

Now's an opportune time to get onto the property ladder. Here's why

First-time buyers with funds at their disposal are currently well-placed to gain an initial foothold on the property ladder. Particularly in the light of interest rates remaining at historic lows, banks continuing to compete for mortgage finance business, and the slightly lower growth rates currently experienced in residential property values.



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Says Dr Andrew Golding, chief executive of the Pam Golding Property group, “While the economy may be subdued at present, home buyers continue to capitalise on buying opportunities in the residential marketplace. This is especially evident below the R2m and R1.5m mark – a price band with particular relevance to first-time buyers seeking starter homes which, if wisely selected, will appreciate in time, enabling them to move up a notch on the property ladder.”

Lower average deposit

Good news for aspirant home purchasers is ooba’s recent announcement that in Q1 2018, they recorded the highest home loan approval rate in over a decade since the introduction of the National Credit Act. In addition, banks are even in some instances willing to lend the full value of a property without requiring a deposit – with an average deposit of 12.5% required for first-time buyers in Q1 this year, reduced from 14% in Q1 2017.

Says Dr Golding: “This is a marked difference from the 20% deposits so commonplace just a few years ago. And as we celebrate Youth Day this month, this is perhaps an appropriate juncture for the younger generation to start planning ahead for their first property acquisition.”

Forced saving

“First-time buyers are advised to do their best to enter the market as quickly as possible, bearing in mind affordability,” according to Carol Reynolds and Gareth Bailey, Pam Golding Properties area principals for Durban Coastal. As they point out, it’s really a forced saving, as most people won’t save the difference between a cheaper rent and a bond, so at the very least a property purchased using a bond is a compulsory saving over time.

Justin Kreusch, the company's joint area principal in Port Elizabeth, agrees: "Owning rather than renting affords you the benefit of capital appreciation of your asset, which in turn can enable you to trade up in the future."

Adds Reynolds: "Ideally, look to buy the 'worst' house in the best possible area, while keeping within your budget. For example, I would recommend a smaller apartment in a slightly better area than a spacious apartment in a less desirable area."

'Be conservative and build up from there'

Says Bailey: "It's best to start off buying fairly modestly but, if affordability permits, try to acquire something with a granny flat or cottage you can rent out, and then save a deposit in order to buy an investment flat. Many young, up-and-coming couples make the error of buying the best property they can and then fall into a big debt position. Rather be conservative and build up from there."

A lot depends on your needs and personal situation, says Kreusch. "For someone who travels a great deal, it may make more sense to rent a small property and buy an investment property that will give you a bigger yield than your rental cost. For someone wanting more stability, a purchased home makes more sense, but each option has its merits."



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Consider your five-year plan

Retha Schutte, Pam Golding Properties Pretoria regional executive, adds: "It's important to carefully consider your five-year plan before buying your first home. If you are single and plan remaining so for some time, it's advisable to purchase a smaller but more modern unit with good security. But if you are a couple or married and may be wanting to start a family, consider a property that will accommodate this and which you can grow into, even if it means living with the older finishes for now. "If possible, stay in the home for at least five years before selling to enable you to achieve capital growth when you sell, which will assist you when upgrading to another area or home."

Quips Kreusch: "Property investment has always stood the test of time. There's a Chinese proverb which says 'The best time to plant a tree is 20 years ago, the next best time is today'. It's the same with investing in property."

Key factors to consider

Key factors to consider when buying a home are accessibility of location to suit your needs, a future demand estimate to ensure you will achieve a good return on your investment when you sell, and to check that there are approved plans for the house, especially in regard to any improvements made to it, says Des Hauser, sales manager for Pam Golding Properties in Alberton and Johannesburg South.

“I would look at areas that are in high demand and the return on investment achievable,” adds Kreusch. Smaller properties generally tend to offer better returns. If I had R500,000 to invest, I would rather spend R250,000 on acquiring two smaller properties than the whole amount on one property.”

“However,” points out Sean Coetzee, area principal for the company in East London, “bear in mind when buying a property to rent out, if you acquire a bachelor flat, you will limit yourself to a specific clientele and rental income.”

When buying a home, generally speaking, suburbs close to arterial transport routes, schools, hospitals and business nodes retain value particularly well, and a suburb where owners remain for a long time is also a good sign. Also look for a secure environment. A reputable agent with experience in an area will be able to provide sound advice, as well as guide a first-time purchaser through the buying process to a satisfactory conclusion of the transaction.



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Property acquisition costs

First-time buyers also need to understand all the costs involved in property acquisition, namely transfer costs, monthly mortgage repayments, rates, municipal tariffs and levies. “Many first-time buyers don’t realise that transfer costs are payable before transfer, and they also often hope to achieve this liquidity from their bond,” says Reynolds.

Good advice is to ask your real estate agent to explain these costs to you, as well as the estimated timeline for the transfer process. Remember to find out what the occupational rental is if you plan to move into the property before transfer takes place. And, if you are buying into a sectional title development, ask to see the financial statements and if it’s a security estate, the estate rules.

Adds Reynolds: “While banks are showing a greater appetite to lend money, the days of getting finance for costs over and above the bond are long gone, so first-time buyers need to have access to funds for transfer costs and are also advised to have at least a 10% deposit to put down on the property. Shop around before accepting a bond and choose the best finance option, and don’t feel you need to use the bank’s insurance for your bond and property, as here again, you can look around to source the best deal.”

Remember also that the seller needs to settle all outstanding municipal rates in order for the transfer to take place and the attorney won’t be able to lodge all the documents in the Deeds Office without a rates clearance certificate from the municipality. The buyer is also required to pay a pro rata portion of rates in advance, which will be added to the purchaser’s pro forma invoice via the conveyancers.

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