Investment in property yields satisfactory return - Rawson Properties

Regular media surveys on the residential property sector in South Africa frequently compare the returns on property with those of other asset classes - particularly the JSE Securities Exchange - and this often reflects poorly on the performance of property.

However, most surveys tend to overlook one all-important fact that property can be geared, whereas most other asset classes have to be paid for in full upfront, says Bill Rawson, chairman of the Rawson Property Group.

"If, as in annuities or endowment policies, these are paid for in installments over a lengthy period of time, they generally give returns related only to the sums paid out so far and any early sell-out or cancellation of the policy is usually punished with severe penalties. By contrast, the great advantage of property investment is the simple fact that the returns (rentals) are calculated on the total value of the property from day one, and not on the amount invested to date," Rawson says.

Good credit record has an advantage

"What is more, reputable investors with good credit records are still able to get as much as 90% or even 100% gearing, making the actual return on their outlay from day one far higher than it appears on monthly statements."

Taking a simple example, Rawson says that many South African residential properties bought in urban areas today for R1 million would give a rental of R7 000 per month. This would result in their achieving an annual return of R84 000, which equates to a return of 8.4% per annum on the property in which the investor may initially have only R100 000 invested.

Even when the property's rates, taxes, maintenance and possibly levies are taken into account, such a return is highly satisfactory by any standards. Furthermore, while it is usually possible to fix the interest rate on a bond for a low level for an extended period, the rents on most South African homes are rising by 6% per annum. Over a ten year period this means that the compounded return will have increased by approximately 79%.

Too much emphasis on low growth

Rawson says far too much emphasis is currently being given by analysts to the low real growth rates on residential property. "Serious investors knowing that their rents will rise steadily are not put off by low growth because they have committed themselves to the long run and they know that low growth periods are almost always balanced by high growth periods in most decades. In addition, when money and/or stock markets do crash, history shows that property tends to hold its value better than they do."

Rawson also pointed out that although overall real growth in South African residential property is slow, many precincts have been identified by Lightstone, ABSA and other reputable analysts as able to buck the trend and achieve annual growths of ± 10%.

"The advice often given today is to invest in one new property per annum, but never to reach a point where your total borrowings exceed more than 60% of your portfolio's value. Anyone operating on this formula is likely to be able to survive crashes and crunches in the economic market - and this advice could be particularly relevant right now because many analysts are saying that the JSE Securities Exchange is showing signs of being overheated," he concluded.