Friday 12 September 2014
Business Day

Why property should anchor your investment strategy

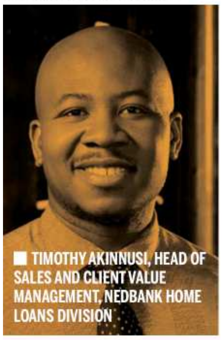
When it comes to a property investment strategy, education is key and the rewards reaped can be abundant. Four of the experts in the field share their insights

WORDS: TAMMY SUTHERNS :: PHOTOGRAPH: SUPPLIED

Author of the Investment Property Toolkit for South Africans and a senior manager at PwC, Kashan Maharaj has invested in a property a year since 2009. He says: "I focus my investment property strategy around residential investment property, because it is less volatile when compared with commercial property. In a depressed market, people still need housing, and the failure rate of small- to medium-sized businesses is quite high in SA, resulting in boom and bust periods, which is volatile."

Maharaj adds: "I and many South Africans out there share the same end goal. We want to achieve financial freedom and we want to be young enough to enjoy it. Financial freedom is when you are not reliant on a salary but rather on passive income for your lifestyle."

The income achieved through property investments is more important than the capital needed. Maharaj believes that high income is the product of an investment portfolio where property is at the core of the investment strategy. The advantages are that you do not need money to buy property; the returns are higher than other assets; you can control the asset and the business plan; and it is tax efficient.



TIMOTHY AKINNUSI, HEAD OF SALES AND CLIENT VALUE MANAGEMENT, NEDBANK HOME LOANS DIVISION

"We do caution customers to ensure they can afford their primary residence as well as their investment property"

"The only barrier to entry is lack of knowledge on how to implement a business plan that maximises the four advantages listed above," he explains, adding that it is wise to keep a mentor or seasoned investor close when you are just starting out.

The CEO of P3 Investment Group, Dr Koos du Toit, agrees. "The first thing is to learn as much as possible about this kind of investment." His advice is to join investment clubs which can assist in learning all the basics quickly as well as getting the tools and education needed for success.

Mari van Wyk, Korbitec's executive manager of industry relationships, says that new investors should begin by evaluating their needs for investing in a property and then decide up front how much money they would like to invest in a property. They should consider all the pros and cons, she adds.

Getting to know the market is also an important way of educating yourself on a property investment strategy. Says Van Wyk: "The location of the residential property is important. Be mindful that rates and taxes can be higher in prime locations, which can eat into your returns. Also be on the lookout for properties that don't have a high maintenance requirement."

Timothy Akinnusi, head of sales and client value management at Nedbank's home loans division, says investors need to understand the market itself and particular segment in which they want to invest. "Funding consumers in property investments is an aspiration that we encourage," he says. "However, we do caution customers to ensure they can afford their primary residence as well as their investment property, so that they are not at risk of unforeseen expenses that could put their cash flow under strain."

Taxation and market reports

"Property investment is a very tax-friendly way of investing because it is like a small part-time business," says Du Toit. "All business expenses, such as interest on the bonds, levies, taxes and rental agent fees, are tax deductible. By using a trust to keep your investments safe, you can save even more on taxes, if you know how to do it."

Nedbank's Akinnusi advises investors to watch out for any legislative changes. Some investors, he explains, hold on to property for as long as 10 to 15 years; therefore, they need to understand how frequently the laws on tax change and the impact such changes could have on their returns.

In terms of market reports, Maharaj says property has proven to be on an upward growth path for the past 50 years and that the JSE All Share is a good indicator of growth.

"The market has low volatility, even in the medium term," Maharaj says. "We have a growing middle class that is populating urban areas, where the trend is to rent rather than buy property.

"Owing to socioeconomic reasons and political history, we are seeing a growing middle class in SA. Our property market is still experiencing growth due to this simple supply-and-demand concept."

High-end vs affordable

MARI VAN WYK, EXECUTIVE MANAGER OF INDUSTRY RELATIONSHIPS, KORBITEC

"Be mindful that rates and taxes can be higher in prime locations, which can eat into your returns"

Van Wyk says you can make a cautious start by investing in a small residential property. This will allow you to learn about the business and the legal processes surrounding a property transaction, and help to minimise your risks.

Du Toit adds that the affordable or entry-level market is better, because your price-versus-rental income ratio is the best in properties under R600,000. "The closer your monthly rent is to 1% of the purchase price, the better."

Maharaj urges investors to apply an investment strategy that works in the local context, where previously disadvantaged groups who are moving into cities are in need of affordable housing. "Using the principle of supply and demand, it is only prudent to build a business plan that lowers your risk," he says. "Your risk of vacancy is low when you are the supplier of a high-demand commodity. It is wise to begin with a low-risk, affordable property and later, if your strategy requires, move to riskier, higher-end property."

You should have a fairly good understanding of, and a passion for, the market you want to invest in, says Akinnusi. "Investors need to understand how sustainable the market is; that it's not simply about profit-taking in the short term. How much money you have to invest is another factor that needs to be considered," he explains.

DR KOOS DU TOIT, CEO, P3 INVESTMENT GROUP

"See it as a part-time business that takes only a few hours of your time every month. The best thing is that you don't need much money to start"

Go ahead and invest

Anybody with a regular income and a clean credit record can invest, says Du Toit. "Property is not a passive investment, but it is not difficult to learn either," he says. "See it as a part-time business that takes only a few hours of your time every month. The best thing is that you don't need much money to start, and the returns are spectacular." He adds that once the property is paid off by the tenant, usually in about 12 years, you receive an inflation-linked income for life and beyond, and that by using well-established risk management strategies, you will ensure that your investments continue to work for you.

Maharaj describes property investment as "a medium- to long-term strategy that requires some patience". He adds: "Stay motivated by networking with other investors. It is a process and not a strategy for overnight results, but it is worth it."

KASHAN MAHARAJ, SENIOR MANAGER, PWC

The passive-investment strategy

Determine how much passive income from rentals will earn you your financial freedom. Break this down into the number of rental properties you will need. Next, use a tried-and-tested strategy to buy properties that will yield this rental income. Such a strategy should have the following characteristics:

1. **FINANCE** The property is financed by a bank. All costs for owning the property is less than the rental income earned. The property pays for itself from day one.
2. **THE ASSET** The property must be in a location with high rental demand and must be purchased for less than its market value.
3. **TAX** Contrary to popular belief, it can be more tax efficient to own property in your name rather than via a trust or a company. Give much thought to your investment vehicle structure up front, as it is costly to change later. Buying property directly from a developer not only generates great cost savings, but can also have significant tax advantages. (Always speak to a qualified tax adviser.)
4. **THE TENANT** Be strategic in the economic profile of the perfect tenant. It is your right to be biased about who you want to occupy your property. Nothing beats experience and learning from seasoned investors.
5. **WEALTH ACCUMULATOR** The real trick to owning multiple properties is to use the credentials of an already-owned property to assist in the purchase the next, and so on. This is where acceleration to achieve your predetermined passive income goal quickly becomes possible.
6. **FREEDOM** Bank finance carries a fixed payment period and does not grow with inflation, as rentals do. Be disciplined enough to use the inflation-linked rental income to settle the loans earlier. Paying 10% extra into the bond can result in the loan repayment period dropping by half. Your retirement can begin the day you settle the loans.