

November 2008

Investment returns from Aengus Property Holdings' inner city residential developments outperform

At the end of a year in which the performance of most asset classes has left investors reeling, owners of properties developed by Aengus Property Holdings and managed by Aengus Property Management are taking home solid – and rising – rental returns.

Richard Rubin, CEO of Aengus Property Holdings, says investors in the suite of inner city apartments managed by the group have bagged net rental returns this year ranging from 10% to 14%.

Rubin contrasts these double-digit yields with depressed rental returns earned in more affluent parts of the country, where, in many cases, over investment has pushed up vacancy rates.

Rising income stream

Vibrant conditions in South Africa's inner city rental market continue to underpin solid property investment returns – and particularly so in tightly managed and well-maintained residential apartments such as those in the Aengus Property Management stable.

"By contrast with property investors elsewhere, who have to dig deep into their pockets to finance the shortfall between rental returns and bond repayments, and unlike equity-market investors, who have lost large chunks of the value of their portfolio over the past year, investors in our properties are taking home a sturdy annuity stream," Rubin says.

In fact, rental escalations of 8% every six months for the apartments managed by the group, ensures that investors are pocketing an income stream that is rising firmly in real terms.

These returns are even more attractive once the effects of the Urban Development Zone (UDZ) tax incentive are factored in. The scheme allows investors to write off up to 30% of the property purchase price against the income of that unit, over a five-year period.

Overwhelming demand for rental accommodation

While Rubin concedes that some tenants may be feeling financial strain, suggested by a recent modest increase in the number of occupants giving notice, the overall demand for the rental properties within his managed portfolio is overwhelming. Aengus Property Management receives more than 2000 applications for accommodation each month, which means that the business can fill each vacated apartment ten times.

Unlike some of the panic selling in parts of South Africa's over-developed residential areas, Rubin says there has been virtually no reselling of the investment properties managed by Aengus Property Management. He ascribes this to buoyant conditions in this part of the property market, as well as the group's business model.

"This model lends itself very well to servicing the investor market, with 100% occupancy rates, no overcrowding, a policy of pursuing head leases with institutions, the provision and maintenance of furnished apartments, and the supply of services such as wireless internet connection in the buildings," Rubin says.

Prospects for appreciation

He is upbeat about the sustainability of the healthy income stream from properties in his beat. A chronic shortage of affordable, high-quality rental accommodation in the inner city, the nearby location of several major employers and the forthcoming opening of the Gautrain, all underpin the value of property in the area – as well as the future growth in rentals.

Rubin is brimming with plans for the release of additional residential apartments in the inner city, saying, "as long as there is an emerging middle class, we will continue developing property to meet its needs".