Intelligent investing: A strategy superior to speculating

One of the biggest temptations investors face when making a direct investment in property is speculating: buying a property with the hope of selling it at a substantial profit in the near future.

It must be said that some investors have made a great deal of money through speculating with property, because they bought when the market was down and everyone else was selling; and sold when the market was up and everyone else was buying. In addition, during last property boom around 2006 - when house prices were escalating at 25% per annum and demand exceeded supply - the ideal environment existed to encourage speculating with property.

Unfortunately, even then, many property speculators got the timing wrong. Successfully speculating with property requires superb timing, high capital growth rates, a market in which demand exceeds supply, as well as the financial capacity to carry the costs of a property while a buyer is found. In the absence of all these factors, speculating with property is dangerous. This is because property is an illiquid asset, which means it can take months to sell, particularly given the strict lending criteria imposed by the banks on buyers and the current muted capital growth rates. While concluding a sale, the investor must carry the costs of the property.

A superior strategy of investment in direct property is focussing on income generation, which allows investors to circumvent all the potential pitfalls associated with speculating with property, while still benefitting from the advantages. When you focus on the income-generating potential of a property, you are inevitably basing your decision on the factors that will also ensure good capital growth over time and ensure the property can be sold for a fair price in future should the need arise.

These factors include the location and the amenities in the area, the rental demand for the specific type of property in the area, the condition of the building and the ongoing costs, among others. These factors are not considered with a view to sell the property at the first opportunity, but rather to gauge its potential to generate an ongoing rental income, now and well into the future. The capital growth produced by the property is secondary, because the intention is not to sell, but rather to create an annuity income - which keeps pace with inflation as the rental increases year after year - from the property for life - and beyond, if the property is acquired in the right structure, such as a trust.

"This strategy - acquiring property as an income-producing asset - reframes a direct investment in property in a new way: it is essentially acquiring a goose (the property) that lays the golden eggs (the ongoing, inflation-linked monthly income or rental earned by the property month after month), while also increasing in value year after year (the capital growth)," says Dr Koos du Toit, CEO of P3 Investment Group.

"Speculating with property is buying a goose and selling it at a higher price, without benefiting from the constant stream of golden eggs. Investing for income is buying the best goose (property) you can find, and managing and maintaining it well, so it keeps laying those golden eggs (monthly rental income) year after year, while also increasing in value (producing capital growth)."

"Since 2003, the P3 Investment Group has helped thousands of ordinary salary-earning South Africans to avoid speculation and rather apply the superior strategy of investing in property to create an annuity income for life," concludes Dr du Toit. "In our experience, a direct investment in a buy-to-let property is undoubtedly one of the best ways to create an ongoing, inflation-linked monthly income for life, while also enjoying steady capital growth year after year, without the high risk of speculating."