Spread your bets for a more profitable property portfolio

By Bill Rawson

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Getting the best return on investment from a property portfolio is the subject of much debate, and opinions are often as diverse as the properties themselves. One thing experts do seem to agree on is that spreading your bets is generally the safer choice, and it can also be far more profitable at the end of the day.

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We get a lot of questions from investors about whether it's better to buy a single, high-value investment property or to split that capital across a portfolio of smaller, lower-cost residences. The answer is actually quite easy – putting all your eggs in one basket is never a great idea – but there are also plenty of other reasons why lower-priced properties could provide better returns than more expensive ones.

Entry-level residential properties in South Africa almost always appreciate in value faster than the rest of the market, and are also typically able to cover more of their costs with rental, thanks to their lower purchase prices. It's not unheard of for apartments or smaller homes in certain areas to cover in excess of 80% of their bond costs with rent, which is much more difficult to do with luxury or commercial properties, since their monthly expenses are dramatically higher.

It's usually much easier to find tenants for affordably priced residential rentals, which means there's less chance of being left with an untenanted property eating into your profits.

Larger pool of tenants

There's a much larger pool of tenants in the low- to mid-end residential rental market than there is in the upper echelons, and demand for entry-level rentals is constantly fed by new generations of students, young professionals and kids moving out of home. People who can afford higher-end rentals, on the other hand, often prefer to put that money towards a home of their own.

Finding tenants for commercial properties can be even more difficult. Commercial properties do offer higher returns than their residential counterparts, but it can take months or even years to replace a commercial tenant in some circumstances. The loss of income from an untenanted commercial property can be catastrophic, especially if it's the only asset in your portfolio.

By investing in several lower-cost residential properties, however, investors not only minimise the likelihood of long periods without a tenant, but also reduce the impact any vacancies may have on their overall profitability.

High-value investment properties

There is definitely a place for high-value investment properties, but if your choice is between buying one, expensive property or several affordable ones, I know which option I'd choose.

Of course, owning multiple properties does come with more management responsibilities. Plenty of investors shy away from the thought of having to maintain more than one property and manage multiple tenants. It can be time-consuming to self-manage, but hiring a reliable and responsible managing agent solves that problem very easily.

Should you decide to self-manage your properties, consult a rental professional or attorney when drawing up any lease agreements. It's imperative that your lease is rock solid, and covers all your bases within the bounds of the law. Nothing takes the shine off an investment property quite like a delinquent tenant exploiting a loophole.

ABOUT BILL RAWSON

Bill Rawson is chairman of the Rawson Property Group.

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