Diversifying your property portfolio

By Grant Wheeler

1 Feb 2019

Diversification is a key wealth strategy, but what should consumers invest in? Should they hedge their rands and invest overseas? Or is it better to buy a number of properties costing under R1m?

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Property should always be a part of any balanced investment portfolio. Keeping the active versus passive, cash versus geared debates aside for the purposes of this discussion, there should always be a stepped/progressive approach to investing in property. What follows is aimed at the Average Joe who has a steady job or income and has a lump sum available to invest.

Building a balanced investment portfolio made up of shares (listed and unlisted), ETFs, bonds, property stocks, physical property, etc. can essentially start anywhere. Usually at the beginning of any portfolio, building liquidity is important. You are bound to make mistakes and will need to be adjusting your capital allocation constantly. A big property purchase for example is difficult to get out of if that lease you are relying on falls through, particularly if that lease underpinned the property value. Understanding the cash required, as well as cash-generating abilities of each investment type is crucial.

Act quickly

Once you're ready to invest in property you'd want to step in gradually, test your decisions and make the necessary adjustments as soon as possible. This, as with any investment, can also mean taking a loss. Key here is to act quickly. If unit prices are tumbling in the project you have a rental unit in and the rentals are dropping as a result of the neighbourhood declining, get out, move on. Property cycles can last years, decades even. Don't rely on things turning in order for your investment to be saved.

Looking for the right income-generating rental unit can be daunting. It's always a good idea to buy locally to start with. Buy in the neighbourhood you know and understand. Once you've cut your teeth on the rental unit around the corner, you can think about venturing further afield. Here you might follow your child to the university they are attending and buy a student unit in close proximity to the university. You might then buy the unit you've been renting at the coast as you've experience just how busy the complex is and have seen the rentals appreciating year-on-year. Next you could buy the retirement unit to house your ageing parents. In other words whilst, expanding, diversifying geographically, diversifying your product type, you are doing this with a well-thought-through reason. You are addressing a need you know exists.

Investing in foreign markets

Once you are confident and comfortable with your local rental returns, you might want to invest in foreign markets. To be clear the main reason you'd invest off-shore is because you believe one, the rand will devalue against your target currency, two, the capital gain is equal to or better than the local market and, three, rental escalations and occupation levels will be better. A key consideration here is to determine the ease of investing, selling, and getting your money back. You will need a good understanding of the market as well as knowledge regarding tax and legal differences etc. Being on a different continent with potential time and language differences can add a level of complexity to the mixture.

Without a doubt, whether investing locally or in foreign markets, it would be crucial to engage with a property professional to help guide you through the process. Advice from the right professional can be invaluable. Choosing a global property group which is able to connect you with the right opportunities both nationally as well as internationally makes sense. The benefit of having a single point of contact for your property dealings will save you time, money and a lot of inevitable frustrations.

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