16/07/2024

16 July 2024 / Advisory

The benefits and disadvantages of buying and renting property in South Africa

When you're trying to decide whether it is better to buy or rent your next property, your first question should be whether or not you can you afford to buy currently. If you think you can, then spend the time gathering all the documents you would need for pre-approval and speak to a professional bond originator to get pre-approved for a bond. That will show you whether or not the banks will be more, or less likely, to approve your home loan application, and will give you a good idea as to what you could expect to pay monthly, and at what interest rate the loan might be granted.

It is useful to then take that monthly repayment figure and search rental listings to see what kind of property you could rent in that price bracket (if that is what you would be willing to spend to buy.) Compare the types of property and see if there is

* Screenshot of website as company closed and website was taken down.

The benefits and disadvantages of buying and renting property in South Africa

When you're trying to decide whether it is better to buy or rent your next property, your first question should be whether or not you can you afford to buy currently. If you think you can, then spend the time gathering all the documents you would need for pre-approval and speak to a professional bond originator to get pre-approved for a bond. That will show you whether or not the banks will be more, or less likely, to approve your home loan application, and will give you a good idea as to what you could expect to pay monthly, and at what interest rate the loan might be granted.

It is useful to then take that monthly repayment figure and search rental listings to see what kind of property you could rent in that price bracket (if that is what you would be willing to spend to buy.) Compare the types of property and see if there is a marked difference between the two.

Looking at the rental market, Stats SA's data showed that in the first quarter of 2024, apartment rentals in South Africa grew by 3.6%, while data from PayProp shows that property rentals grew by 4.6%. This is an indicator that renting is becoming more popular in South Africa. People aren't just drawn to renting because they can't afford to buy. They are drawn to renting because it gives them greater flexibility. If there is a potential move in your future, then renting is better because you can just give notice and leave on the stipulated date. If you were a homeowner and were considering a move, you would either have to sell, or rent out the property. If you decided to sell, then depending on the length of time you owned the property, you could risk losing money on the deal. This is particularly relevant for those who have been homeowners for two years or less because the first few years of bond repayments are paying off the interest on the amount loaned, rather than paying down the actual debt itself.

Renting removes the stress of maintenance and upkeep of a property as that falls to the landlord (owner) and not the tenant (though the tenant must look after the property as much as possible). You also don't have the worry of what the area you bought in will be like 20 years from now and whether or not your home will lose or gain value because of it.

Another benefit of renting is that you can for the most part avoid the negative effects of interest rate hikes, particularly if you've signed longer-term leases where monthly rentals have been locked in over that extended period. This has put immense financial pressure on South Africans in general and made home ownership significantly more costly.

Homeowners wanting to live in their new property have faced the challenge of interest rate hikes – there have been ten since November 2021, and this has had a significant impact on homeowners monthly spend. Some owners saw their monthly bond repayments almost double during this period, which resulted in a number of them placing their homes on the market as they can no longer afford the repayments.

It is important to note that property is a solid investment that can yield strong returns, as long as you understand that you are in it for the longer-term. When you own your own home, you can enjoy the benefits of making changes where you want to, painting, hammering as many nails as you like into the walls to hang your artworks and family photos, adding on extra rooms, putting in a pool, or filling one in. These aren't typically possible when you're renting, where you have to return the home in the same condition you rented it in initially.

Once your home loan is paid off, you own a strong asset that can pay dividends in different ways. You can, for example. receive passive income through regular monthly rental payments as long as you understand that this income and growth happens over the long-term, once your rental is paid off and if the rental value exceeds levies, rates and taxes and maintenance of the property. Many people have successfully purchased multiple properties over the years and as they use the rental income to cover the bond, when the property is paid off, the have multiple revenue streams to fund their retirement.

For those who can afford to buy as an investment, with plans to rent out the property, the good news is that demand for rental properties has increased since the interest rate hikes began in 2021, and fewer rental properties have stood vacant.

The list of benefits and disadvantages can go on indefinitely, and everyone will have a life experience to share with you as to why you should choose one route over another. Find out if you can afford to buy – and not just any home, but one that will suit you for the next five, ten, 20 years because you will need to stay there for a while for it to be a financially responsible choice to make. Otherwise rent and save a sizeable deposit that may help you to secure the home of your dreams a few years down the line.