

## 3. Property as an asset class

### 3.1 WHY INVEST IN PROPERTY?

South Africa is Africa's economic heartland with one of the world's most diverse populations and exquisite landscapes. The result: An excellent location for property development and investment. Here are 10 reasons why you should invest in the South African property market:

#### 1. Stability

Investing in the stock market can often bring great returns, but can also be rather unstable. Balance your investment portfolio by choosing a relatively stable option. The South African property market is one of these options.

#### 2. High growth potential

South Africa's housing shortage and the government's high priority to alleviate this problem means that the country has a high growth potential. Add this to a burgeoning middle class and a high demand for housing emerges. As we know, a steadily escalating demand translates into high returns on a long term investment basis.

#### 3. Coastal property

South Africa (and especially the KZN North Coast) has an abundance of value-for-money coastal property on offer. The global scarcity of coastal property coupled with the insatiable demand for it will only serve to increase the value of SA coastal property.

#### 4. Property Cycle

Every property market has its cycles and SA is no different. The cycle is dependent on various economic factors. When interest rates are high, it's a buyer's market and when they are down, it's a seller's market. SA's property market has had a sustained period of positive growth despite the current lean period. The high demand for property means that wise investors benefit throughout the property cycle, as any investment is sure to provide good returns.

#### 5. The World at large

Even though the world is becoming increasingly susceptible to extremist attacks, SA remains one of the least affected by such activities. This neutral position is attracting foreign interest, the increase of which is certainly having a positive effect on SA's economy.

#### 6. Rental market

Renting a property helps you to pay off your bond while your investment property increases in value. When the property market is slow, the rental market yields higher returns as more people are renting property rather than investing. The rental market is not as buoyant during boom times. When interest rates are high, the shortfall between your rental income and bond repayments is bigger than if interest rates are low. No matter what the state of the market, rental income is still a great way to service your bond.

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### 7. The perfect holiday destination

South Africa is fast becoming a prime holiday destination. There is a location to suit any taste, from sandy white beaches, to lush winelands to extensive game parks boasting the sought after Big Five. All this diversity leads to an abundance of property investment opportunities as tourists and holidaymakers seek accommodation in their destinations of choice.

### 8. Exchange rate

Property in South Africa is very affordable and even more so if you have foreign currency. With the favourable exchange rate, foreigners are seeing South Africa as the ideal property investment location. With SA's strong economy, you are guaranteed to yield excellent long term returns on your investment.

### 9. No tax on property purchases

There is no inheritance tax and VAT is not payable on property purchases in South Africa. Estate agents fees which are normally the seller's responsibility usually includes a percentage of VAT.

### 10. Tax breaks on property development

As there is no tax on property purchases, there are no tax breaks with property either. However, the SA government have recently introduced a scheme to regenerate the country's CBDs called the Urban Development Zone (UDZ). Buyers into this concept receive a substantial tax rebate over a five year period.

### 3.2 Other People's Money

The general perception of building wealth is that you 'must have money to make money'. This is not necessarily true. You can also build wealth using 'other people's money' (OPM) simply by leveraging off it. The money can be arranged from a number of sources:

- Equity in your home or other properties
- Relatives
- Underperforming assets
- Venture capital funds
- Banks

The definition of the word leverage is to do more with less. By using OPM, you can invest in a property and build equity in it through your bond repayments and rental income. The value of the property will also increase over time. Once you have built up enough equity in your loan, you can refinance the property, take the equity out and use it to buy another property investment.

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### 3.3 How to read the market

On reading the property market, there are several key signs to watch out for:

- **Estate agents:** Estate agents traditionally have a wealth of local knowledge when it comes to selling properties in their designated areas. As it is easier for an agent to sell property in prospective areas, an increase of agents to a certain area or a surge in estate agency advertising is a sure-fire indication of growth potential.
- **Activity:** Building activity is a sign of potential for growth. Cranes, rubbish skips, houses under renovation, road works among others are all good indications that a process of regeneration is happening and property prices are likely to increase. These things are all good reasons to be confident that property values are on the up in that area.
- **Infrastructure:** Dramatic infrastructural changes will also add value to surrounding areas. For instance, areas surrounding KZN's new King Shaka International Airport are likely to increase exponentially as the new facility will add value by improving intercontinental accessibility and thereby giving these areas the competitive edge.
- **New businesses:** A surge of new businesses to an area is also a good sign that an area has growth potential as they have been attracted by the people who live there and their spending power.

You can also gather more local knowledge by subscribing to sites which derive their information from the municipal deeds offices countrywide and can give accurate information on volume of sales and prices, thus giving a clear indication of the health of the property market.