

## Know the difference: Commercial and residential investments



Investing in real estate has always been considered a sound decision. Property is considered a long-term investment, and values tend to recover over time, even when the market fluctuates.

### Investing in commercial real estate

Traditionally regarded as the realm of institutional investors, private investors are increasingly entering the commercial market in South Africa.

- Office buildings
- Retail space
- Industrial units and warehouses



### Investing in residential real estate

While property investment can be financially rewarding, you need to approach residential rentals with careful consideration and due diligence.

- Freestanding houses
- Apartments, townhouses and secure estate homes
- Holiday letting properties



### Commercial vs. Residential: Income streams

- **Rental income potential:** Provided the commercial property is in a prime location, it usually commands higher rentals compared to a residential property.
- **Lease terms:** Commercial property tenants tend to sign longer leases, providing stable income over extended periods.
- **Income sources:** As commercial properties can have numerous tenants, it reduces the financial impact if one tenant fails to pay or moves out, as opposed to a residential tenant moving out.



### Commercial vs. Residential: Investment and risk

- **Initial investment:** Commercial properties are typically more expensive than an average home and require a larger initial investment, with shorter loan periods.
- **Market volatility:** The demand for commercial spaces is closely linked to the economic climate, so downturns can have a significant impact on tenants, more so than with residential property.
- **Vacancy trends:** Finding suitable commercial tenants typically takes more time than finding residential tenants, and a vacant unit means lost income.



Whether investing in residential or commercial property, these are some of the essential steps to keep in mind:

1

**Do your research:** Analyse the property market and familiarise yourself with trends and opportunities. Know the property types that are performing well and what areas are up and coming.

2

**Location matters:** Consider the area where you want to invest and look at its proximity to your target demographic and key transport hubs, as well as access to amenities.



3

**Zoning and regulations:** Research local zoning laws and regulations and ensure there are no red flags that may result in lengthy delays or costly legal battles.

4

**Finance and due diligence:** Conduct a thorough financial analysis that includes rental income potential, cash flow, ROI, and financing options. Ensure you have sufficient funds to cover potential vacancies and maintenance.

5

**Property management:** Determine whether you will manage the property or if you will use the services of a property management company.

6

**Lease agreements:** If the property is already being leased to tenants, take the time to review the lease terms, quality of tenants and rental rates.



7

**Exit strategy:** Before making an investment ensure that you have a clear exit plan for selling the property when you want to end your ownership or involvement.

Investing in property requires careful consideration and will depend on your investment goals, budget and risk tolerance. With thorough research and analysis, professional advice and a little patience to find the right property, you can start building a profitable, long-term real estate portfolio.

Speak to the real estate professionals at Chas Everitt for valuable insights and to help you navigate the complexities of the commercial and residential property landscapes.