Taking the market in hand

By John Roberts

10 Apr 2013

South Africa has not experienced interest rates at the current levels in nearly four decades. These are not just glib words that call for a celebratory glass of champagne because debt repayments have dropped, nor reason to moan the low returns on cash investments. They have severe business and investment implications, particularly for property, as that remains the largest asset most people will purchase during their lifetime.

Savvy investors have used the property market to grow their wealth for generations. The benefit of purchasing buy-to-let properties is the short- and medium-term monthly income generated from the residential, commercial or industrial property that couples with the long-term capital growth realised from the appreciation on sale.

Property markets collapse skittle-like

The world financial crisis saw property markets collapse skittle-like and South Africa was not saved from the fallout. The last few years have stoically remained a buyer's market, offering investors the opportunity to secure sound property investments for less than is feasible during a bull run.

While diminishing rapidly as house prices resume their upward trajectory and sellers inch back the upper hand, that window of opportunity for acquiring a valuable rental property has not yet closed. The reality is that home ownership is not a dream everyone will achieve, despite aspirations, and there will always remain people needing to rent a home rather than purchasing their own.

Statistics released by Just Finance Property and Asset Finance show that over the past year, rentals nationally have climbed. While roughly relating to South Africa's economic demographics, the figures tell interesting stories about where buy-to-let investors are securing sound returns.

In both 2011 and 2012 Gauteng topped the list with average rentals rising from R6006 to R6363, while Pretoria was only marginally behind at R5929 and R6126 for the two years, respectively. The North West Province and Mpumalanga brought up the bottom of the heap in 2011, offering investors average rentals that year of R3980 and R4144, respectively.

The rentals achieved for the Eastern Cape (R4231), KwaZulu-Natal (R4945) and the Western Cape (R5279) also reflected the national economy's general pecking order.

2012 statistics paint an intriguing picture

However, for anyone looking to new opportunities, the 2012 statistics paint an intriguing picture. While Gauteng may have retained its position as the most expensive rental region, the average year-on-year increase was only 6% - and Pretoria rentals rose only 3.3%, a level substantially below inflation.

The capital city also lost its second-position status as Western Cape rentals climbed 18.6% to R6259 and Mpumalanga a whopping 51% to achieve the same average rentals as those looking at Table Mountain or the Atlantic Ocean. North West Province also brought smiles to the faces of its buy-to-let investors with average rentals rising 40% to R5571, while both the Eastern Cape (average 2012 rentals 17.7% higher at R4978) and KwaZulu-Natal (14.2% higher at R5645) proved solid property investments.

Some of these hikes reflect adjustments for previously-low rentals, but what cannot be ignored is the underlying investment growth opportunity. Yet, the elephant in the room (or should that be the house?) is the tenant elasticity these figures reflect. Tenants are savvy investors too, choosing to rent properties in areas where they may not be able to afford purchasing and potentially using the opportunity to invest in other equity.

Little point in renting to build someone else's wealth

However, the time comes when the differential between their rental payments and the bond repayments they would have to make on a similar property turn the rental argument on its head. When that differential makes virtually no difference to the household disposable income levels, there is little point in renting to build someone else's wealth rather than buying and building your own wealth.

The question those statistics raise is whether house prices have begun escalating sufficiently to counter the dramatic hikes in rentals some of those regions experienced? Will buy-to-let investors find their tenant pool diminishing because rentals are climbing beyond rates for which they will find suitable tenants - or are tenants not waking up to the fact that they are subsidising someone else's lifestyle at their own expense?

By marginally tightening their belts, there is the opportunity to take that critical first step on to the ownership ladder. Many of them may well grasp the opportunity afforded by the current low interest rates to do that.

The cyclical nature of property means these opportunities swing back and forth over the years buy-to-let investors grow the value of their assets. There will be times when stepping into that investment arena is virtually non-negotiable and others when you breathe a sigh of relief for long-term tenants happily living in your property and contributing towards the bond repayments.

Whichever view is currently applicable, there is little doubt property remains the platform for wealth generation.

ABOUT JOHN ROBERTS

John Roberts is CEO of Just Property Group.

- How will e-tolling change the urban landscape? - 2 Dec 2013
- Considering commercial - 7 Nov 2013
- To gate or not to gate? - 6 Sep 2013
- Wooing the market - 31 Jul 2013
- Taking the market in hand - 10 Apr 2013

View my profile and articles...