The ABC of buying a second property

By Bruce Swain

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Property is almost always an appealing investment and an accessible way for most South Africans to build wealth over time. Property is a transparent investment, as information about market trends and performance is easily accessible.

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As such, a second property is potentially a great way to earn passive income, but be sure to take these factors and risks into consideration before you sign on the dotted line.

A is for affordability

As with any credit application, applying for a second mortgage hinges on the outcome of the credit and affordability check, as per the requirements of the National Credit Act. This includes your credit record, household budget and how well positioned you are to afford the monthly bond repayments, which assesses your income to expense ratio. In most cases you will need to prove that you can afford the bond on the second property without the potential rental income.

Bear in mind that affordability includes the expenses related to property ownership, such as municipal rates and taxes, property maintenance, insurance and the fees of managing agents.

Be sure to shop around and compare the best interest rate offered on a bond.

B is for bond

The question around whether to pay up your first bond before applying for a second needs to be considered from the tax perspective as it becomes unlikely to claim your interest deductions against rental income. Be sure to contact a financial advisor in this regard to help determine what is best in your particular situation.

In many cases it would be better to leverage some of the equity in your primary mortgage to help secure the best possible interest rate on an investment property with the help of a sizeable deposit.

Current tax laws allow for certain expenses on investment properties to be written off against the income accumulated on the rental income, including the interest on the bond repayment, rates, levies and maintenance costs.

C is for considerations

While affordability is the main factor in determining the feasibility of a second property, it is important to take a number of other points into consideration, including the rental demand and possible income of properties in the area. In this regard, location is key.

It is impossible to guarantee 100% occupation on a continuous basis, which means it could be risky if you're relying on that income to afford the monthly bond repayments.

The rental price of the property should be comparable (and competitive) with similar properties in the same area, which may be less than you need to cover the total cost of the monthly bond repayments.

If you're looking for a medium-risk, transparent investment then property is a great idea. Be sure to consider the risk against your investment goals and be sure to contact a trusted property advisor to guide you along the way.

ABOUT BRUCE SWAIN

Bruce Swain is the CEO of Leapfrog Property Group.

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