Hard and fast rules a good property investor should never ignore

With the interest rate at all-time low, and the market geared to favour buyers, now is an ideal time to consider building on a property portfolio, says Giel Viljoen, principal at Leapfrog Stellenbosch. He shares some hard and fast rules that seasoned investors never ignore when looking to add to their property portfolio.

Giel Viljoen, principal at Leapfrog Stellenbosch

Patience is a property virtue

“Hasty decisions could cost you big bucks down the line. Take the time to understand the investment, research the market, consult experts and do comparative analysis before committing,” Viljoen advises.

Compare price and value, and don’t allow perceptions of value to cloud your judgement about price, or vice versa.

Most property investments are long-term commitments, so be prepared to sit tight for the long haul. “If you’re looking for a get-rich-quick scheme, then property will be a very frustrating choice of investment for you,” Viljoen reckons.

Location location location

The tagline of every great property investment, location is a key determinant of a property’s anticipated appreciation.

“The best property in an average location will always fetch an average price, while an average property in a desirable location can demand very good prices,” Viljoen believes.

Demand drives pricing and prime locations are always in high demand. As such, consider the property’s proximity to amenities like schools, shopping centres and hospitals, as well as to major transport routes.

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Rental income vs capital growth

The real value of the investment is determined by capital growth and not rental income. So while your investment property might fetch a good rental price each month, be sure to consider the capital growth.

Snag list

Seasoned investors approach a property with a checklist to ensure that it is in good condition and to help them better anticipate and plan for maintenance, renovations and repairs.

Pay particular attention to things like the integrity of the walls, the foundation, the condition of the finishes and the workmanship of the electrical components and the plumbing.

"A trusted property advisor is able to help you establish the state of an investment property, or you could consider hiring a certified building investor to do an in-depth inspection for you. While this might cost you in excess of R2,000 it could save you hassles and money later on," Viljoen advises.

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Maintenance

Maintenance costs should form part of the budget for the property. "Investment properties need to be looked after in exactly the same way as a primary residence. Even if an agent will be managing the investment for you, the onus is still on the owner/investor to ensure the property is properly maintained," Viljoen highlights.

Affordability

As obvious as this sounds, don't forget that something is only an investment if you can afford it. Affordability is determined by completing a personal cash flow statement of all your income and expenses, says Viljoen.

"If you're financing the investment, the lender [typically the bank] will need proof that you can afford the monthly bond payments on the property, which is concluded by looking at both your fixed and variable monthly income and expenses."

Be sure to shop around for the best financing deal, as even the smallest difference in the interest rate can make a very big difference in the long term.

Diversify

No investment is 100% fail-proof, which is why a diversified property portfolio makes the most investment sense.

"In the property game diversification means opting for a flat if you already have three large family homes, or looking to areas where you don't yet have investments," Viljoen says.

Diversification is the way to manage exposure to risk and maximise your returns, and can be a smart way of managing your cash flow.

The level and extent of the diversification will be different for every investor, and typically depends on lifestyle choices, net worth, preference and risk appetite.

"Most important is that you are comfortable with your investment. And, of course, it should be in the kind of property you are interested in. No need to invest in agricultural land if you're particularly interested in developments in security estates, for example," Viljoen concludes.