Property investment: Is it a retirement savings life raft, or a sinking ship?

In light of the uncertain and volatile nature of investment markets, many individuals are seeking to enhance their retirement savings beyond employee pension funds or retirement annuities.

Source: Samukelo Zwale, head of product, FNB wealth and investment.

Property, if approached with caution, can serve as a valuable asset in a retirement investment plan, and many individuals with retirement savings plans in place appear to be utilising property as a way of diversifying their investments and balancing the volatility that often characterises equity investments.

This trend was evidenced in the recent FNB Retirement Insights survey, in which 17% of survey respondents below age 60 use property as a retirement savings vehicle and 11% of survey respondents above age 60 have property as an asset class in their retirement portfolio.

While most respondents who include property in their retirement plans are in the emerging affluent, affluent, and high-net-worth categories, there was a healthy representation of property in lower-income pre-60 respondents like Entry Banking (11%), and Middle Income (21%).

Given that the proportion of respondents who use property as a pre-retirement savings vehicle is higher than that of those who use direct share investments (across all income categories), the popularity of property as a retirement savings vehicle is clear.

According to Samukelo Zwane, head of product development at FNB Wealth and Investments, while there is an affinity for property in a significant proportion of pre-retiree investment portfolios, the question on the lips of many of these individuals – particularly given the current high interest rates - is whether property does indeed make for a good retirement investment.

"Unfortunately, there's no one-size-fits-all answer," Zwane responds. "The decision to invest in property for retirement hinges on individual circumstances and income needs after retirement."

Zwane emphasizes the importance of diversification across various investment types and assets in retirement planning. Property undoubtedly holds value as an asset class for many individuals. However, he underscores the need for caution and a clear understanding of the financial implications of retirement.

Navigating the allure of property ownership

"Owning physical, tangible assets appeals to many as they feel a direct and personal sense of ownership, which also gives them more of a sense of control over their investment," Zwane explains, "and that has made many see property portfolios or investments as a type of life raft, meaning that if the rest of the plan or investment portfolio does not work out, they have physical stores of value on which to fall back."

But, he cautions against allowing property ownership to lull you into a false sense of investment security. "Buying a physical property, like a residence or a commercial building, can be a good investment if market prices continue to rise," he says, "and if that's the case, the property could be sold for a handsome profit down the line or rented out to achieve a steady rental income in retirement."

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However, he points out that there's always a chance that property markets don't rise like you had hoped they would or that prices are depressed just when you want to sell. He also points to the often-significant costs involved in buying and owning a property, including transfer duties, rates, levies, and ongoing maintenance, not to mention that the sale of an investment property triggers capital gains tax.

"All these same considerations, and more, apply to a property you buy to rent out," Zwane says, "like the possibility that your tenant may default or that you are unable to rent it out for a prolonged period, which would mean you don't earn any income from it for that time period.

"Or, if it's a commercial property, even a decline in the industry in which your tenant operates could have a negative knock-on effect on your rent payments. All of which could spell disaster if that rent is a large part of your retirement income."

A balanced approach

Despite these risks, however, Zwane is positive about the potential for property to add value to a retirement investment, provided it isn't the only income generator but forms part of a wider selection of retirement assets, including a pension or retirement annuity.

He also advises those who don't want to have to deal with the time and financial costs of being a landlord to consider other forms of property investment, like listed properties or fractional investments.

"These forms of investment allow you to benefit from the capital growth of a portfolio of properties without ever having to physically own any of them," he explains, "and because many pay regular dividends, a large enough investment could generate an income over time – however, that may fluctuate depending on the performance of the properties and the markets."

"In conclusion, diversifying assets is key to successful retirement investing," Zwane says, "and including property as part of your investment portfolio can be a shrewd approach. However, the net position is always more important than being sentimental about property, so investors need to compare the eventual total returns from various investment types, including property, before making a decision on whether or not a property portfolio makes sense for them and their long-term needs."