LISTED PROPERTY

Any novice investor who likes the idea of investing in property should always start with the listed property sector on the stock exchange. I have always preferred listed property to residential property as an investment. This irritates the estate agents who love to promote the benefits of home ownership but when it comes to a pure investment decision, I think listed property wins every time. With the advent of the Tax Free Savings Account (TSA) the brainchild of SA Revenue Service, investors should consider using this asset class to derive the maximum benefit from the TSA.

GREAT GROWTH DESPITE THE DOUBTERS

It is interesting how fund managers of balanced funds are always under-invested in listed property. This is not a new behaviour, they have always been wary of the sector and consequently have missed out on fantastic growth over the last 10 years. Fund managers always seem to have intelligent reasons as to why they are not properly invested in the sector but I believe the main reason is rather simplistic. Most balanced fund managers have a background in normal equities and are not really comfortable with the listed property sector – it is simple human nature to avoid what we don't know.

SEPARATE ASSET CLASS FROM OTHER SHARES

When you buy listed property companies, you are investing in an asset class that is fundamentally different from normal shares. Firstly, all the income generated by these companies is taxable as you actually earn rent. The movement of interest rates has a very big impact on their performance. Typically when interest rates rise, the prices of listed property companies fall while falling interest rates are great for the sector. This makes them quite similar to bonds except that you can also get a great deal of capital appreciation from property. So the sector is more of a hybrid between shares and bonds. Listed properties can certainly be volatile and your capital is not guaranteed but a well-diversified portfolio of listed property companies should generate inflation beating income over the long term with significant capital appreciation as a sweetener. With the collapse of the rand and South Africa's well published political and economic problems, many new offshore property companies have listed on the JSE. I believe you now have a choice of at least 10 companies that invest exclusively in offshore properties but are listed on the JSE. This is another form of diversification that is proving very popular. All of this will take place without you having to manage tenants, deal with the inefficient municipalities or Eskom!

TAX FREE SAVINGS ACCOUNT

In the new tax year, all South African tax payers will be able to save R30,000 per year into a new form of investment that will be free of tax. I think that every South African investor should make use of this account for long term savings and I believe listed property investments are ideally suited to offer the most benefit. My reasoning is that you will not be liable for tax on the income from this asset class which makes it significantly more attractive to tax payers. I am still not sure how we will be allowed to invest in the sector but if we are forced to use property unit trusts or ETF's it is still worthwhile.

RETIREMENT FUNDS

If you are retired and have your money invested in a living annuity, you should consider making listed property a significant part of your portfolio. Not only is the asset class a great diversifier as it performs differently from shares, bonds and cash but the performance is likely to be good and your income should beat inflation over the long term. Similarly for younger people who are contributing to retirement funds, try to ensure that you have the maximum amount possible invested in shares and listed property rather than cash and government bonds. There is some debate in the industry but I believe most retirement fund trustees will allow a maximum of 90% invested in a combination of shares and listed property. The regulations are a bit confusing because you can invest a maximum of 75% in shares and 25% in property but I have not seen a retirement fund that allows you to select only these two asset classes, they tend to require an allocation to cash.

EXERCISE CAUTION

As with any investment, you need to do your homework properly with listed property. The fact that your underlying investments are properties does not mean that you are avoiding all risk. Given the brilliant performance of listed properties over the last decade, one might argue that the sector is due for a significant correction. I am also concerned about the number of new listings, when there are so many new listings in one sector, it usually means there might be a bubble and some punters are finding ways to list any old rubbish for investors who are in a frenzy to buy anything new in the sector.