Buy-to-let property investing as a means of retirement savings

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Last year, a report from Alexander Forbes revealed that more than half of its members retire on 20% or less of their final salary before retirement. The reality is that it is incredibly tough to save up enough during your working years to be able to afford a comfortable retirement, especially if you do not have an additional income stream that can be set aside for savings.

"The younger you are when you first enter the property market, the sooner you can reap the rewards of generating a passive income stream based on rental returns and allow the value of your property to appreciate over time," says Goslett.

"If utilised correctly, having an additional passive income stream (rental income, for example) apart from a monthly salary can be an incredibly beneficial savings tool," says Adrian Goslett, Regional Director and CEO of RE/MAX of Southern Africa.

"What's more, an investment property can generate either a steady monthly return or one lump sum payment in the form of the proceeds from the sale when you reach retirement age."

To give a practical example, if you earn R30 000 per month at 35, you would need to put around R3 500 per month into savings until you retire at 65 (which is quite a difficult thing to achieve on the given salary) to earn roughly R10,000 back each month by the time your investment matures.

This was calculated on Old Mutual's Retirement Calculator.

Given the same scenario, you qualify for a home loan of up to a R1 000 000 and could possibly take out a 100% bond to purchase a property for around R850 000. If you purchase in a new development, you can avoid transfer fees, but you will still need to pay bond registration fees which, on a R850 000 property, will cost you roughly around R20 000.

Beyond this, your monthly repayment on a R850 000 home paid off over 20 years at current interest rates will work out to roughly R8 344.

Calculate what it will cost to buy an investment property here

Realistically, you can rent out student accommodation or a studio apartment for a maximum of around R7 500 per month, depending on where you're situated. This means that in order to pay your full instalment, you will need to contribute R844 towards the monthly repayment on your bond in this scenario.

Additionally, you will need to cover the levies in a sectional title, which can cost anywhere around R1 000 per month, as well as the municipal rates which, in this given scenario, will probably cost around R300 per month.

In total, you will be spending roughly R2 144 per month to cover the costs of owning an investment property.

However, at the end of twenty years and by the time you are 55 in the above scenario, you will have paid off your home loan and will only need to cover the levies and rates (roughly R1 300 per month in this example), which you can deduct from your rental income (R7 500 in this example) to earn you an additional passive income each month (R6 200 in this example).

By the time you reach 65 in ten years' time, you will have generated R744 000 in additional income, which you could have been investing in a tax-free savings account to accumulate further additional interest. What's more, the R850 000 property you purchased will have accumulated in value and could quite possibly fetch over a R1 million by the time you reach 65.

"Admittedly, property investment will require an initial and ongoing outlay of money before it starts generating pure returns. But, if you are able to afford it, the long-term benefits are hard to match.

"The younger you are when you first enter the property market, the sooner you can reap the rewards of generating a passive income stream based on rental returns and allow the value of your property to appreciate over time," says Goslett.