



THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

PROCEED WITH CAUTION WITH PROPERTY INVESTMENT

By Stefan Janse van Vuuren, Financial Planner at Brenthurst Wealth Management

Ever heard a relative or neighbour telling you how great investment property is, based on the R300 000 home bought in 2000 now selling for R2m, 20 years later? On the surface it seems like a great investment, but is it?

South Africa experienced a housing market boom at the turn of the century. From 2000 to 2006, national house prices increased by an average of 20% annually. The main drivers of the boom were the establishment of a black middle class on the back of a growing economy, an influx of foreign investment and commitment from financial institutions to provide mortgage financing to the low-income market.

The boom was abruptly ended by the Global Financial Crisis (GFC), which saw house prices decrease by 16.5% in real terms between May 2008 and August 2009. Since then it has been an uphill battle for the average SA homeowner. Between 2011 and 2019, SA house prices rose by more than 50% in nominal terms, however when accounting for inflation a mere 0.4% growth in real terms was achieved. To make matters worse, when compared relative to pre GFC 2008 levels, the average house lost 18% in real value from 2007 to 2019. This is incredibly worrying if you consider that most of the average middle class family's wealth is tied up in their homes.

According to the August edition of the [FNB Property Barometer](#), the number of new mortgage applications have rebounded beyond pre-lockdown levels. The Barometer attributes this rebound in activity to a variety of factors, namely pent-up demand where purchases were delayed because of lockdown, record low mortgage rates and homeowners seeking bigger homes that are better suited to working from home.

“ For many South Africans investing in a home is often their biggest investment. If reviewed in the same way as other investments, the return on investment must be carefully considered. ”

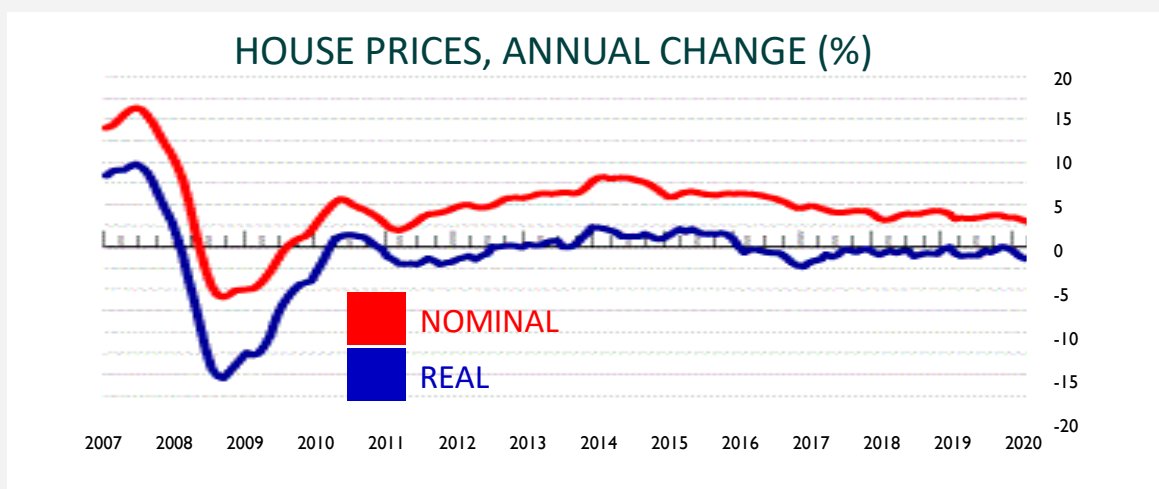
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BRENTHURST AWARDED
TOP WEALTH MANAGER
IN SOUTH AFRICA 2020

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STELLENBOSCH	+27 (0) 21 882 8706
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MAURITIUS	+ 230 5843 5215

HOUSE PRICES, ANNUAL CHANGE (%)

YEAR	NOMINAL	INFLATION ADJUSTED
2010	3.11	-0.22
2011	4.46	-1.75
2012	5.74	-0.07
2013	7.69	2.33
2014	6.31	0.92
2015	6.24	1.01
2016	4.58	-2.33
2017	3.86	-0.61
2018	4.15	-0.24
2019	3.49	-0.52



Lockdown hasn't brought the panic the public expected to the real estate market as of yet, with research from FNB showing that the market is still 15% stronger than during its lows of the 2008 Global Financial Crisis and the average discount rate was relatively unchanged from 1Q2020 (13%) to 2Q2020 (12%). **However, FNB believes low interest rates and pent-up demand will only support house prices in the short-term before the significant blows to the labour market starts taking its toll on house prices in the medium term. In the long-term, sustainable growth in property prices can only be achieved through growth in household income.**

Finance Minister Tito Mboweni's prediction of a 6.4% decrease in SA's GDP comes at the worst possible time for SA households. SA has already [entered recession](#) during the back end of 2019, a year in which household debt-to-disposable income rose to 73%. With the International Monetary Fund (IMF) predicting the SA unemployment rate to increase to 35.3%, these are ominous times for SA homeowners.

For many South Africans investing in a home is often their biggest investment. If reviewed in the same way as other investments, the return on investment must be carefully considered. Also, a property may be worth millions, but the investment is not liquid. Which means it cannot deliver an income in the same way that other investment vehicles can.

Furthermore, many property investors focus on the purchase price and the current value or price realised once sold. Few factor in the costs of maintenance, renovations, rates and taxes and utility costs, which if added up over the period since the property was purchased could come to a significant sum. Even more worrying is the rate at which these costs are increasing. **Research done by the South African Property Owners Association (SAPOA) showed that property rates and taxes increased by an annualised rate of inflation + 8.2% (12.1% nominal) during the years 2005 – 2016.**

With tax revenue collection under severe pressure, it is highly unlikely that the cash-strapped government will do anything to reverse this trend. This means the return calculated by subtracting the purchase price from the selling price can be significantly lower if the true cost of home ownership is calculated. That is the real return and the number that should be used to compare it to investments in other asset classes.

AS WITH ANY INVESTMENT DECISION, CHANGES TO PORTFOLIOS OR ASSET CLASS SELECTION MUST FIT THE INDIVIDUAL INVESTOR'S RISK PROFILE, INVESTMENT GOALS AND LONG-TERM FINANCIAL PLANNING STRATEGY. Find the office and advisor closest to you here: >> [WEALTH MANAGERS](#)

STEFAN JANSE VAN VUUREN, FINANCIAL PLANNER (BComHons Financial Analysis)



STEFAN joined the Brenthurst Wealth team in November 2019 as a Junior Financial Advisor at the Stellenbosch office. He currently works under the direct supervision of Sonia Du Plessis, while also assisting all other financial advisors in Cape Town.

He has obtained his B.Com degree in Investment Management and a B.Com (Hons.) in Financial Analysis from Stellenbosch University.

He is also currently a CFA Level II candidate and will, in time, pursue his studies further in order to obtain his Postgraduate Diploma in Financial Planning.

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BRENTHURST AWARDED TOP WEALTH MANAGER IN SA

Brenthurst wealth was voted **Top Boutique Wealth Manager** in the country in the 2020 Intellidex Wealth Manager and Private Banks Survey, and ranked in the top 5 in 5 other categories.

Click here to read more >> [Brenthurst-voted-Top-Wealth-Manager-in-SA](#)

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