

Property as an Asset Class

Any comparison between investment outlets, today increasingly referred to as asset classes, has to take into account whether the sum invested is paid upfront by the investor or whether he can arrange a deferred payment. It is for this reason that comparisons between asset classes are often difficult to make.

This was one of the key points made by Rob Lawrence, National Manager of Rawson Finance. "Property," wrote Lawrence, "is still the only asset class where an investor can take advantage of gearing. This makes it particularly suitable for the smaller investor with limited resources.

"Supposing," he said, "you had R1 million to invest. You might consider putting it as a lump sum into a government stock or JSE shares - or you could buy two properties, each worth R1 million.

"This is possible because a R1 million property should give you give a net rental yield of $\pm 6\%$ (i.e. some R5,000 per month), which would probably enable you to approach the banks for a bond of R500,000 on each property.

"Over the next 20 years, utilising the R5,000 monthly rental payments from tenants, on each of these properties, you will pay off both properties, leaving you with two debt free assets on which both the rents and the capital value will have increased in line with inflation. There can, therefore, be few better investments than this."

Equally significant, added Lawrence, is the fact that over this entire pay-off period 'all expenses in the production of income', to use SARS' terminology, will have been tax deductible.

"This means that although the bondholder will be taxed on his monthly rental income payments, the monthly bond payments as well as all rates and levies, repair costs and other expenses related to the property are tax deductible.

"In effect, therefore, the bondholder is assisted in his purchase by both SARS and his tenant and in the long run will be acquiring an asset that is likely to be more valuable than that of most other asset classes.

"Furthermore, once a proportion of the bond is paid, it becomes possible for the owner to re-gear and buy yet another property."

Lawrence stressed that no asset is ever completely risk-free - "No one can predict with complete accuracy where markets are going" - but in view of the advantages outlined above, property investment was, is and should remain a significant part of every serious investor's portfolio. Under most scenarios if the gearing is kept reasonably low (preferably never above the net rental yield), said Lawrence, it should also be the most stable investment channel available.