Co-buying investment property and the critical factors for success

According to CEO of Just Property Paul Stevens, property is one of the best ways to create wealth and leave a legacy, and buy-to-let partnerships can help fast-track this process while spreading the risks.

Source: Gallo/Getty

“There certainly are opportunities out there right now, and if you’re young or don’t have the capital to take advantage, then co-buying, a buying partnership or a syndicate can help you get a foot on the property ladder.”

Since the 1980s, property syndicates have been a popular way to invest in commercial, retail, industrial, rural, and residential real estate. For any investor, diversification is a way of spreading risk and while even a single property can provide cash flow, tax benefits and an asset that grows in value, the advantage of a property partnership is that it can allow a group of investors to build a property portfolio they would not have been able to acquire on their own.

Another popular motivation for forming a property partnership is to acquire and then share the responsibilities of a holiday home or a collection of homes. Such partnerships usually include friends and/or family members and then use of the property is shared according to agreed rules.

Critical factors for success

“The more people involved in a syndicate, the more complicated decision-making processes can be, but the risk is also more widely shared,” Stevens explains. “There are a number of factors that should be considered and weighed up against the unique composition of the syndicate.”

Open communication and commonality regarding investment goals and operating principles are vital, he says. “Like-minded investors and agreement over who is responsible for what are critical success factors.” If the syndicate was formed for investment purposes, the members need to be clear on their investment strategy.

“Even if they know they’re planning to focus on residential property, they will need to agree on the direction,” Stevens notes. “For example, are they looking for immediate capital growth on a property they can ‘flip’ in the short-term; high occupancy and rental returns to cover their bond repayments; or are they planning on prospecting in a new area that may take years to fully develop?”

If the property is being bought for shared use, the number of investors can impact the extent to which use of the property can be allocated and, for example, access to use a holiday property during high season may be limited. A schedule, allocating specific weeks / holidays to each of the investors would need to be agreed upon in advance.

“If the investors are still trying to figure those things out, looking at trends in the property market may provide some direction.” For consideration, Stevens offers some statistics from Lightstone’s Residential Property Index, July 2021:

- National year-on-year house price inflation is at 5.07%, a five-year record high, but there are regional variants that need to be considered. For example, the current inflation status in the Western Cape is lowest at 4.8% and the Eastern Cape tops the performance stats with an inflation rate of 8.3%.
- Coastal properties are outperforming non-coastal properties but “we are already seeing a rationalisation of the “run” on coastal “Zoom” towns like Mossel Bay, Knysna and Plettenberg Bay with over-priced stock remaining on the market longer”, says Just Property CEO, Paul Stevens.
- The low- and mid-value market, where properties are priced between R250k and R700k, continues to be where most of the activity in the market is.

Paul Stevens, CEO of Just Property

Opportunities in the current landscape

Stevens suggests investigating new developments, especially those that offer off-plan purchases: “These offer financial benefits that include savings on transfer costs that otherwise apply to properties that have already been registered with the Deeds Office.” Distressed property sales, including repossessed properties or those on auction, can provide an opportunity to buy immovable assets at a discounted price, he adds.

“But cheapest may not always be the best option,” he warns. “Look for the opportunity to create value. For example, where a property can be subdivided or rezoned for alternative use, or where there is scope to extend the size of the dwelling.”

Another factor in deciding what opportunity is “best”, is to consider the knowledge and reach of the syndicate of investors. They may feel most comfortable investing in an area or type of property that they are familiar with. Sectional title properties (like apartments and townhouses) come with complexities that need to be understood, such as house rules that restrict how the property may be used.

Make it legal

Once a decision has been made on the nature of the property to be purchased, a clearly documented and signed agreement between all parties is essential as it removes doubt and the risk of miscommunication. Stevens recommends that the following questions be addressed in the agreement:

- How will the property be financed?
- What costs need to be covered, including bond repayments, operating costs (maintenance, levies/ taxes, cleaning, etc.)
- What is the repayment schedule?
- How will missed or part payments be handled?

- How will the property be used?
- What access to/use of the property will be allowed and how will it be allocated?
- What options will be available if a member of the syndicate wants “out”?
- How will deviations in the agreement be handled?
- How will the portfolio be managed?
- How will the members of the syndicate communicate?

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Stevens strongly recommends getting sound legal advice, independent financial guidance and when it comes to the purchase, help from an astute property professional. “Whether the investment will be made via a family trust, whether you set up a company to do so, or buy into an existing syndicate, there are laws that govern each as well as risks. Demand total transparency at all times, and walk away from anything vague,” he concludes.