

# Farrell's view... 2008. What now?

In this regular feature, Dominic gives his forthright opinions on the news and issues of the day.

“When it comes to the future, there are three kinds of people: those who let it happen, those who make it happen, and those who wonder what happened.”

John M. Richardson, Jr

I have to confess to being very excited about the prospects for property investing in 2008, particularly in highly targeted overseas markets which are at different stages in the property market cycle to the UK and Ireland. The world is your oyster but, as with any investment, selection at the macro level as well as the micro level is the key success factor. In my book, *The Jet-to-Let Bible*, I call it the top-down approach to property investment, where you begin by looking at a country and then, through an analysis of economic factors, target a city, locality and then a postcode. We are essentially looking for strong macroeconomic factors such as low real interest rates, low inflation, high employment and solid economic growth.

Combine this with a robust legal system and liberal financial services and the ingredients are there to support a strong and sustainable property market.

Furthermore, an inelastic (i.e. limited) supply of property in your chosen location is an important support to prices. Examples of inelastic supply are properties around a marina, in prime city centre locations, in a national park or in a high-prestige scheme such as my development at *The Grove Spa Resort*.

On the other side of the supply and demand equation, you should look for increasing demand caused by factors such as the easyJet (or other no-frills airline) effect, the lifting of visa restrictions and special national events (e.g. Olympic Games or the FIFA World Cup). Lower costs of borrowing or easier access to finance can also drive prices and rents upwards. Further multiplier effects to look out for include increases in:

- Consumption (consumer spending)
- Investment (including Foreign Direct Investment (FDI) and internal)
- Government expenditure
- Net exports

All of these factors lead to greater wealth in the economy, which in turn has a further positive effect on property markets. Following the money is a good rule of thumb in property investing.

For more detail on how to assess property market opportunities, I would recommend you read the relevant chapters in *The Jet-to-Let Bible*. It provides a useful guide when making and reviewing your property investment strategy for 2008 and provides a framework and checklist with which to make profitable decisions.

## Credit Crunch and Property Clubs

I have written much about the credit crunch over the past few months in my weekly newsletter.\*

The squeeze on credit has created a shake-out of both suppliers and buyers, which will have a longer-term positive impact for the property industry as the more amateur companies and investors leave the market.

Ridiculous income multiples for mortgages, 'gifted deposits', and other spurious lending practices have added to the property market hype, particularly in the US, UK and Ireland. Additionally, property clubs and companies selling UK off-plan properties to investors based on the argument that "capital growth is the key so don't worry about the rent" will have some explaining to do. Positive cashflow property investing significantly reduces risk because the property will pay for itself regardless of market conditions, your own employment status or other financial commitments. Should you wish to take on negative cashflow property for a particular reason, then as long as your overall portfolio is managed on a positive cashflow basis, go ahead. But this approach is for the experienced

“Risk comes from not knowing what you're doing”

Warren Buffett

investor with equity and cash. Novice investors, who I believe represent a sizeable percentage of the UK city centre off-plan buyers, are going to have problems over the next few years with negative equity combined with negative cashflow. This doomsday scenario is one that many novice investors are now facing. Adding to their woes is the massive oversupply of new-build property in cities such as Leeds and Manchester, where the demand for property at present prices, either for sale or rent, is less than the prevailing supply.

This is not property investing. This is business suicide, and it is the experienced property investor who will

be the beneficiary of the amateurs' folly. As those who followed the wisdom of the Enid Blyton School of Property Investment will find to their cost, those who know what they are doing are waiting in the wings and preparing to ambush them as they try to exit the market. My advice is simple, try 'Noddy' in the 3.30pm at Kempton Park next time – the odds of making a profit are much better and the losses are finite.

## Portfolio Building and Diversification

Property investors who hold negative cashflow properties within a positive cashflow portfolio clearly have less risk than those who don't. Furthermore, it

is also true to say that the greatest risk is borne by the investor with only one property. Within a portfolio void periods and mishaps can be absorbed.

Portfolio building and broadening your horizons can offset market risk, especially given the current uncertainties in the US, UK and Irish markets. Let me start by defining what I believe a portfolio approach means.

Investment properties should be chosen on the basis of how they interact with one another rather than how they perform individually. An optimal combination would secure for the property investor the highest



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possible return for a given level of risk or the least possible risk for a given level of return.

I subscribe to the Warren Buffett and Jim Slater camp of 'focused investing'. If you have attended one of my property investment courses you will be familiar with this concept. If you find a country and locality that you know extremely well and you are consistently making strong profits, then you should reinforce your success. I have made strong profits in Merseyside, Cumbria and Cyprus, the last of these having been my focus since 2003. I will continue to hold my UK portfolio, which has positive cashflow, and also expand my existing Cyprus portfolio by holding units in the schemes I am building.

It's not where you diversify but how you diversify that is important. I chose Cyprus for many reasons but principally political, economic and legal, but there are clearly other countries where you can achieve similar diversification.

### Jet-to-Let Investments

I founded Jet-to-Let Investments in order to find such opportunities for our investors. The overriding principle is to achieve strong returns in terms of income and capital growth whilst minimising risk. We will explain carefully why we have chosen a particular country, city and locality. It has taken some time to put our deals together because we are extremely selective and will have refused nine potential opportunities for each one we accept. The sheer amount of research and particularly the extensive due diligence required to bring a deal together means we will not be offering these opportunities on a weekly basis!

### French Leaseback Opportunity

Our latest property investment deal is in France, which is detailed in the Jet-to-Let Investments newsletter which accompanies this magazine. Since the election of Nicolas Sarkozy as President in May 2007, France has been undergoing Thatcher-style reforms which will have a positive effect on the economy over time, although there will be some initial

pain. Sarkozy, like Thatcher, recognises the economic advantages of encouraging home ownership and has thus begun to introduce a number of fiscal incentives.

Investment in French property is at the lower end of the risk spectrum and carries with it the potential of a marked change in the French economy and property market in the future. Jet-to-Let Investments is recommending a fantastic ski development in the French Alps, a region which consistently experiences on average 10% capital growth per annum. This steady growth is supported by a guaranteed rental option, known as a leaseback in France. I visited the site before Christmas and think the scheme is on one of the best plots of land I have seen in some time. The views are spectacular and Jet-to-Let Investments has secured the best units for its clients.

Other strong features of this investment are:

- 19.6% cashback from the French government.
- Guaranteed rental through leaseback

for nine years with the option to renew

- Furniture supplied free of charge by the management company.
- Personal usage
- Year-round resort, not just a skiing season
- Two hours from the French Riviera

There are easyJet flights from Belfast, Edinburgh, Bristol, Liverpool, Newcastle, London Gatwick, Stansted and Luton and Ryanair flights from Dublin.

Due to the strong demand, mainly from French nationals, we have a limited number of units in this scheme, but we have secured the best units and I am confident they will sell out quickly after launch on Wednesday 6th February 2008. Units in Les Hauts de Seignes would provide a solid low-risk addition to any portfolio and are suitable for the novice investor or those with little time to run their investment, given the hands-off nature of the leaseback scheme. When you take into consideration the 19.6% cashback, this is a low money down deal that ticks all of the boxes, but you will need to move quickly.

