

## YOUR MONEY SORTED



# PROPERTY PITFALLS

By LETITIA WATSON

Send suggestions for topics and requests for info to [yourmoney@you.co.za](mailto:yourmoney@you.co.za). We may answer your questions in this column but won't reply personally.

### It might seem like easy money – but build your property investment on solid foundations

#### DO THE MATHS

Don't just assume your tenants will pay off the bond on your second property. The purchase transaction alone includes transfer and bond-registration costs plus the estate agent's commission. Make sure you take into account all these costs and other factors before deciding whether an additional property is a good investment. Remember that location is also important so you can resell at a good price.

#### OTHER EXPENSES

Ongoing costs usually include maintenance, municipal rates and taxes and building insurance. On a sectional title property there could also be a monthly or annual levy. If an agent handles the rental for you, you have to budget for that too. For a one-off service, agencies usually charge either a month's rental plus VAT, or a percentage of the rental for the rental period plus VAT. If the agency does the letting and admin, it usually costs around 10 percent plus VAT of the monthly rent.

#### RENT MAY NOT BE ENOUGH

Don't assume the rent will automatically cover your bond. Tommy Nel of FNB Home Loans says unless they've put down a substantial deposit, owners usually end up paying additional amounts. It could take up to seven years or even longer before inflation has pushed up rental income sufficiently to cover both the home-loan repayments and rates and taxes. Remember, we're in a rising interest-rate cycle, so make sure the tenant can afford rate hikes.

#### TAX

Any profit you make from rental is included in your taxable income, explains Suzanne Marais, a Cape Town chartered accountant. And in future you'll probably pay capital gains tax if you sell the property. When you sell the property, base cost is deducted from the proceeds of the sale transaction. The difference is the capital gain. The base cost includes, for instance, the purchase price, the estate agent's commission and improvements to the property, but not running costs such as municipal rates.

## FIVE QUESTIONS ABOUT PROPERTY INVESTMENT

- 1** What does "property isn't a liquid investment" mean? You can't immediately turn it into cash because it takes time to sell. An example of a liquid investment is money in a savings account you can readily access.
- 2** How much rent can I charge? Find out from estate agents what the average rental for the area is. It also depends on the amenities the property offers, for instance a garage or furniture.
- 3** Can I ask for the tenant's credit record? Yes – and it's a good idea to check their credit record when the tenant's contract is renewed annually to ensure it hasn't deteriorated.
- 4** What about rental agents? Make sure the agent has the required Fidelity Fund certificate, which is renewed annually. They must also be registered with the Estate Agency Affairs Board.
- 5** What capital gains discount applies when I sell the house I live in? When you sell your primary residence a general discount of R30 000 applies, as well as an additional discount of R2 million. Any capital gain of less than R2 million will therefore be tax-free.

## 33,3% OF CAPITAL GAIN IS TAXABLE



Just 33,3 percent of the capital gain is included in your taxable income. This is further reduced with an annual discount of R30 000. If for instance the capital gain is R750 000, 33,3 percent thereof is R249 750, and R30 000 is deducted from this amount. The final amount of R219 750 is included with your taxable income, says chartered accountant Suzanne Marais. This amount is taxed according to the normal income taxation table. The inclusion rate for trusts and companies differ and the annual exclusion doesn't apply.

**TIP!** Have enough money set aside so you can pay your full monthly bond repayments if your tenant lets you down.

#### GET MORE HELP HERE

- [property24.com](http://property24.com)
- Bond calculators on banks' websites
- [justmoney.co.za](http://justmoney.co.za) for basic residential property tips

*The people who get on in this world are the people who get up and look for the circumstances they want and if they can't find them, make them*

– IRISH PLAYWRIGHT GEORGE BERNARD SHAW