

Objectivity matters

3 Crucial Tips for Investing in a New Property Development

Property24.com's Christo Wiid explains how South Africans can take advantage of the opportunities on offer with new property developments...

The local property market is sluggish, which means that frequent opportunities are emerging for buyers with an eye for a good deal. But, as always, managing the risk involved is crucial.

“The long term view is essential in any property investment,” says Christo Wiid, General Manager Real Estate Solutions at Property24.com. “The ideal way to approach property is with not with a view to sell it, but rather to use the income the asset can generate over the long term.”

In a buyer's market, new developments can be particularly attractive. Developers facing challenging conditions are looking to break even rather than achieve considerable profit and the entry barriers to new developments are consequently low.

Wiid identifies three major tips for anyone investing in a new property development.

1. Establish the actual market value of your investment by doing your own homework
2. Get legal advice
3. Make sure the developer's credentials are strong, and verified

“There is an element of risk in buying off-plan, and it's very important that you buy from the right contractor,” says Wiid. “A reputable developer will have a good track record that can be verified. With an investment of this nature every consumer owes it to themselves to examine this track record very thoroughly before any payments are made.”

National Home Builders Registration Council (NHBRC) certification is particularly important to look out for. NHBRC certification offers a guarantee on the development, with a level of insurance should delays occur or should the property need minor or major repairs.

“The NHBRC also carries out inspections as developments are taking place to ensure that everything is on track, with the developer paying a percentage of the development cost to the organisation,” says Wiid. “The golden rule when buying into new developments is: No NHBRC, no go. It's really as simple as that.”

Legal advice is also essential – regardless of how friendly you are with a developer or how much you trust the company concerned.

“A sense of friendship and trust can be at play a lot of the time. This sometimes prevents a person taking advice from lawyers, which is a big mistake,” says Wiid. “Whatever contract you sign, you must get legal advice to make sure you are not agreeing to clauses that allow the developer to delay delivery. If there is small print in a contract that allows this, and you've signed it, you can get seriously caught out by a stalled development and lose a great deal of money.”

Wiid highlights a number of benefits to buying into a new development, key amongst them the opportunity to move into a brand new building and enjoy a minimal maintenance environment, and the savings that can be achieved thanks to the lack of transfer fees. He cautions, however, against buying without assessing true property values in the area.

“An objective view on the development is essential to mitigate against risk,” he says. “To assess the area you're buying into, one should speak to estate agencies to find out what the rental demand and price range in the area is like, which should match the bond.”

For example, a rental range of R4 000 to R5 000 per month is appropriate for properties with a value of around R600 000. If other developments are currently selling at the same price as the target investment and there's rental demand in the area at appropriate rates, then buying in will make sense.

“People should keep an open mind, try to be as objective as possible and use the tools that are available,” concludes Wiid. “Propety24.com, for example, offers tools like the PropIQ Report, which gives you sales statistics about other units or complexes in an area and allows you to carry out a comparative analysis. Combined with a sensible approach that utilises legal skills and your own objective assessment, you should have everything you need to make a decision that takes advantage of the opportunities the current market has to offer.”