

BUY-TO-LET INVESTMENT GUIDE

How to build a property portfolio that generates real returns in South Africa.



WHY BUY-TO-LET IN SOUTH AFRICA?

South Africa's chronic housing shortage of 2.3 million units, combined with the lowest interest rates since 2022, creates a compelling environment for property investment.

Rental demand is structural — not cyclical — making buy-to-let one of the most resilient investment classes in the country.

RENTAL DEMAND

A shortage of 2.3 million housing units drives sustained rental demand. Urbanisation, student housing needs, and the growing professional rental market all underpin occupancy rates.

INFLATION HEDGE

Property values and rental income tend to increase with inflation over time. A property investment provides a natural hedge against currency and purchasing power erosion.

CAPITAL GROWTH

South African residential property has delivered long-term capital appreciation above inflation in most major metros. Location selection is the primary driver of growth.

LEVERAGE

Property is one of the few asset classes where you can use the bank's money to buy an appreciating asset. A 10% deposit controls a 100% asset.

UNDERSTANDING RENTAL YIELD

Yield is the annual return on your investment expressed as a percentage of the purchase price. There are two types — and most investors only calculate one of them.

	GROSS YIELD	NET YIELD
What it includes	Annual rental income only	Annual rental income minus all costs
Formula	$(\text{Annual rent} \div \text{Purchase price}) \times 100$	$(\text{Annual rent} - \text{costs}) \div \text{Purchase price} \times 100$
Example: R1.5m property, R10,000/month rent	$(\text{R}120,000 \div \text{R}1,500,000) \times 100 = 8\%$	$(\text{R}120,000 - \text{R}36,000) \div \text{R}1,500,000 \times 100 = 5.6\%$
What it tells you	Raw rental income potential	Actual return after real-world costs
Typical SA range	5–10% gross across residential	3–6% net after costs
Reliability	Misleading — ignores real costs	The number that actually matters

A property showing 8% gross yield may only deliver 4.5% net after rates, levies, insurance, management fees, vacancies, and maintenance. Always calculate net yield before buying.

CALCULATING YOUR TRUE RETURN

Costs to Factor Into Every Deal

COST ITEM	TYPICAL RANGE	NOTES
Bond repayment	Depends on loan/rate	At prime (10.25%), R1m bond = approx. R9,650/month over 20 years.
Rates and taxes	R800–R3,500+/month	Municipal rates based on property value. Check with local authority.
Levy (Sectional Title)	R1,000–R5,000+/month	Body corporate levy. Increases annually. Check financials before buying.
HOA levy (Estates)	R1,500–R8,000+/month	Varies significantly by estate. Includes security, landscaping, maintenance.
Insurance	R500–R2,500/month	Building insurance mandatory if bonded. Contents at tenant's cost.
Property management	8–12% of monthly rent	If using a managing agent. Includes collection, maintenance coordination.
Vacancy allowance	5–10% of annual rent	Budget for empty months. A 95% occupancy rate is good. 100% is unlikely.
Maintenance & repairs	0.5–1.5% of value/year	Older properties skew higher. Newer developments lower initially.
Income tax on rental	Marginal rate after deductions	Rental income taxed as ordinary income. Deductible costs reduce liability.

A Simple Cash Flow Example

Property: R1,500,000 | Bond: R1,350,000 (10% deposit) | Monthly rent: R10,000

Bond repayment — R13,028/month (prime rate (10.25%), 20-year term)

Rates + levy + insurance — R3,500/month (estimate)

Management fee — R1,000/month (10% of rent)

Vacancy allowance — R833/month (based on 91.7% occupancy (average))

Total outgoings — R18,361/month

Monthly shortfall — R8,361/month — funded from your other income

This is a negatively geared property.

The capital growth and tax deductions make the long-term case — but you must be able to service the shortfall. Never invest in property that breaks your monthly cash flow.

CHOOSING THE RIGHT INVESTMENT PROPERTY

LOCATION

The single most important factor. Choose areas with strong rental demand, proximity to employment nodes, good schools, and infrastructure investment. Buy the worst house in the best street, not the best house in the worst street.

YIELD VS GROWTH

High-yield properties (student accommodation, boarding houses) generate cash flow but limited growth. Premium residential properties generate growth but may be negatively geared. Know which you're buying.

PROPERTY TYPE

Sectional title apartments and townhouses in security complexes dominate the SA rental market. Lower entry price, lower maintenance liability, and strong tenant demand from young professionals.

TENANT PROFILE

Corporate tenants, young professionals, and families are the most reliable rental profiles. Student accommodation has high demand but higher management intensity. Choose deliberately.

Top Investment Property Types in SA (2026)

- 1-bedroom and 2-bedroom apartments in urban nodes — highest demand, easiest to let, most liquid to sell.
- 2- and 3-bedroom townhouses in security complexes — family market, longer tenancies, lower turnover.
- Student accommodation near major universities — high yield (8–12% gross), high management intensity.
- Freehold homes in established suburbs — lower yield but strong long-term capital growth.
- Holiday short-term rentals (AirBnB model) — highest gross yield in the right location, highest risk and effort. When buying in a sectional title or estate, check your House Rules to determine if AirBnB is allowed.

TAX ON YOUR INVESTMENT PROPERTY

Rental income is added to your taxable income and taxed at your marginal rate.
The good news: you can deduct legitimate expenses to reduce the taxable portion.

Deductible expenses:

- Bond interest (interest portion only — not capital repayment)
- Rates, levies, and taxes paid by you
- Insurance premiums on the rental property
- Property management fees and letting commission
- Maintenance and repairs (not capital improvements)
- Advertising costs for finding tenants

CGT when you sell:

Investment properties do not qualify for the primary residence exemption. Capital gain on sale is taxed at your effective CGT rate — approximately 18% for individuals. Factor this into your exit strategy.

A property portfolio should be built with a 10–20 year horizon. The compounding of rental income, capital growth, and bond paydown creates wealth that short-term thinking cannot replicate.

READY TO BUILD YOUR PORTFOLIO?

Your Leapfrog agent specialises in investment property — from yield analysis to tenant placement.

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