

# Death of the salesmen

---

Cape Town: Thousands of investors have been severely affected by the recent collapse of various property syndications around South Africa. Whenever something like this happens, people always want to know how this could have happened and who is responsible. These are important questions however the answers are complex as there are so many parties who must jointly shoulder the blame. Sadly, none of this will help the investors who have already lost money that will never be fully recovered.

## *WHO IS RESPONSIBLE?*

In short, we all are: advisors who sold the product, the promoters of the syndications, the developers, the investors, the regulators, government and the financial media must all shoulder some of the blame for this tragedy. If we start at the beginning, the first people to blame (and the ones who made the most money) are those who bought the land and immediately sold it to the syndications for a massive profit – let's call them the promoters. These are the people who made great sums of money in very short periods of time and should be the ones who are the main target of regulators, liquidators and the press.

As an illustration, these promoters would find some vacant land that could potentially be suitable for a shopping centre. They would purchase the land for R50m (as an example) and start promoting the potential shopping centre to new private investors. Naturally, investors were offered “guaranteed” interest and promised massive capital growth to entice them to invest. As soon as the promoters were the legal owners of the land they would then sell the (still) vacant land to the new syndication for a massively inflated price e.g. R300m. This means they would make between R200m and R250m profit for doing some paperwork and marketing a vacant piece of land to advisors and direct clients.

My main problem with these promoters is that they already knew that the returns from the new shopping centre could never support the massively inflated purchase price, especially if most of this income was meant to be distributed to investors. The only reason that these property syndications have survived for so long is that they were saved by the rising property market which meant that the entire syndication could be sold for a profit before the real trouble started. I am sure there were some good syndications that were started by ethical operators but they were in the minority. The bulk of the players in this industry were really running a sham that abused their trusting investors.

The financial media must also shoulder some of the blame for this debacle. There were some fearless journalists like Deon Basson who were unflinching in their criticism of this industry. Basson was hounded by Sharemax who targeted him through legal action in his personal capacity. Unfortunately, Basson was not supported by the financial publications in which his reports were published. He died while the legal proceedings still going and Sharemax eventually bought the rights to the book he had written about them. The public has a right to read this book and the new bosses of Sharemax have a moral obligation to publish it. There were some other journo's who took up the cause and Moneyweb's own Julius Cobbett was at the forefront but there were not many who took up the fight.

The less brave financial journo's eventually got on the bandwagon in later years when the large syndication companies were already on their knees and the damage to investors was already done. The media bosses should have encouraged their journalists to stand up to the industry when it was at its most powerful and was laying the foundations for most of the damage we are seeing now. More widespread and vociferous media criticism could have stopped this debacle years ago –people

trust financial media to educate and protect them. In this instance the broader financial media should acknowledge that they failed their readers.

There are many salesmen who call themselves financial advisors who are also to blame. They pocketed massive upfront commissions when they sold these things to their clients. If we are generous to these salesmen, we could argue that they were ignorant of how flawed these syndications were. Unfortunately, there were many advisors who had an idea of what was happening but they were happy to take the money and run. These people should be sued by their clients and should be prevented from working in the industry ever again.

I also wonder why some of the larger financial organisations are getting involved in trying to save these syndications now; did they originally promote the syndications to their clients? If so, are they now trying to protect themselves from possible litigation? It would be interesting to know from readers if you were sold a property syndication by someone working for a financial firm – we should ask them to explain themselves in the court of public opinion. In an ideal world, these incidents should lead to the death of the financial sales industry. In future we should only support proper advisors who recommend proper products and earn reasonable fees.

Finally, the investors who placed their own money in these schemes are not blameless. I feel sorry for these people because many of them were already in a precarious financial position and were relying on these syndications to save them. Sadly, we have seen this all before, unscrupulous people love selling large property investments to people in financial difficulty. They prey on their fear and greed by promising great returns and then they disappear when the wheels fall off. People who made fortunes from these syndications should be exposed and we should not do business with them again. We cannot rely on the courts and regulators to stop this from happening in future – we all need to play a role in ensuring this never happens again.