Steps towards building wealth through real estate are no secret

Adhering to the prime principles of property purchasing, real estate investment can provide a cornerstone on which an investor can build their wealth.

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"Building a solid investment property portfolio takes time and a great deal of research," says Adrian Goslett, regional director and CEO of RE/MAX of Southern Africa. "Savvy real estate investors spend much of their time gaining as much knowledge about the local property market and trends as possible. This is because one property purchase can vary greatly from another, depending on the phase of the market, time of year and the property's location to name a few aspects.

"It is vital to know exactly which phase the market is in and how this could impact on the return on the investment. The property market follows a cyclical pattern of boom and bust periods, and there is inevitability as to what will happen next."

According to Goslett, money can be made during a boom period as home prices are generally higher and driven by demand. Often people tend to shy away from buying a property in the quieter periods; however, these are often the times that provide property investors with excellent opportunities.

Golden rule

"The golden rule when investing in shares on the stock market is to buy low and sell high, however, when it comes to property many consumers take the opposite approach and steer clear of the market when it is slow. Thinking outside of the box and not following the general trend is often the way investors find their big opportunities that make the most difference to their bottom line," says Goslett.

Although there are costs involved in owning and maintaining an investment property, when considering the size of the asset that the investor is purchasing, a consumer does not need to have a large amount of money upfront to get into the game.

"Provided that the investor has a good credit record, is able to put down a deposit and can prove that they are able to afford the monthly bond repayments, a bank will be willing to finance the purchase of the property. There are few other forms of investments that can be financed in this manner," says Goslett. "Another positive aspect is that the investor's returns are not based on the percentage of the deposit which they provided, but rather on the total value of the asset."

A major factor that can influence the returns that an investor can expect is the property's location. "It is vital that the investor purchase in an area that they know will continue to perform well over time. Although there is no guarantee, looking into an area's past performance as well as at any future planned projects or developments will provide the investor with a glimpse into the area's potential. Location is a key aspect to any real estate purchase," he adds.

Investor's outlay

For example, a flat in Green Point, Cape Town, would have cost between R250,000 and R300,000 about fifteen years ago, but would sell in the region of between R2m and R2.5m in today's market. "When considering that the initial purchase may have been financed by the bank, the investor's outlay would have been the deposit and the monthly cost of property. There are very few, if any investments that would be able to rival those kinds of returns," says Goslett.

History has shown that a property will continue to grow in value over time. An investor could see a return on their investment within a five year period, but it is ideal to keep the property for as long as possible so that its value can continue to increase with inflation. In fact, property value growth often outstrips inflation over the long term, even if there are some ups and downs along the way.

"The steps towards building wealth through real estate are no secret at all. See property as a long-term investment, if possible hang onto property or buy during the lows and sell during the highs," Goslett concludes.