Upping your investment game

By John Roberts

14 Dec 2012

Financial institutions have marginally relaxed their lending criteria, showing a greater appetite for risk than a year ago, as reflected in the high percentage of bond approvals. One of the country's leading banks is now regularly granting 100% loans to salaried applicants seeking properties below the R1.5 million threshold.

The provisions are that the applicant has a favourable repayment profile; has not taken out an unsecured loan in the past year with a monthly repayment exceeding 10% of gross income, and that that loan is less than R500 000.

Banks have also increased their 100% loans to the affordable housing segments where monthly household income falls below R18 000.

While this is good news both for first-time home buyers and property investors seeking to broaden their portfolios, the reality is that these lending standards are still relatively stricter than what was passed during the boom period.

Credit fitness and credit rating scores

It is not a situation likely to ease, either in the current market or the foreseeable future - and that means that investors wanting to take advantage of these opportunities may need to work on their credit fitness and credit rating scores.

Issues at hand are how prospective buyers have conducted their bank accounts and credit records for the past six months; have religiously ensured against any late payments on accounts and brought to attention any discrepancies that could potentially affect their access to credit.

South African consumers have the right to obtain a free annual credit report from each of the respective credit bureaus. By exercising that right, they have on hand their credit score and, more importantly, the knowledge on whether or not that credit bureau information is correct.

Inaccurate information

Lodging complaints against inaccurate information - late payments, collections that are not theirs or times paid on time and in full, but not reflected as such - raises the credit profile. Should there be a judgment granted and the five-year data retention period has lapsed, there is an urgent need to get it rescinded as judgments have a higher weighting than other negative listings.

However, reducing the access to credit may also play a key role in having access to different, potentially wealth-building, credit. Banks consider every aspect that credit investors have available regardless of whether or not they have accessed that amount.

Specifically, owning 10 store cards despite not using them; holding onto access bonds on primary properties when that investment has be wholly paid-up or allowing the bank to raise your overdraft or credit card limit at their discretion despite you not needing that revision will all play a crucial role when seeking another investment bond.

The solution is eliminating those potential hurdles to credit by cancelling unused store cards; cancelling bond facilities you no longer require and reducing access to superfluous credit.

Identifying sound property investments

Thereafter, the next move is identifying sound property investments - and logic and intensive research simplifies that process. There is little doubt that home ownership remains a viable investment option and the major foundation block for personal wealth.

Property investment anchors on having the savvy to ask the right questions, the principle among them is location based. It means knowing which neighbourhoods have shown consistent growth and the reasons behind that performance.

In business, return on investment is critical and for property investors, choosing between capital growth rate and rental returns depends largely on personal financial positions. There is the trade-off between watching the property appreciate over time and maybe deciding that investment will only be a five-year one, so maximising the rental income is the key goal.

The gross percentage of rental return is the calculation of the annual rent divided by the purchase price or property value. Rental payments do not compound, but assist in paying interest, rates, levies and maintenance costs and there are no guarantees that rentals will escalate.

Typically, investors with less cash flow, or those starting out on the buy-to-let ladder, favour high rental returns over long-term growth. This is the stepping stone to a longer-term property portfolio in which investments are located in better neighbourhoods.

It is not an exercise in bargain shopping, but in striking a balance between the two options with consideration to personal financial commitments and access to credit.

However, whatever the purchase decision, there must remain the element of commitment to location and bulk appeal. In the short term, that means purchasing properties that can attract tenants wanting to live in that neighbourhood, while the long term means having a property that appeals to future buyers.

It means compromising on the quirky features in favour of a broader mass appeal.

The property market is again offering up its opportunities to those willing to take the risks, but learning from the lessons of the past is a key element to grasping that wealth creation.

ABOUT THE AUTHOR

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