INVESTMENT REPORT

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IS AN INVESTMENT PROPERTY WORTH IT?

By Charize Beukes, Financial Planner, Brenthurst Wealth Pretoria

For decades, owning an investment property has been a popular choice as an option to build wealth. But a lot has changed, and many factors impact investments in this asset class. It is also important to take note of the costs involved.

The cost of owning an investment property can vary depending on several factors, including the property's location, its size, condition and the local real estate market.

SOME OF THE COMMON RISKS TO LOOK OUT FOR ASSOCIATED WITH INVESTMENT PROPERTIES ARE:

1. **Economic and political factors:** South Africa's economy and political landscape can impact property ownership. Economic fluctuations, changes in government policies and political instability can influence property values, rental demand and overall investment returns.

2. **Property market volatility:** The property market can experience periods of volatility. Property values may fluctuate due to supply and demand dynamics, economic conditions, interest rates and market sentiment. It's important to carefully consider market conditions and conduct thorough research before investing in property. Everything depends on where in the property cycle you decide to buy. For example, if you were to have bought at the bottom of the property cycle, you would have certainly reaped the rewards. You may be wise to buy in an era with rapid capital appreciation and relatively low-interest rates, which currently is not the case.

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Destruction of municipalities, the misallocation of funds, theft and corruption, to name a few of the culprits.

Investors are paying the price as a substantial percentage of their assets depreciate alarmingly.

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3. **Title deed and property rights:** While South Africa has a well-established legal system, there have been land ownership and property rights challenges. Ensuring that the property you intend to purchase has clear and undisputed title deeds is crucial. Working with reputable legal professionals and conducting proper due diligence is essential to mitigate these risks.
4. **Security and safety:** Security is a concern in most areas of South Africa. It's important to consider the neighbourhood's safety and implement appropriate security measures to protect your property and tenants. This can include installing security systems, hiring security personnel or joining community initiatives.
5. **Property maintenance and upkeep:** Property maintenance and upkeep can be a significant cost and responsibility for property owners. With our diverse climate properties may require regular maintenance in order to withstand weather conditions. Factor in ongoing maintenance costs when budgeting for your investment property.
6. **Tenant management and rental income:** Managing tenants can be challenging, and finding reliable and responsible tenants is crucial. Late rental payments, property damage and tenant disputes can impact your rental income and overall investment returns. Consider using thorough tenant screening processes or hiring a property management company to handle tenant-related matters.
7. **Local regulations and compliance:** South Africa has specific regulations and compliance requirements for property owners, including landlord-tenant laws, building codes and zoning regulations. Staying updated with these regulations and ensuring compliance is important, so as to avoid legal issues and costly penalties.
8. **Financing and interest rates:** Obtaining financing for a property may have specific requirements and interest rates. Interest rate fluctuations can affect your mortgage payments and the overall affordability of the property. Carefully evaluate the financing options and factor in potential interest rate changes when assessing the financial viability of your investment.
9. **Land reform and expropriation:** South Africa has a land reform program to address historical land ownership imbalances. The potential for land expropriation without compensation has been discussed, which can introduce uncertainties for property owners. Stay informed about any developments in land reform policies and assess the potential impact on property ownership.

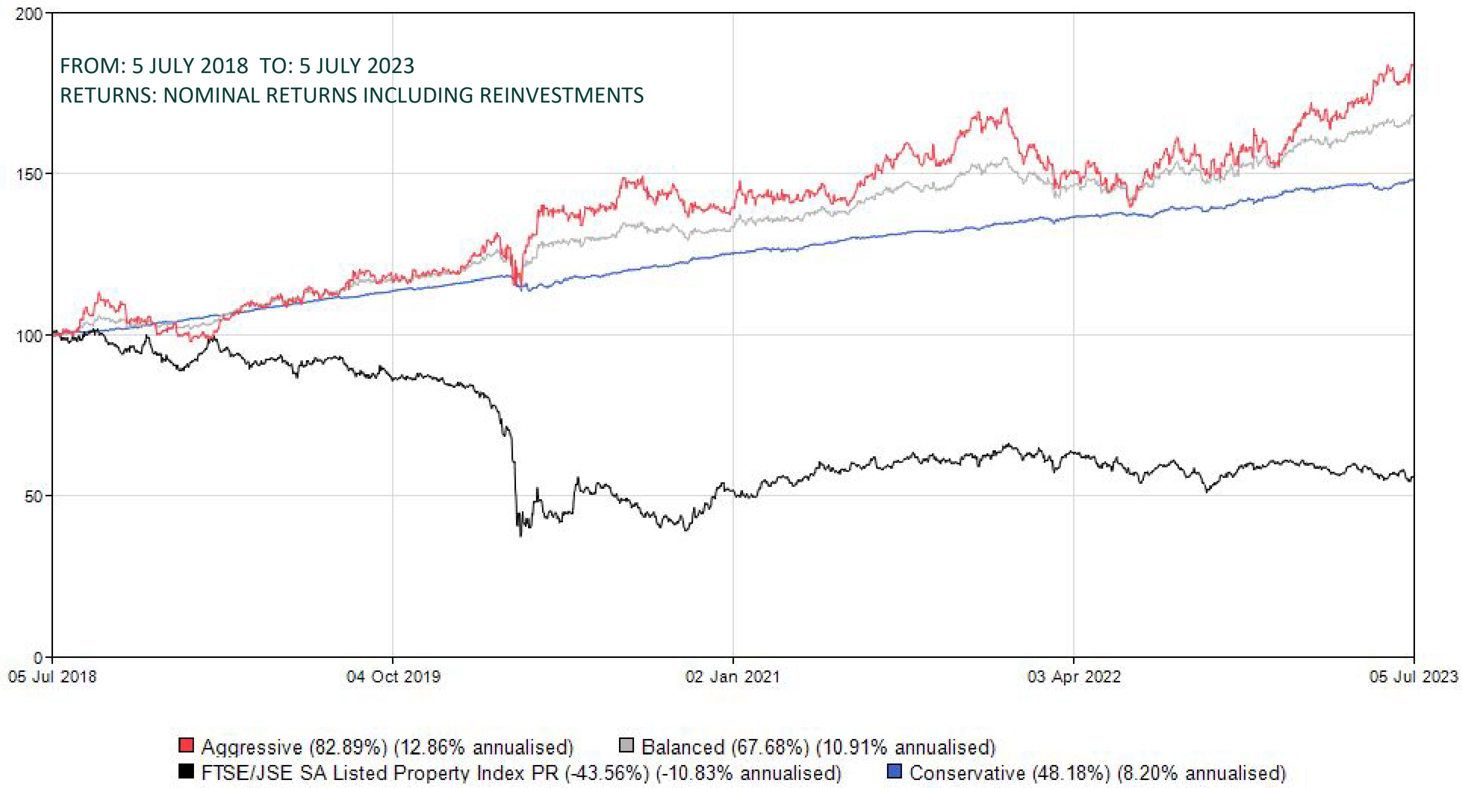
Before leaping, one has to consider the macro environment in South Africa for property as an investment class. Most parts of the country have deteriorated so severely that it may not recover. Destruction of municipalities, the misallocation of funds, theft and corruption, to name a few of the culprits. Investors are paying the price as a substantial percentage of their assets depreciate alarmingly.

The property market can experience periods of volatility. Property values may fluctuate due to supply and demand dynamics, economic conditions, interest rates and market sentiment. It's important to carefully consider market conditions and conduct thorough research before investing in property.

DOES THIS MEAN YOU SHOULD SKIP INVESTING IN PROPERTY ALTOGETHER? Not necessarily. There are several alternatives to owning a physical investment property that can provide potential returns and diversification within your portfolio without dealing with the drawbacks mentioned above. Here are a few alternatives to consider:

1. **Real estate mutual funds or exchange-traded funds (ETFs):** Mutual funds and ETFs focused on real estate allow investors to gain exposure to a diversified portfolio of real estate assets. These funds typically invest in various real estate investment vehicles, including REITs, operating companies and development firms. In SA, however, these have not done too well. The impact of the risk factors is clear in below chart.

PERFORMANCE GRAPH



NOTES: FTSE/JSE All Share Index, FTSE/JSE All Bond Index and FTSE/JSE SA Listed Property Index
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2. **Stock market investments:** Investing in publicly traded real estate companies, such as homebuilders, property management firms or real estate development companies, can provide exposure to the real estate sector. These investments can be made through individual stock purchases, real estate-focused ETFs or mutual funds.

It's important to conduct thorough research, understand the risks associated with each alternative, and consider your investment goals and risk tolerance before investing in any of these options. Consulting with a financial advisor can also provide valuable guidance in choosing the most suitable alternative and help you decide if the inclusion of investment property in your portfolio is suited to your needs and financial goals.

ADVISOR PROFILE: CHARIZE BEUKES | FINANCIAL PLANNER®, PRETORIA

Charize joined the Brenthurst Wealth team in April 2021 as a financial advisor under the direct supervision of Maria Smit, CERTIFIED FINANCIAL PLANNER®.

She obtained her BCom (Hons) in Management Accounting from the University of South Africa (UNISA) and has been working in the finance industry for over 10 years.

Charize is registered with SAIPA as a professional accountant and tax practitioner. She recently completed her Class of Business and Postgraduate Diploma in Financial Planning through the University of the Free State and is currently enrolled to write the CFP board examination.

Charize is fully qualified to provide advice on all financial matters.

Phone: +27 21 914 9646 | **Email:** charize@brenthurstwealth.co.za

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