



Asset Rich and Cash Flow Poor?

Wow – How is this market? I can officially say that this is my second time through one seriously negative property market cycle. We are in for a ride.

Many of our clients do not know how much their properties are actually worth! Take for instance the fact that the average house one-year ago in Bez Valley was going for R542 000. (A bonus is that many of ours are semi detached, so basically two houses on one stand) Interest rates go up 4,5 per cent and now the average price is R718 000. To put this in perspective, in the same period Investec shares have halved in value.

Many are talking about a correction and reduced prices. Just know that this comes down to the age-old error of basketing property. We just had a client who bought a property that had a R2,5 million bond for R1,45 million - Now there's a correction for you!

What I've noticed is that in the areas we have bought in for the last ten years, based on high rental values, below replacement cost purchase prices and high occupancy demand (basically fundamentals). There is still demand! I'm sorry to say this but if you gonna wait for the bubble to burst - See you in 40 years.

There are a few reasons why the sub R1 million mark is cooking - Yes cooking - Right now! Remember fundamentals - Property is a roof over your head. With the interest rates hurting everyone, what happens? Downgrading, move to rentals and move to cut transport costs.

Now can everyone who used to live in homes from R1 mil to R4 mil downgrade any further than a R700 000 home 20 minutes from work? No - You struggle to get cheaper houses. So for every one buyer or tenant you had, you've now got two in this market. (But the speculators are gone - And they're the loudest so no one knows what's really happening!)

I have seen that when some of our clients sell their properties, they are getting good value and not having to take them off the market because of lack of offers. However, when buying, the differential can be big. What I mean by that is that two years ago if a property was in a bad state and the seller was keen to offload we could get it at a 10 % discount (Maybe 60% of replacement cost). Right now we are getting it at a 35 % discount - Why? Because the speculators and renovators-to-sell are gone. But if you have bought in a good demand vs. supply area, there are people looking to buy good houses. My point is that the amateur - I am an investment guru today but yesterday I was something else - type of easy money is gone. The value concept is alive and well. So I don't recommend any 45m2 units for R700k, but anything bought with fundamentals - you can't go wrong!

Restructuring my portfolio and having sold a flat in Durban, that I bought five years ago and which I was getting R2400 per month for, I calculated that the new buyer is going to pay about R6500 per month. (Note the flat is not in Umhlanga !) That's actually allot of money monthly to live in downtown Durban.

People are making money out there and Ian Fife always refers to our long-term recovery from isolation. This involves a re-mapping of our views and lack of respect for property we all received from Apartheid. This is actually illustrated best by the FM article last week. Do you know that our property ownership as a percentage of population is just above 10 % whereas in Australia it is 50 %. Do you

know that of the properties bought by the black population since 1996, less than 30 per cent have bonds?

So the market numbers are increasing between R500 thousand and R1 million because of the upliftment in our country (Yes not 100% yet) but still working at it. (Last week's press show Mr Price 15% increase in profits for focusing on this segment - This is a key fact that supports my argument)

The second reason is the downgrading of the over-spenders.

The third is that the banks are starting to push for deposits over R800k - Another reason to spike demand below this threshold.

I can hear all of you say - No way - I'll wait for another 2 % rate hike. But there's the next catch - It's the law of unintended consequences. When Capital Gains Tax was announced in 2000 everyone started selling their investment properties, what happened? Rentals grew as the stock reduced. Right now we are noticing an increase in rental prices in some areas of 15 % over the last six months. Same effect as CGT - If no-one supplies rental stock RIGHT now - prices move up - Yields grow and push sale prices up - Vicious circle - It's a funny game this but if you're not in the street everywhere you can't see this. None of us can be everywhere.

All the averages people talk about are ex white suburb numbers - That's who read the negative press (including Internet). The pain is for those who bought between R1 and R5 mil. All our averages are incorrect generally, as they don't even take our Townships into account. Compare the REAL numbers of our average house prices to the rest of the world! A good example is Bez Valley again. Five km's from the biggest CBD in Africa and ten km's from the largest airport - World-wide does that type of property go for 48 000 Pounds? No wonder there's very few for sale boards in the suburb.

In terms of the current negativity - Don't forget that all the surveys show an almost perfect correlation between race and their positive and negative views of the country. Remember the middle class black guys are NOT negative - Their mothers all used paraffin lamps - why is a liquid fuel two plate stove going to change their lives? Bottom line, the guys buying for R700k are not emigrating guys - So chill out and watch this space.

In terms of our clientele I worked out that our clients are paying an extra R4000 per month per Million rand of debt. Although this is tax deductible it does reduce cash flow. If that is eating into your lifestyle I would really recommend selling one - After the car downgrade of course. Our average client who has five properties (depending on purchase dates) has much equity in them. To sell one and release R400 000, may make sense sometimes. I know we all buy to hold forever, but with long term, abundance thinking, just know there will always be deals. Based on everyone's personal situations sometimes it is better to release one, put the money in the property account and you probably won't have to worry about your portfolio for the next five years.

If you are waiting for the bubble I hope you qualify for the R1,5 million bonds - that is the R3 million homes now going for R1,5 (as per the deal above) with a stunning rental from a guy who needs a place to stay for a year while he makes cash on the skills shortage. If you don't qualify for that bond don't hold your breath. This games as easy as I have seen it for a while and when things are easy they correct! Actually the current market could well be what the country needs to correct the black-white property ownership distribution. That excites the socks off me!

Remember I am an investor and this is my honest opinion. If I am wrong it will stretch my buying opportunities and I'll make even more money. So don't take it as gospel but spread this newsletter, tell people how terrible things are and if you were them you would also sell, just don't forget to give them our number.

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