# Traditional property investment is dead

By Gary Palmer

19 Dec 2017

The traditional property investment cycle has dramatically changed since the last property boom a decade ago. The days of buying property, benefiting from rental increases and the associated yield compression and then selling off at a profit after five or six years is no longer sustainable. Experts in the field now maintain that the best way to make money on a property investment is with a sound business model behind the property, requiring active participation rather than the traditional passive investment mentality.

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Previously, landlords took an arm's length approach, often pushing for ten-year leases, with little or no value or incentives added. The successful property investments are now often underpinned by a hands-on, managed business model. These include offerings such as short-term office rentals including boardroom and Wi-Fi facilities, storage services, student accommodation, and retirement villages offering managed healthcare facilities.

The move reflects the shift in both lifestyle and business attitudes as younger generations make their influence felt.

## Customer centricity means understanding younger generations

Millennials and Generation Z are making up an increasingly large proportion of our workforce. The personality traits of the different generations are now a hot topic for employers looking to attract and retain younger staff members. In addition, these younger generations are more likely to join the startup economy and, for them, having attractive office and living spaces, which cater to their needs with value-added services included, is highly prized.

In this regard, the demand for co-working office space is understandably growing rapidly. An article by Alex Kopicki, CEO of co-working company Kinglet, puts the growth into perspective: “The number of co-working facilities across the globe has nearly doubled every year for the past five years. Small Business Labs projects that more than 12,000 global co-working spaces will exist by 2018 with over one million members.”

While South Africa is slightly behind international trends, we are gaining momentum. Local entrepreneurs may not want to pay for a monthly rental, but realise the benefit of having a place to engage with their peers, as well as conduct meetings in a professional and serviced space. Regions, like the Western Cape, where there is a high density of independent consultants, and tech startups has seen a significant uptick in demand for co-working and short-term leased space, making this a hot investment area for many.

The move towards short-term leases is also a reflection of how businesses want to engage differently.

## Low risk and everything-as-a-service is the way of the future

The growing move towards digital businesses, rather than traditional, physical offerings is also impacting what customers want from their property offerings.

A good example of this is how insurance has shifted, where customers can customise their insurance exactly as needed. This includes being able to insure laptops and cellphones just for the day if you know you will be in a high-risk area. Even industrial businesses are moving towards the digital economy mindset. Some large building managers are buying their compressed air for air-conditioning by the litre from the manufacturers without carrying any of the capital overheads of owning the machines, or operational hassle of maintenance costs.

This is no different in the storage world. Companies offering hubs where businesses can have office space, storage space and even personal space are taking off. What is more interesting is that they don’t lock people into long-term leases. Month-by-month leases mean people can upscale and downsize, as they need. It also means that by optimising the space into smaller units, with additional services for which customers are willing to pay a premium, property owners can increase their rate per square metre as well as yields.

## Meeting the changing needs of customers

This new construct is entirely based on offering a customer-centric business model, where property owners form a real, working relationship with their tenants and shift and add new services based on the changing needs of their customer.

For property investors, the challenge is to find a finance partner who will not only base their decision on the resale value of the property, but also look at the underlying business case being put forward. In this instance, it becomes vital to work with a lending solutions provider who has the ability to understand the vision and opportunity of the investment as a whole, and which will be able to structure a deal around this. What’s more, by working with an independent lending partner, investors will benefit from the vast network of institutions and other investors who will take a similar view of the deal on the table.

Old-school property investment is not relevant any longer. The new success stories will come from investors who adapt to the needs of the new way of doing business and the needs of the younger generations. This will require a financial partner who understands this and who can help realise that vision.

## ABOUT THE AUTHOR

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