’ll be competing for tenants and, generally speaking, the higher the demand, the higher the rent you can charge.

3. The average rent

In order to be able to repay your loan or return your capital investment and handle other property expenses such as tax, you will need to be sure that the rental income in the neighbourhood you want to invest in will be enough to cover all this and leave you with some profits.

4. Property taxes and levies

Property taxes and sectional title levies, which are compulsory, can eat into your rental income so it’s important to establish council taxes and, if you’re buying in a complex or estate, the monthly levies charged.

Bear in mind that levies can be very high in some complexes and estates with the rule of thumb being that the more facilities they offer, the higher the levies are likely to be.

5. Resident demographic

What type of tenants are you hoping to attract? If you’re looking at families, then the ideal property would be the three-bedroom freestanding house with the garden in a quiet suburban street; not the modern townhouse in a busy road with a vibrant nightlife.

You should also take the time to find out about the existing demographic because if the pretty house is near a university campus, you will probably attract more students looking to share a home than the families you prefer.

6. Crime rate

Vandalism, burglary, and other crimes will make your property investment a hard sell so take a drive around the neighbourhood and the surrounding areas and also ask locals about crime in the area and find out if there is a neighbourhood watch, good security patrols, etc.

7. Schools

Schools are an important factor if you are looking to attract families and the closer your property is to a good school, the less chance of a vacancy and, often, the higher the rental you can charge. And parents will find it harder to move if their kids are in a good close-by school so you will probably have a lower tenant turnover.

8. Amenities

Again, consider the tenants you’d like to attract. If it’s families, then look for a property that’s close to a community shopping centre with a good supermarket and a safe, well-maintained park.

If you are aiming for young professionals, then a modern lock-up-and-go property within walking distance of shops and restaurants will be a better option.

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28 Sep 2022

9. Fittings and fixtures

This is especially important in kitchens and bathrooms and, although they needn't be top-of-the range luxury quality, modern, functional and easy to clean is likely to be appealing to most people.

Odendaal says that although the days of rental income covering the monthly bond repayments in full are long gone, it is still one of the best investment options available because at least 50% is subsidised by the tenant.

"Additionally, your original capital investment will have year-on-year capital growth and, adding on the annual increase in rental income, property in the right area could realise a significant year-on-year return."

However, he cautions investors not to enter this market to try to make a quick buck.

"In order to realise the maximum return on your investment, property is a medium to long-term investment which requires at least five to eight years, depending on the area, to reach full growth potential."