Getting onto the Property Ladder during Covid-19

PAM GOLDING PROPERTIES

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Most people place great value on owning property because of the security of tenure it offers your family, the opportunity it provides to create wealth and also the potential to feel proud about owning the property you live in.

Residential property has proven its mettle during the Covid crunch. According to TPN, about 85% of tenants were in good standing during the first quarter of this year, whilst, according to PayProp, the number of tenants in arrears hovered around 20% in the first 3 months of this year and increased to 24% in April. This may not sound fantastic, but it's a lot better than the productivity hit that many companies have taken over the past few months. This speaks to the resilience and sustainability of residential property as an investment class.

Whether now is the right time for you to buy a property depends on whether you have a positive earnings outlook and whether you intend to stay in, or keep, your property for at least the next 5 years. If this is the case, now may be the perfect time to buy especially given the extremely low interest rate environment.

The prime interest rate has dropped 2.75% from 9.75% to 7% since the beginning of this year making it the cheapest time to finance property in about 50 years. A R1,200,000 property will now cost about R2,000 less per month in monthly installments dropping from around R11,300 to R9,300. Another way of looking at this is that you can now buy a property that is roughly 20% more expensive for the same monthly installment.

You may be concerned that if you buy a property now and the interest rate rises again in the near future, the property will become unaffordable. Fortunately, the economy and the property market are synchronised to a certain degree, and so long as the economy is fairly flat and in recovery mode, we should not see interest rates increasing much for the next 24 to 36 months. If you want to control your budget more tightly, you could explore a fixed interest rate with your bank which will probably cost 1% or 1.5% more than prime rate but give you certainty that you can afford the property over the next few years.

The 2 most important numbers that banks consider when assessing your bond application are your ID number and your credit score. These provide the bank with a lot of information to assess your creditworthiness. For example, what is the nature of the credit that you have used before and how have you conducted yourself financially? Have you lived on overdrafts and credits cards? Have you honoured credit repayment terms? Your credit "history" will be an important determinant of your credit "future" and you need to demonstrate that you have a healthy relationship with it.

Although banks do grant 100% bonds, the best approach to obtaining finance is to resist splurging and to save some money first towards a deposit as banks generally view your credit application more favourably if you have some "skin in the game".

In terms of buying the right property, the old adage location, location, location still applies as informed buyers seek areas close to amenities such as good schools and healthcare but also where public spaces are well kept and invite participation outdoors.

My advice to first time buyers is to resist buying the most expensive property you can afford. This will not only mean that you can cover your repayments comfortably but will also position you to potentially find a tenant for your first property and to buy another one, taking your first step toward building a property portfolio.

Smaller, cheaper properties have the highest rental yield (rental income vs expenses) and this is another reason why you should start small, as it will be more likely to "wash its face" which means to cover its own expenses paving the way to future property acquisitions.

These opportunities do exist in our local market. For example, we have just launched The Onyx in Umhlanga Ridge Boulevard, diagonally across from the new Gateway Private hospital, which offers stylish one bedroom apartments from R1,190,000. It has 3 outdoor areas within the building including a rooftop swimming pool and braai area.

Whilst many first time buyers may be apprehensive about committing to large ticket items like property in the current Covid environment, others will seize this unique opportunity to get onto the property ladder at the cheapest interest rate in 50 years.