INVESTOR'S GUIDE

A guide to the financial markets, investments and the economy

3 May 2019

NICO Asset Managers

"INVEST today for tomorrow "

Topic 309: Why Invest in the Property Market

Last week we started looking at investments in property. We discussed a few of the advantages of investing in property. This week we will look at the risks associated with investing in property.

Risks of Investing in Property

There are many risks associated with investing in property. A few of the risks are as follows:

Bad Location: Certain locations might seem to be good a choice for investment because they have lower prices**.** The valuation of property is highly affected by its location. Factors such as demand and supply driven by population growth, proximity to town and security of the surrounding can add or reduce the value of a property and the income in form of rentals that the property can fetch. For example it would be hard to find tenants to occupy a house located in Lunzu (Blantyre) than it would be to find a tenant in Chilomoni because of the proximity of the places to town.

Investing in locations that have relatively higher crime rate can cause unforeseeable losses to the investors. When investing in areas with high crime rate the property faces the risk of getting vandalized or robbed, which would lead to unexpected expenses and high repair costs, not to mention the complications of the legal matters as a result of these acts.

Vacancy risks: Buying an investment property does not automatically guarantee 100% occupancy and quick profits. There is always a risk of high vacancy, which is a major risk to real estate investor's rental income, as it can yield negative cash flow. Since tenants are the source of rental income in real estate investing, vacancy is the largest risk for real estate investors who rely on rental income to pay off their mortgage, insurance, property taxes and other expenses.

Lack of Liquidity: Liquidity refers to the ease with which you can turn your investment into cash by selling**.** One risk of real estate investing is that investment properties are illiquid, meaning you cannot easily convert them into cash. Selling a property is neither a quick nor a simple process, it is very costly and time consuming and selling quickly or under pressure will most likely result in taking a loss on your investment**.**

Debt: Investors often do not have the cash to pay outright for a property. Instead they typically take out loans. If the property was purchased with the aim of reselling and it does not sell, you are stuck with paying the debt until the property does sell. If you invest in rental property, it would be a great detriment if the tenant stopped paying rent and you must go through the courts to remove the tenant. You would not only be stuck making payment on the debt, but more costs would be created by hiring an attorney to remove the tenant.

Additional expenses: Rental property requires upkeep. Owners of rental property are responsible for timely repairs which could result in major expenses. Replacing ventilation, air conditioning, roofs or any other major endeavor can be quite costly. If repairs are not performed within a reasonable time frame the property dilapidates and losses value.

Natural Disasters: When natural disasters strike property is affected. Property can be lost due to flooding, earthquakes and heavy storms. These losses can incur heavy refurbishment costs.

Head Office
19 Glyn Jones Road
Chibisa House
P.O. Box 3173
Blantyre
Tel No: 01 832 085/086 Fax: 01 821 617

Lilongwe Branch
Corner Kenyatta Drive
NICO Centre
P. O Box 30729
Lilongwe 3
Tel no: 01 757 086 Fax: 01 751 617

invest@nicoassetmanagers.com | www.nicoassetmanagers.com

INVESTMENT MANAGEMENT | CORPORATE FINANCE | INVESTOR SERVICES