Why investing in real estate is one of the best ways to build wealth

Investing in real estate is one of the best ways to accumulate wealth, according to Arnold Maritz, co-principal for Lew Geffen Sotheby's International Realty in Cape Town's Southern Suburbs and False Bay. One of the key reasons is historically, real estate has been less volatile than the stock market, especially through tougher economic times.

Source: Supplied

“And, given the diversity of available choices, property investment is an option for investors on all rungs of the financial ladder, not only high net worth individuals.

“It’s also relatively easy to get started and you don’t have to do it all at once; you can slowly build up a substantial portfolio or establish a healthy passive income.”

Maritz shares the main advantages of real estate investment:

Cash flow: Unlike many other investments, real estate has the ability to generate cash flow, either in the form of profit once you’ve paid off your mortgage or as rental income, whether from an income-producing flatlet on your primary residence or from separate properties. Cash flow from real estate is also far more stable and predictable than most other businesses.

Ability to appreciate: Generally, the value of properties appreciates with time which means that the longer you've owned a property, the more it will be worth, making it the ideal nest egg.

Tax concessions: As a real estate operator, you're able to deduct items such as interest and maintenance over time as business write-offs.

It gives you leverage: By consistently servicing the mortgage, you have the opportunity to tap the equity that you have built up and if you own multiple properties or buildings with several units under one roof, you have the option to cash out at any time.

Loan pay-down: When you buy a property with a mortgage in order to rent it out, your tenant is paying at least part of the monthly bond repayment, which means your property is essentially a savings account which grows automatically without you investing very much more – if anything at all.

Hedge against inflation: When inflation increases, so does your rental income and often your property value as well. In other words, when the cost of living goes up, so does your cash flow.

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Maritz explains the most common investment methods, some of which are best for passive income, others for long-term growth or a hedge against inflation:

Long-term home ownership

The simplest way to invest and secure your retirement nest egg is to buy a house, make it a home and stay put.

As long as you do your homework and buy the right property in a sought-after or up-and-coming area, you can't go wrong with good, old-fashioned home ownership.

You can also slowly add value through smart upgrades over the years, doing so as and when you have spare cash so the outlay is never a burden.

Live in, rent out

If you're looking to buy a home of your own, but can't afford the mortgage in the area you like or on the type of home you want, a good option is to buy a property that offers dual living with a cottage, flatlet or section you can convert into a separate dwelling.

This way, the rental income can supplement the bond repayment and enable you to live in a home that will yield higher returns when the time comes to sell without too much sacrifice in the meantime.

Rental properties

Savvy investors who multiply their wealth this way buy properties that will not only appreciate significantly over time, but will also generate enough cash flow to cover the mortgage and possibly also the related expenses. Rental properties include residential real estate, commercial, retail and industrial properties.

House flipping

This is essentially the process of buying a property, fixing it up and forcing appreciation through renovations and upgrades, and then selling it for more than your purchase price. It's essential to do your homework and buy the right kind of property in the right area.

Fractional real estate

Exactly the same as any other income-producing real estate, except with this type of investment, you are buying a portion or percentage of a property with the cost of the property as well as the profits being split between multiple shareholders.

Buy into a REIT

Real estate investment trusts (REITs) are an even more straightforward way to pool your resources with other investors and an easy way to get started in real estate without a large cash investment.

Much like stocks, REITs allow you to purchase shares in a company that operates or finances income-producing real estate and pays you in dividends. You can even spread your investments out across several companies with REIT ETFs.

Invest in a private equity fund

This entails trading your capital for an equity position in a company formed to develop, operate, or manage a single-asset property or portfolio of commercial properties, including projects across the development life cycle.

"Although it's certainly easier to invest more and to access better-quality investments when you have a bigger budget to spend, real estate offers everyone the opportunity to get started relatively easily and to build up substantial passive income slowly and progressively," concludes Maritz.