Property investment: One big property vs multiple smaller properties

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One of the questions most frequently asked of Rowan Alexander, director of Alexander Swart Property, is whether it is wiser for buy-to-let investors to invest in a single upper price level property or multiple smaller properties.

"The first point to make," says Alexander "is that anybody who simply advocates one or other of the investment channels without determining your needs is doing you a disservice. Neither asset class can be seen as superior in all circumstances. In some cases a single big investment will be the right answer. In others, a more diversified portfolio will better suit the investor's needs."

There will always be those in favour of 'putting all your eggs in one basket', believing that a single high-value property will give better results from both a rental income and capital growth viewpoint, but those going this route must be very careful to select the right 'basket', he says.

On the other hand, says Alexander, it is undeniable that the investor who spreads his risk over several smaller properties will be less likely to suffer from non-payment of the rents. While one tenant may default, others will probably continue to meet their obligations. The mistake that such investors sometimes make is to buy many properties in one block or in the same price range or area, thereby reducing the benefits of real diversification. It has to be accepted, too, that those who opt for multiple properties at lower sale prices will have to deal with greatly increased management problems and costs.

Real diversification

"Wise investors looking for real diversification ensuring that their properties are in different areas and different price ranges. However, every now and then a really good opportunity comes on the market – and in these cases it does pay to own several properties and forget about diversification."

The good investor, says Alexander, will sort out his priorities at the outset: Is he looking mainly for capital growth or satisfactory rents? Properties with a mid to high value quite often also have a high capital appreciation rate, but this is not a golden rule. A property bought in Brackenfell in 2011 for R800,000 could today be worth R1.5m. Similarly, one bought today in Durbanville for R2m will probably appreciate even faster over the next eight years.

Investors, adds Alexander, should study these possible markets and, with the help of reliable estate agents, learn to identify the areas in which the most trade is taking place. Those doing so would, for example, learn that in Brackenfell the big demand is in the R1.5m to R2m bracket, while in Durbanville it is in the R2m to R3m category and in Kraaifontein in the R800,000 to R1.5m bracket.

“Once you have established where the demand is,” says Alexander, “that is where you should put your money.”