TUHF's CEO Paul Jackson talks to REImag

About building a billion rand business, the recent JSE censure, inner-city property investing and the optimistic future

Neale Petersen

Age 61 years old
Current Position CEO, TUHF
Family Married 38 years with 2 sons
Hobbies Farming, bird watching, fly fishing
Currently Reading Saving a Stranger's life – by Anne Biccard
Life Motto Carpe diem which means 'Seize the day' or his other one related to this 'train as if you're coming second and race as if you are winning'

CEO of TUHF Paul Jackson does not come across as a tardy property financier. TUHF was publicly censured recently by the JSE as a result of its failure to comply with a number of important provisions of the JSE Debt Listings Requirements. The late publication of information relevant to its bond holders, including that its credit rating had been downgraded was highlighted in the censure. Jackson does not deny or ignore the action taken by the JSE censure, in fact he openly takes the criticism seriously and says while warranted, it was unfortunate.

Jackson confronts his challenges directly and admits that over the years dealing with company obligations of compliancy, liquidity issues, good relationships and keeping the company funded properly is an essential part and parcel of the business. During the pandemic, TUHF's rating was downgraded and at the time, missed their specified SENS timelines. Throughout the hard lockdown, they continued to meet with their funders and investors and ensured that securitisation was in place and continually reported monthly on the progress of the finances. Despite these setbacks Jackson's focus is to rather avoid this happening again.

The Path to TUHF

Paul was born in Zambia, East Africa and then lived in Uganda until he was 13-years old. He moved to Grahamstown, South Africa where he was schooled at St Andrews College. He then acquired a BSc in Agricultural Economics at the University of KwaZulu-Natal and Agricultural Economics (Hons) at the University of Pretoria. His focus on Development Finance shaped in his formative years earmarked his future into Development Finance as a career.

His business career, which started in 1987, spans predominantly in Development Finance (DF) at the Development Bank of South Africa (DBSA) as an Agricultural Economist. He then worked his way up as Divisional Manager, in rural infrastructure and Development in KZN, Mpumalanga and Swaziland. He then moved to Transitional National Development Trust (TNDT) where he was chairman of the KZN Agricultural Forum. He experienced almost every DF sector from energy, infrastructure, agriculture, small business, to construction.

In 1999 Paul joined the Johannesburg Housing Company (JHC) as Head of Operations, which was the last leg of DF with a focus on Housing, inner-city developments and commercial property finance. In 2003 Paul formed TUHF alongside Nano Makwela, who acts as a Portfolio Manager at TUHF and also serves on their exco.

Business Philosophy

Paul's business philosophy as CEO and leader of the company is the necessity of embracing a strong and empowering corporate culture to achieve success. The culture must deal with how you interact, respond and think as a business. He says, 'TUHF's corporate culture is value, entrepreneurial and team based and is about being interactive and down to earth. It also focuses on developing long-term relationships where we have dealt with a number of companies since inception.'

He goes on to say that their company culture has no hierarchies and is more of a flexible and innovative meritocracy where everyone is expected to have an opinion, to argue and listen as opposed to a bureaucratic structure and approach. 'Our decision making style is to be decisive, consultative and needs to fit the business environment. There needs to be a strong fit in the way your culture and business environment work together.'

He goes on to say, 'We are inner-city guys and proud of it, we love the energy, that it is cosmopolitan and staff are directed towards that. Your brand is your people, not your logo or intellectual property.' He aligns with and quotes legendary management consultant Peter Drucker who made a profound statement that has become basic business philosophy, 'Culture eats strategy for breakfast.'

Uplifting our Country

Jackson foresees massive opportunities in the commercial property housing, residential rentals as well in affordable housing sectors more generally. He says, SA has an urban sprawl problem if not a crisis. Housing policy is pushing people further and further away and urban densification is a national imperative. We are at the cusp of our urbanisation trend. By 2025 CBE predicts that 70% of SA will be urbanised.

There is huge demand for densification and for urban housing. Increasingly we are realising that affordable housing whether it's new developments for ownership or rentals is part of the real economy and not just a welfare play or budget provision. It is something that stimulates economic activity with massive multipliers. Centre for Affordable Housing Foundation (CAHF) has identified that the economic value chain of housing in the real economy is huge.

Jackson believes that if you are going to be serious about urban densification then you must start getting serious about many smaller projects and not only on big developments such as Cosmo City, Sky City, etc as you can rather get that scale through many smaller interventions. Many smaller projects are a huge opportunity for TUHF and their market niche is the R50 million investment space and below. Urban densification, repurposing and conversions of office and light industrial properties into residential units, fits in with what TUHF does.

Investment Trends

Affordable housing in the city is where the sky's the limit for them and are very optimistic about the future. Johannesburg inner-city has seen a massive increase in supply. With the pandemic, three of the major sectors including financial services, sector and government and students are all working from home. Very little new development has occurred during the last two years. This decrease in supply, together with demand as organisations return to office-based work, points to recovery. Their pipeline is looking healthy in Johannesburg from being a laggard over the past three years. It is looking at being one of the most promising markets. Cape Town residents spend a greater proportion of income on housing than other markets and rentals are at least R1500 more than other markets such as Johannesburg. The rental returns in Cape Town makes new-build a good option there . eThekwini has demand for nano units with many weekly commuters. There is also a strong student focus.

Career Highlights

Jackson sees the formulation and successful launch of TUHF as one of his first major highlights and achievements. His second major highlight was in 2009 when TUHF's book reached R1 billion which was achieved in only 6-years which he says they actually outgrew themselves. His goal is to take TUHF to R5 billion in the next few years. His third major highlight was coaching the South African rowing team to a gold medal victory at the London Olympics in 2012.

Biggest Challenges

In 2018 one of Paul's biggest challenges was keeping the company on a growth trajectory in difficult market conditions. TUHF grew faster than they expected and when it came to funding this growthliquidity was their biggest constraint.They pulled back on growth expectations as a result of insufficient liquidity. Much work on our Treasury function has largely resolved this constraint, increasing disbursements toR900m per annum, poised to do a R1 billion per year. Closing Credit during the hard lockdown and the effects of a pre-existing weak economy has resulted in decreased profitability. It was matching operating capacity from a carthorse to racehorse which exceeded growth expectations.

His second biggest challenge was in 1999 when learning about the construction industry and the procurement of construction services.The first deal he did was the old Landrost hotel which was once a five-star hotel in the inner-city of Johannesburg that previously hosted the rich and famous. The conversion of this 18-storey building's 400 hotel rooms into 241 residential units repurposed at 100% over budget. A sound lesson as he spent a year learning more about the construction industry and project finance. Paul says that hospitality conversions are extremely difficult and that the construction industry is known to be one of the most adversarial industries worldwide. He is thankful for the mistakes and lessons learnt which have shaped himto be a better person today.

Lessons and the Future

One of the biggest lessons he says is to balance your capacity requirements with growth expectations and plan for it much earlier. TUHF now has a robust platform for growth and networks, clients, communications, with engaged investors and shareholders on a rapid growth path.

Vision for the company into the future and any exciting new projects on the cards is all
public knowledge. During the pandemic they tightened up on capacity to expand, including real progress in their IT, Operational and Treasury capacity requirements. They intend to appoint a group head of legal in their investment division. Before they were worried that the company would be 'all dressed up with nowhere to go'. Now he believes they are more than ready and are now dressed up with somewhere to go. They are budgeting on growth from R4 billion to R10 billion in 5-years and beyond, a double. They want to increase disbursements, barring the caveat being the pandemic. They are looking for additional shareholders who buy into their vision for the future.

He is really excited and optimistic about the future.

The third exciting thing for the TUHF Group was the launch of a new product,uMaStandi, which will continue to target entrepreneurs and resident landlords who provide decent, affordable accommodation in the townships. uMaStandi has a great management team under the CEO, Lusanda Netshitenzhe, and is poised for growth. They have launched in townships such as Delft, Soweto, Spruitview, Atteridgeville, some parts of KZN, same product but a different market with a new skill set. The big demand is in the 6- and 12-unit developments and a lot of traction has taken place.

Paul's Investment insights

Paul's biggest wins and losses were in real estate. He shares some golden nuggets from some of his personal investment successes, some of them include:

1.Investment is time in the market and real estate is a decade long affair
2.Be a steady investor (not high risk or once-off investor)
3.Let an expert organisation lead it for you. He uses Stanlib and Alexander Forbes
4.Have a balance in your portfolio
5.Being a Landlord or Property Investor is mostly if not all about cashflow especially in the medium term
6.Agriculture land has been a good investment

Success recipes for inner-city investing?

- Spectacular success stories with ordinary people achieving extraordinary things. SA has many entrepreneurial people such as Simon Mkhize among many others
- Keep an Area focus – suburb focus on an area
- Timing - 2000 – 2010 was in the sweet spot, but careful investors still do great deals
- Patient investing - Wait for the right deal at the right size
- Hands on - nature that they run their property businesses
- Property Management is key – engaged owners and tenant communication with a strong customer service ethic

The art of Financing Property Deals Effectively

In terms of finance the late Ian Fife, investor, property journalist and contrarian said that 'property investment is only about cash flow." Early investors worry about cash flow, as the portfolio matures, the focus shifts to what is good for the balance sheet.. Decide which one you are?'

Some finance gems to consider for cash flow investors:

- Property is fundamentally a cash flow play for smaller investors
- Balance sheet investing is more on commercial terms, structure, projected cash flows of projects
- Term, interest cost and structure financing is focused on cash flow
- Look for finance that matches your cash flow and a project size that matches your current personal competence
- Make sure the finance matches your cash flows – so that you are never out of cash
- TUHF's role is to ensure we get our customers over the line financially

Lasting Legacy

Jackson's lasting legacy and impression is clear cut as to what he would like to leave in business and the world. Making profit is one thing but making a profit and a difference simultaneously is an entirely different challenge. He wants to ensure that in addition to being commercially competitive, all TUHF's work has made a difference to communities, to change people's lives and that they have stimulated local economic development. Secondly to be successful you need to be authentic, reliable and resilient for the long term. Commercial viability and Impact Investing need to work simultaneously.