![BIZCOMMUNITY]

Now is the time to leverage your equity to build a property portfolio

Having weathered nearly two full years of slow growth, it's understandable that investors may be wary of expanding their property portfolios at present. When examined as part of the typical 10-year property cycle, however, current market conditions may not be as dire as they appear. In fact, experts say now could be the ideal time to embark on new property investments.

© rawpixel – 123RF.com

“Conditions at present closely mirror those experienced at the end of the 1998 to 2000 and 2008 to 2010 property market contractions,” says Schalk van der Merwe, franchisee for the Rawson Properties Helderberg Group. “Both of those cycles experienced a two-year period of minimal growth followed by a slow recovery, which picked up speed to deliver excellent growth shortly thereafter.

“Now, almost exactly 10 years later, we’ve gone through a similar, two-year contraction and are starting to see signs of recovery taking place. That suggests a similar upswing is just over the horizon, making this the perfect time to buy and benefit from maximum future growth.”

Creating capital

Of course, finding the capital to invest in property in today’s economic climate can be tricky. However, van der Merwe says most homeowners and investors have access to capital they may not be aware of.

“One of the benefits of property as an investment is that it generates equity through appreciation,” says van der Merwe. “In other words, if you bought a property a few years ago, that property will be worth more than its original, mortgaged value today. That difference – together with however much you’ve paid off on your bond – is known as equity.”

Equity can be ‘released’ by refinancing a property at its present value or taking out a home equity loan. The resulting capital can then be used to finance additional investments – a popular way to expand and diversify a property portfolio.

Growth areas

With many regions experiencing flat or even negative growth over the last two years, property owners may have doubts about the amount of equity potentially available to them. Contrary to negative sentiment, van der Merwe says growth over the last five years has remained strong in the Western Cape, with areas like the Cape Town City Bowl, Atlantic Seaboard and City Near Eastern Suburbs experiencing more than 100% appreciation between Q3 2013 and Q2 2018.

“Average growth across the City of Cape Town was 78.2% between 2013 and 2018,” says van der Merwe, “which means even if your property didn’t appreciate by a single cent over the last year, you’ll probably still have significant equity to play with. The only way to be certain of the numbers is to have an up-to-date valuation done by an experienced real estate agent, but that’s very easy to arrange and completely free of charge.”

> Equity Example:An investor bought a property in the City of Cape Town in 2013 for R1million. They paid a 10% deposit and have been putting slightly more than their minimum repayments into their bond since then. They now owe R720k on their property which is currently valued at R1.782 million (78.2% growth since purchase). This means they have R1.062 million (R1.782million – R720k) in potential equity that could be tapped into for future investments.

By leveraging equity, rather than selling to buy, property owners are able to avoid capital gains tax, minimise financing fees and build a diversified – and growing – property portfolio that delivers ongoing returns. This, van der Merwe says, has been the secret behind many a property mogul’s success.

“It all begins with a single property, bought at the right time and leveraged intelligently to maximise its return on investment,” he says. “Now shows all the signs of being the right time, so why not explore your options when it comes to leveraging equity to tap into that potential.”