A game of risk

Property or equity – which is the better investment? It's a debate that has raged for years. ***Katherine Graham*** *considers the pros and cons of each.*

picture: alan cleaver

AT FAMILY dinner parties, there is one topic we all try to avoid (apart from politics, religion and opera, of course). My uncle, an architect, is convinced that property offers better returns than the stock market. And with good reason – he has made some shrewd investments over the years, like buying property in Llundadno before it became Millionaires' Mile.

My father, a financial advisor, disagrees. You could have made the same returns by investing in blue-chip shares, he argues. If you ever get the two of them started, that is sure to be the sole topic of discussion for the rest of the evening.

So who is right? Experts will tell you that it comes down to the individual investor. 'It all depends on your age, circumstances, risk appetite, investment horizon and, ultimately, your investment goals,' says John Field, CEO of FedGroup. In a nutshell, if you're conservative, opt for property; if you can handle risk, go for shares.

Prim and property

'Property is a great hedge against inflation,' says Bradley Stephens of Aucor Property, meaning it's a good option for those looking to provide an income for themselves in their retirement. Secondly, it's a lot more stable than the stock market – there are fewer sudden ups and downs.

Another plus: 'It is relatively easy to gear the purchase of a property using a bank mortgage and make the loan repayments from rentals,' as property doyen Lew Geffen points out. This means you need to part with very little of your own money to invest.

But beware: property is maintenance intensive. Think about burst geysers, wild parties or, worse, tenants who refuse to pay. And it's all very well letting rentals pay for bond repayments, but what if interest rates rise spectacularly, as they did in 1998?

Another downer is lack of liquidity. 'Directly owned property is very illiquid, so needing to raise cash urgently in times of crisis could mean that it is sold at a significant loss,' warns Rob Spanjaard of REZCO Asset Management.

All things being equitable

If you look at the past 40 years, shares beat property hands down (so Dad was right). This is despite all the wobbles of the dot-com bubble bursting, September 11 and the recent US sub-mortgage crisis. But investors need to brace themselves for some turbulence and they need to invest for at least five years – preferably 10 or more.

The dividend income you receive from shares is tax free, a boon if you're a pensioner. And, of course, if you need the cash badly you can sell stocks in a proverbial New York minute.

The sage advice, of course, is that you should diversify your portfolio. The old rule of thumb is one third in equity, property and cash respectively. 'Asset allocation and diversification are key to achieving good inflation-beating returns, as well as reducing investment risk and volatility,' says Debbie Netto Jonker of Netto Invest.

And if you'd rather not fix the geyser at midnight, you can always invest in listed property, which offers good returns and requires less active participation.