


THE Suite LIFE

ALL YOU NEED TO KNOW ABOUT
SECTIONAL TITLE HOTEL SUITE
INVESTMENTS.

Text: Solomon Brothers
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With the rapid growth of the South African tourism market over the last few years, hotel suite investments are fast becoming one of the most popular ways for South Africans to invest in the property market.





However, this is a relatively new concept in South Africa and a lot of people do not yet have a full understanding of this type of property investment. As director of Solomon Brothers Property Holdings, Jeffrey Solomon answers some pressing questions here.

1. What is a hotel suite investment?

A hotel suite investment is a direct property investment that enables investors to purchase a suite in a hotel development in terms of the sectional title act, just as they would any other sectional title apartment. The unit is then contracted to the hotel and forms part of what is known as a rental pool, where the revenue of the hotel is distributed to the individual rental pool participants.

2. Is a hotel suite investment the same as property syndication?

Investing in a hotel suite investment is not at all the same as investing in a property syndicate. In a property syndicate, investors collectively buy into a single property and own an individual share in that property. As such they do not hold a title to their property in their own names. This investment is generally not capable of being financed by a bank and is therefore an inefficient form of investment.

Property syndications are unlisted investment schemes and can be structured in various ways with several cost layers. They are not subject to the rules and regulations of a formal exchange and as such there is often scope for the creators of those schemes to manipulate property values and investors.

3. Does a hotel suite investment present liquidity problems?

The returns generated from hotel suite investments should more than cover the investors finance charges. As such, the revenue should not experience any liquidity problems at all.

In addition, the sale of this investment should be quicker than a regular sectional title apartment, as it has a regular income stream attached to it.

Nevertheless, it is recommended that a direct property investment forms a part of investors overall investment portfolios, which should include some liquid assets in case they need access to cash in a hurry.

4. What about the lack of diversification of investing in just one property as opposed to the stock market?

I believe that rather than being a drawback, an investment in a sectional title hotel suite can be an advantage, as it provides you with a far greater degree of control over the selection of your asset than what

method of property ownership in South Africa.

5. What guarantees do developers typically offer on these investments?

Investors in hotel apartment investments sometimes have the option to select a guaranteed return for a limited period of time. While it is true that the guarantee is only as good as the company that issues it, the same can be said of any investment product with some form of revenue.

The reality is that even if there were a corporate failure, owners of units in hotel suite investments would retain ownership of their investment. They would be free to occupy the suite themselves or rent it to a tenant.

Furthermore, hotel suites would come

particular occupancy level of your unit.

Occupancy rates for five-star hotels in Cape Town were in the region of 72 - 76% for the first four months of 2009. While this was down about 15% compared to the same period last year, with several international sporting and cultural events taking place in the city over the next two years, including the FIFA World Cup™ in 2010, these rates are set to improve as the city's exposure to a broader international market opens up.

7. Why is this type of investment better than one in listed property?

There are a number of disadvantages to investing in listed property. You have no say in the appointment of the management company or the portfolio manager and very little recourse should they turn out to be doing a poor job and destroying value. You can also be sure that because there are several layers of fees being generated by these property "professionals", the actual returns you receive are far less than what may be actually generated. In fact, there are some property management companies that deliberately trade properties among their own portfolios with the sole intention of generating fees - all at the expense of investors.

In a hotel suite investment the underlying value of your unit lies in direct ownership which has intrinsic value in terms of own occupation or tenants occupation.

8. Are there any tax benefits to investing in a hotel apartment?

Before investing in property, I recommend that you do your homework and understand the investment into which you will be buying.

It is also important to understand the tax implications of your investment and how these affect your nett returns.

For example, an investment in Pepper Club has some very beneficial Income Tax allowances which can be utilised to reduce an investor's tax liability on income from the hotel suite investment itself or income from any other source.

In an effort to improve the ability of South Africans to acquire homes, the then Minister of Finance, Trevor Manuel,

is possible through listed property or a property syndicate.

Firstly you have exposure to South African tourism which has huge growth potential as well as the benefit of professional management and marketing of your unit as part of the hotel.

Furthermore, a sectional title ownership is a safe, well-regulated and tried and tested

with complete fitted kitchens that will in effect enable the unit to be utilised as a permanent residence.

6. How can I be sure my unit will be occupied?

As the unit is part of a rental pool, the total hotel revenue is pooled and shared between all the investors. As such, your revenue does not depend at all on the



introduced a tax incentive in 2003 to promote urban development in specified areas of certain South African cities, including Cape Town. The Pepper Club development falls within a designated Urban Development Zone (UDZ), providing investors with benefits from a tax incentive of 55% on the purchase price of units. The tax incentive helps to reduce the taxable income of the investor. The incentive is not limited to the taxpayer's current year's taxable income. If not fully utilised in any tax year it can be carried forward as an accumulated tax loss until fully absorbed. In addition, the incentive is not "ring-fenced" - so it can be offset against any other taxable earnings.

The investor can also deduct 20% of the cost of the furniture in his unit, each year for five years, from his taxable income. The investor can also deduct an interest payable on funds borrowed to finance his investment.

For more information about hotel apartment schemes and how to invest in these, contact Jeffrey Solomon 021 438 8888. 



Solomon Brothers Property Holdings has a 44-year track record as one of the leading property developers in South Africa. Some of the projects completed include: the Promenade shopping centre in Camps Bay, The Four Seasons luxury apartment building, The Square (a Tuscan style apartment and shopping complex) and the Pinnacle (a multi storied office building in Cape Town's CBD). Their latest development is Pepper Club - a R400 million five star luxury hotel and spa set to open its doors in Cape Town in February 2010.

Solomon Brothers employs recognised independent professionals with regard to all property developments while being fully integrated property developers, investors and administrators with an in-house experienced team, which includes architects, quantity surveyors, accountants and tax professionals. Visit www.solomonholdings.com for more information.