Property investment - to sell or not to sell

Every investor will at some point be confronted with making a decision on whether or not to sell a long-term asset such as a property, says Praven Subbramoney, CEO of Private Bank Lending at FNB. This can sometimes be a challenging decision for an investor, more so for a novice investor, amid tough economic times.

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"Knowing when to sell or hold your investment property is, therefore, essential when building a portfolio," he says.

"Due to the long-term nature of the property investment journey, the general guideline is that property should at least be held for five to ten years to allow the investor enough time to study market conditions and further assess the viability of their portfolio," he adds.

Subbramoney unpacks some of the reasons why investors end up selling their properties:

- **Exit strategy** – some investors venture into property having already developed an exit plan, which consists of selling their property portfolio and using the funds for alternative business interests.
- **Recycling equity** – this involves selling a property and using the equity to buy a better performing one. When going for this strategy, it is essential to take into account the costs involved in selling and acquiring a new property and whether the returns will be better in the long-term.
- **Poor performance** – if a property fails to provide good rental yield and capital returns for at least five to 10 years, it may be considered to be performing poorly and eventually sold.
- **Diversification** – property investors may sell some of their properties to unlock capital and diversify their financial risk into another asset class, such as listed equities, bonds or cash investments.
- **Deteriorating neighbourhood** – selling property due to unfavourable changes in the neighbourhood is common for inexperienced investors who did not conduct proper research when acquiring the property. This could also have been the investor's former place of residence, which they decided to rent out after moving out.
- **Life changing events** – major life changing events like getting married, having children, divorce or an empty nest may lead investors to sell their properties and seek a new direction in life.
- **Market timing** – new investors who do not adequately understand how the property cycle works may be tempted to sell when market conditions seem unfavourable. In addition, investors could take advantage of the recent repo rate cuts by fixing their rates as opposed to offloading their investment property altogether.

“The benefit of a fixed rate is that a client will know exactly what their repayment amount will be for the term of the fixed rate, providing peace of mind and an ability for clients to have more control over managing their money. It is not advisable for clients to try and time the cycle because no-one knows for sure what that will look like going forward,” adds Subbramoney.

In cases where home owners are hard-pressed towards selling their investment properties due to financial strain, voluntary selling options such as the Quick Sell process exist to help relieve them, says Subbramoney: “Listing one’s properties ensures that they are seen by the bank’s pre-selected clients who are in the market for properties similar to what the client has listed.

"There are many circumstances and underlying factors that may lead you to consider selling or holding your investment property. The decision should ultimately be based on your current circumstances, investment strategy and what you aim to achieve,” he concludes.