

## Property, is it a true asset?

The large majority of South Africans aspire to own a home because they want to have a piece of land that they can call theirs and an asset that will appreciate and provide them with a cornerstone to financial security. While owning a property is considered as possessing an asset, not every home is considered a true asset.

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In order to determine whether a home is a true asset, one needs to first define what exactly a true asset is. The dictionary defines the word 'asset' as any item of economic value that is owned by either an individual or a corporation, which can be converted to cash. This definition provides an explanation of the word but does not give a clear definition of a true asset. Is it merely a figure that appears on the bottom line of a balance sheet, or is there more to it?

### **Generates an income**

The defining factor that separates an asset from a true asset, is that a true asset is something that generates an income which is more than the expenses that it takes to retain it. While it is possible for property to be an asset, a vital element is for the property investor to make their money when they purchase the property and not when they sell it.

Much of the potential return on investment is determined when the buyer purchases the home. It is imperative to always purchase a property that represents good value. While this may entail a great deal of time and research, the end result is worth the effort. If a buyer is able to purchase a home that offers good value for money, they will already be ahead of the curve and won't have to wait for a boom in the market to see real appreciation on their property's value.

For a buyer to evaluate whether their home is a true asset, they will need to determine if the costs to maintain the property and the monthly expenses are less than the income that the property could generate. Generally, the only way in which a property can generate an income would be through letting it out. In this instance, the operational income would be the rental amount less tax. For the property to be a true asset, this amount

should be more than the monthly total cost of owning the property. If managed correctly, the profit made from owning a true asset can be used to save up and purchase the next true asset. A true asset can be the foundation of building wealth.

## **Primary residence**

What happens if the home is purchased as a primary residence and not an investment property? Can a primary residence be classified as a true asset?

A primary residence will not generate an income and there are maintenance costs and running expenses to keep it, however, it can be a good asset that benefits from capital appreciation over the long term. While a home's value may not see substantial growth over the short to medium term, over the long term it should outstrip most other investment classes. Again, however, it is important to apply the same principle as an investment property and purchase a home at fair-market value. There is also the crucial element of purchasing within a good location that is close to amenities and good schools.

Purchasing the right property can provide the owner with more than just an asset. The right property can be a true asset that outperforms other financial vehicles and provides a solid return on investment.

## **ABOUT ADRIAN GOSLETT**

Adrian Goslett is CEO and regional director of RE/MAX Southern Africa. He joined RE/MAX Southern Africa in 2005 as a franchise development consultant, supporting various regions & offices. Throughout his career at RE/MAX he has held various positions. In 2010, after successfully leading 160 offices and over 1500 agents in six countries through the worst years estate has ever seen in South Africa in 30 years, Goslett was appointed as CEO of RE/MAX Southern Africa.  
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