



Prudential Investment Managers
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The ins and outs of investing in property

South African investors feel comfortable putting their eggs in the property basket. You're not alone if you aspire to own your own home or to rent commercial or residential space to others.

Unfortunately, rising prices at the entry level have put property ownership out of reach for many, but luckily property unit trusts give everyone a chance to get exposure to what is a valuable and important asset class – and to reap the associated benefits of diversification.

1. Home sweet home

There's nothing quite like owning your home. Being a homeowner doesn't just feel great, it also allows you a sense of stability. You're no longer at the mercy of a landlord who may increase rental payments by more than the inflation rate, or who could even decide to sell or occupy the home. Owning your home is a sign of credibility, and you can use it as security for loans, cars and new business ventures.

The downside is the opportunity cost of the greater returns you may have earned had you been able to invest your money in long-term higher risk equities. Being home-rich and cash-poor can mean you're unable to invest in different asset classes – and we all know how important diversification is.

2. Buy to let

'Buy to let' residential or commercial properties may be a good source of additional income. You benefit in that the costs of running the property, including mortgage repayments, insurance and maintenance costs are all tax deductible. Over and above the rental income, there's the benefit of capital appreciation of property over time.

Of course, there are disadvantages, not least being the need for cash up front for the bank deposit. You need to determine whether the return on the down payment justifies the investment. At the moment, you typically get a 6% return on private property and 11% from commercial properties.

The other downside of investing in properties to rent is dealing with tenants. You'll need to screen potential tenants before allowing them to move in. In renting residential properties, the one- or two-year lease you sign may not mean much, as the Consumer Protection Act (CPA) allows tenants the right to terminate the contract with one month's notice. The Prevention of Illegal Evictions Act can also delay the rightful eviction of non-paying or destructive tenants.

Renting your home out through Airbnb is another way of 'buying to let'. According to Nicola D'Elia, Airbnb's MD for Africa, the average amount earned per host in South Africa per year is R28 000. But be warned: if you sell your home, you won't be entitled to the full R2 million capital gains exemption on your private residence, as it will have been partially used for commercial purposes.

3. Property Unit Trusts

You've most likely realized by now that investing directly in property is not always the wisest route. It can be risky and is often rather tedious. If you'd like to include property in your investment portfolio without all the hassle, property unit trusts offer an easy (and painless) solution. Investing in property unit trusts allows you to

own units in an array of listed property companies that own property assets across the retail, office, industrial, hospital and hotel sectors. And given that South Africa's listed property sector has internationalised considerably in recent years, the properties are also spread across many geographies. This gives you the benefit of wide diversification both within the property market and outside of South Africa.

Another advantage of purchasing property unit trusts is the liquidity of your funds. Should you need access to your capital, you can have cash in hand within 5 to 7 working days (2 to 3 working days in Prudential's case). Compare this to selling a fixed property, where it can take many months to realise your cash. But with unit trusts you do bear the risk of short-term unit price volatility, which is driven by changes in the local and global equity markets.

When you own property unit trusts, you benefit from both the income earned by the underlying properties (from rentals) and capital growth. In South Africa, listed Real Estate Investment Trusts (REITs) are required to pay out a minimum of 75% of their earnings to investors every year. And because the income paid per unit is reinvested you can achieve some pretty impressive long-term growth. When you purchase your own property, on the other hand, you only realize your capital gain when you eventually sell.

The most significant advantage of property unit trusts compared to buying a house is their relatively low barriers to entry. You can buy property unit trusts for a lump sum minimum payment of R50 000 and/or monthly debit orders of R2000. (These amounts are lower if the unit trusts form part of a tax-free fund.)

Listed property has outperformed all other asset classes over the last 15 years in South Africa, but it does come with more risk than assets such as cash or bonds. [Prudential's Enhanced SA Property Tracker Fund](#) has produced an average annual return of 13.8% over the last ten years (after fees, to 31 October 2017). The fund, which Prudential also offers as a [tax-free unit trust](#), is structured for investors with a medium-to-high risk tolerance looking for capital and income growth through cost-effective exposure to South Africa's listed property sector. The recommended investment horizon is five years or longer.

Invest now by completing an [online application form](#) or contact us at query@prudential.co.za for more information.