

Decanting the outlook

JOE Public must be confused. Each day bank economists and other self-styled experts like estate agents add their two cents to the swirling and low-quality media debate on what will happen to the love affair with SA property now that growth rates are cooling. The cacophony is getting louder with each fresh economic indicator that points, with certainty, to higher rates.

But whose viewpoint can you believe — estate agents who don't even need to be able to read to be licensed to sell property and who know that a mass culling of their numbers must be imminent? Or the myriad official banking metrics put together by overpaid economists who have a vested interest in making things look rosier to flog you another home loan? What about the independent property consultants who only sell lots of copies of their research if they're laced with grave warnings?

In the past two weeks alone, one bank has said growth has all but come to a standstill, while others report a still-robust year-on-year growth rate just north of 13%. One banking group says growth will only be in line with inflation next year and possibly less, while another is cheerfully predicting that South African house price growth over the next five years will come in at a whopping 80%.

Some fund managers — feeling fluffed by investors ignoring equities for so long — say the property super cycle is over, while conveniently ignoring the fact that their fund returns clearly show that their crystal balls need some vigorous polishing.

At least the banks and fund managers just might be able to point to some financial models for justification of their views, while



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others get their views from fluffy public relations consultants that have little understanding of economic reality.

Example: a report this week from a Cape-based estate agency that says (quoting yet another report) prices in Cape Town's city bowl have risen nearly 30% in the past year. If you own property or chat to any estate agent trying to make a living there, you will know this is a thinly veiled attempt to appear bullish in the face of a static market.

So despite the cant from all sides, who should people believe? It seems that there is a whole lot of fear that property is suddenly not such a hot investment, but it really is.

Property is the best-performing asset class in SA over the past 20 years and is a much

better bet than giving your money to a fund manager or buying some sexy, yet fee-laden, savings product that leaves you feeling sad and angry at maturity.

Most people who've sat on properties for many years have never felt those emotions. In fact, if you hadn't been in the property market over the past 10 years, you would be massively poorer for it. People who are in property have made life-altering returns.

What the debate fails to mention is that investment in property forces people to make a large, leveraged investment. So even if property has a slow period and only delivers a 10% return (as is expected by yet another expert next year) the absolute return on a home of say R1m would be R100 000 with almost nothing down. Besides, you have to live somewhere and incur that cost anyway. You would have to have a lot of cash floating around to earn R100 000 on your share portfolio. If you have a private banker you could invest in a share portfolio, but most South Africans don't have that facility.

Another thing people overlook is that it is precisely when things appear gloomy that the best investment opportunities appear. In 1999, I don't recall the media being laden with stories of experts urging people to buy because a boom was imminent. And just before the property market embarked on an unprecedented wealth-creating surge.

No one really knows what will happen and when, but to shy away from a property because of a quiet year or two is shortsighted. People shouldn't avoid bricks and mortar, but should buy a second property for their pensions. Pension-fund payouts abroad are plummeting due to poorer returns on stock markets, and that pain will be felt here too.