SWINDLED AND FLAT BROKE!

Property syndications: private investors have lost billions – here's why you should be very cautious

ABOVE: Theo and Hester Leonhardt of Wellington invested millions in a property syndication in the hope it would provide a comfortable retirement income.

AT 60 he was looking forward to the retirement he'd always dreamt of: a relaxed lifestyle in the quiet Boland town of Wellington with a paid-off roof over his head and enough money in the bank to live comfortably.

Mechanical engineer Theo Leonhardt already owned three properties. All he needed was a way to invest his money to ensure a decent monthly income so he and his wife, Hester (58), would be able to enjoy their golden years without financial worries.

Instead, two years later, they've lost the three properties and all their savings. On top of this they're R3 million in debt.

What went wrong? That's the question asked by thousands of South Africans who invested their hard-earned cash with property and other investment syndicates only to be plunged into poverty instead of making the profit they'd hoped for.

Now that Marietjie Prinsloo, mastermind of the Krion pyramid scheme, has been sentenced to an effective 25 years in jail in Pretoria, the spotlight is once again on investment syndicates.

More than R1,5 billion was invested in Krion in less than four years and about 14 000 investors in the Vaal Triangle, Gauteng, lost every cent.

When the King Group collapsed last August the Leonhardts of Wellington were among about 10 000 clients who lost a total of R460 million. All the money has apparently vanished into a bottomless pit of rash property investments.

"You're always reading news stories about pensioners who don't have enough to retire on, which is why we went to King for advice," Theo, now 62, said some time ago, before his health deteriorated.

Among other things they were promised a return of up to 30 per cent a year.

First they had to take out two bonds on their three houses, because a Port Elizabeth property development was promising fat profits.

"We were promised we would be able to repay our loans quickly," Hester says.

They invested R7 million in King Financial Services which, when it ran into trouble at the beginning of last year, began palming off unlisted shares on investors.

The Port Elizabeth properties were sold by auction after the liquidation of King Financial Services and too little was made to cover the Leonhardts' loans.

"My parents have lost all their savings. The advice they received was absolutely absurd," their daughter, Hilde van Rooyen, says.

Theo was recently diagnosed with a brain tumour. "There's no money left for his care," Hilde adds, clearly worried.

Thousands of investors in beleaguered property investment group Sharemax are also waiting anxiously to hear whether they will get their money back now this company is also in trouble.

Despite its situation the company's website trumpets, "Property is a well-performing age old investment. We offer the individual the opportunity to become a co-shareholder in multi-million-rand commercial properties or specialised property developments for R10 000 or more."

It might sound promising but in the past few years many other marketing companies for property syndicates like Sharemax have collapsed. Last year at least seven property syndicates folded and investors lost more than R1 billion, says Magnus Heystek, investment strategist at Brenthurst Wealth Management in Pretoria.

"That's why we encourage our clients to invest only in companies that are listed on the stock exchange," he says.

And he warns the only thing investors are really buying when they invest in property syndicates is the marketers' pretty promises.

WHAT ARE PROPERTY SYNDICATES?

The concept is quite attractive, says Pretoria investment economist Dawie Klopper of PSG Konsult. A small shopping centre can for example turn a decent profit but you can't afford it all on your own so a group of people pool their money. They buy the centre, or develop a property, and later share the rental income. The problem with property syndicates though is marketers and agents have to be hired to bring buyers together.

They are often paid high commission – up to R25 000 for each new buyer, which means the product is made more expensive than it actually is. Syndicates factor marketing costs and expected profit into the price of the property in advance. A building or development worth R1 million for example is wrongly revalued at R1,3 million by the following year. The additional 30 per cent is to pay part of the expected profit – between six and 16 per cent – to the agents. The promoters – the investment company – also get their cut.

Meanwhile the building is still worth only R1 million because property value usually increases only after three years or more unless there's an upswing in the property market. If not the mistakes marketers made, knowingly or not, will come to light.

Promises of returns of more than 10 per cent should make you suspicious, Kruger International economist Ulrich Joubert says.

An old saying that applies especially to property investments is: if it sounds too good to be true it usually is.

Seek advice from a trustworthy financial adviser. Shop around and ask for references or contact the Financial Planning Institute (www.fpi.co.za). A person who gives you risky advice can be sued and your money reclaimed through a civil case.

THINK BEFORE SINKING YOUR CASH IN A SYNDICATE

- Large and reliable investment advice companies seldom market property syndicates to their clients, Heystek says.
- Property syndicates aren't as liquid – offering easy access to your money – as for example listed property funds.
- Listed property companies are frequently examined by analysts, investment advisers and the media. Often not even the property syndicate marketers have access to the company's financial statements. "That's a dangerous situation that can lead to serious malpractices and even fraud," Heystek says.
- In the past year rentals in office buildings, in which many of the syndicates invest, have dropped by 40 per cent because of a glut of office space.
- Investing in only one building or development is risky. "If that building isn't entirely rented out or the area in which it's situated deteriorates investors' future income will definitely be affected. It's less risky to invest in a group of buildings in a liquid and listed format," Heystek adds.
- Property trusts underwritten by listed companies and banks are more reliable.

> 'My parents have lost all their savings. The advice they received was absolutely absurd'

WHAT INVESTORS SHOULD KNOW

All companies and individuals who market property syndicates must comply with certain requirements, says Bulelwa Hewu, assistant director in the office of consumer protection in the department of trade and industry.

"During an investigation conducted by the Consumer Affairs Committee [Cafcom] into the business practices of public property syndicates it was found among other things that crucial and relevant information was being withheld intentionally from consumers by some public property syndication schemes or their agents, and such conduct was found to be unfair and prejudicial to consumers."

This is against the rules of the Financial Advisory and Intermediary Services Act (Fais). Last year the ombud of Financial Service Providers ordered a financial adviser to repay R495 000 plus interest to pensioner Bernard Dudley (71) because he had not been fully informed before he invested money in a property syndicate.

PROMOTERS MUST COMPLY WITH THESE REQUIREMENTS:

- No information may be left out or slanted during advisory sessions.
- Prospective investors must be told property syndication is a long-term investment of at least five years.
- Investors must first find a willing buyer before they'll get their money out of the property syndicate. The marketer must make it clear from the start this is the investor's responsibility.

"It's difficult to get out of a syndication. When the company gets into trouble and you suddenly want to withdraw your money no one wants to take over the shares," Fais ombud Noluntu Bam says.

- Investors must be informed in writing that all funds will be paid into a trust account belonging to a registered property agent, legal practice or certified chartered accountant before it will be used for the purchase or development of a property. Who controls the funds must also be made clear.
- Investors must be told how the syndicate is constituted, who serves on the board, who the auditors, lawyers and valuators are and what they're being paid.
- Investors must receive a report at the end of each financial year.
- Estimates must be based on rental income minus reasonable expected expenses. The value of a syndication is not only the market value of a property but is also determined by the investors' joint share in it.

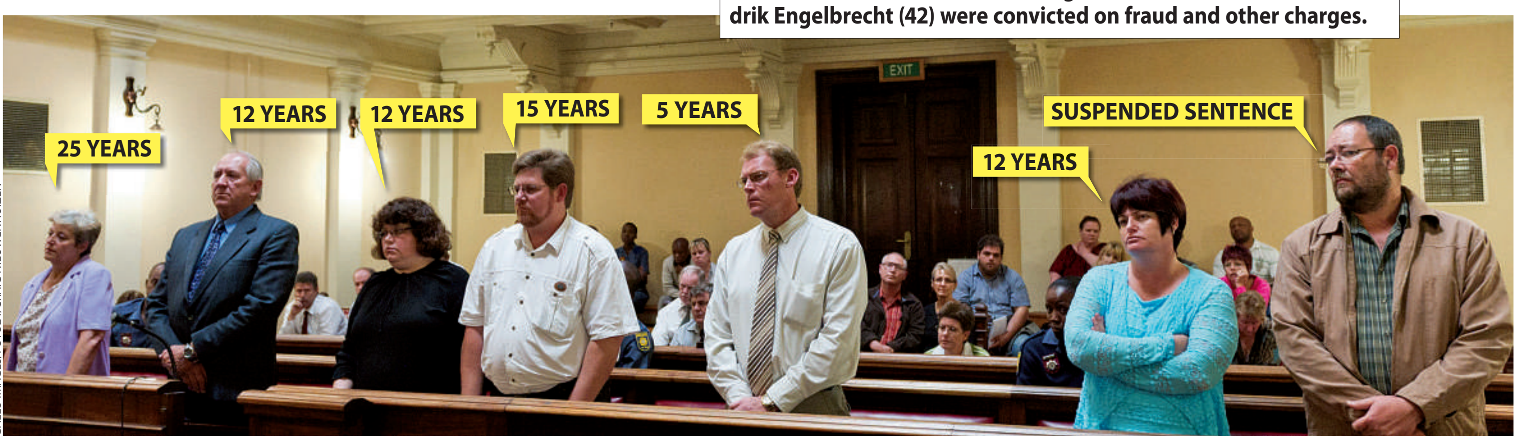
That means the value of a property that could be sold for R3 million increases or decreases depending on how much money investors have invested in the syndicate.

- Brokers must be licensed in order to give advice about shares and investments. Go to the Financial Services Board's website at www.fsb.co.za to enquire whether someone is registered. □

- **If you'd like to contact the Leonhardts, e-mail Hilde van Rooyen at helpingtheo@gmail.com.**

THE KRION FAMILY

FROM LEFT: Mastermind of the Krion pyramid scheme Marietjie Prinsloo (56), her husband, Burt Prinsloo (67), her daughter and son-in-law, Yolande (38) and Gerrit Lemstra (41), her son Cobus Pelser (33) and her niece Izabel Engelbrecht (40) and husband Hendrik Engelbrecht (42) were convicted on fraud and other charges.



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