Diversifying Your Property Portfolio

Given the volatility of the economy there is much to be said for the benefit of investing in property. The property market is usually more stable, has lower risks, and gives the investor the benefit of capital growth as well as a rental return. In addition to this, in many cases the investor can make use of finance to acquire the asset, whilst benefitting from the return on the entire asset.

If property is your investment choice, then what sort of property should you invest in? And how do you mitigate potential risks?

They key is to diversify. There are a few key elements to consider when it comes to property diversification.

The first is location. When you invest in more than one location you reduce the risks associated with a location losing popularity, or being impacted by factors beyond your control. Select locations with a consistently growing and stable demand.

For example, the buy to let market is strong in university suburbs where you are guaranteed a stable rental demand. The same applies to areas around travel nodes, such as the Gautrain stations, and areas serviced by other public transport networks.

Somerset West, for example, is in hot demand and has been for decades. We've experienced strong capital growth in the order of 10-12% per annum for the past few years, and rental escalation of the same order.

Look at historical information to determine which areas have weathered recessionary conditions best. These locations will represent the lowest risk to you and give you consistently good returns with in capital and rental growth over time.

A second factor to consider is price point. Investing in two investment properties of R1 250 000 may be better than one property at R2 500 000. You create flexibility in that you are able to sell one of the investments whilst retaining the other. You also mitigate the risks of a tenant not paying. One caution though, be aware that when you invest in certain lower income properties the capital growth may be significantly lower, even if your rental return is high.

Research both the capital growth and rental return rates to determine which price points you should be investing in.

A third factor to consider is the property type. It's prudent to avoid investing in only one segment of the market. If your property portfolio includes properties that appeal to families, young couples, and students then you cover all the bases. We see an increasing demand for properties in secure estates, and these general tend to experience stronger capital growth due to the demand.

Finally, consider including commercial property in addition to residential property. In locations where many entrepreneurs and professionals are relocating their families there is often a growing demand for commercial properties in neighbouring suburbs to accommodate their businesses.

For many investors, a good commercial property may be beyond their financial reach. If, however, you have the means, then consider commercial property with strong tenants and a good net rental return.

Commercial property usually requires a greater capital investment and is more susceptible to economic pressures. However, adding commercial property to your portfolio is an excellent way to diversify, and mitigate risk.

In most cases with property, it's best to view it as a medium to long-term investment. If you diversify you will have the ability to move quickly and adjust your investment strategy should any one segment of the market require you to do so.

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