

Access to timely finance, detailed information key to property investments

By [Gary Palmer](#)

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While the markets remain uncertain and skittish, investors are still on the lookout for good property deals. However, moving on opportunities requires access to fast finance, good support, and the ability to spot the real gems.



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The auction professionals in the market will tell you that most investors are still sitting on their hands. They are struggling to read the market and, together with macro economic data such as zero GDP growth, high unemployment and lower disposable income, people are unsure of where and when to invest.

However, in times of distress and uncertainty, as we are now experiencing, people who are well capitalised will always find the opportunities in both business and property deals.

Residential or commercial?

The decision on whether to invest in residential or commercial property remains a hotly debated topic amongst investors.

The answer to this lies largely in the investors' risk appetite. At the moment, we are seeing most people leaning towards

residential properties, albeit they are a little more difficult to fund.

Current figures show that the cost of renting a property is up to 50% lower than owning a property. This data is tracking international trends where most people prefer to rent, and so our local residential rental market is strong. Moreover, banks are giving better rates on residential investments but it may be a little harder to secure debt financing for these investments.

That said, we point out three key risk factors to consider when trying to secure finance for a residential property:

- Income risk – lenders not only examine the borrower's ability to pay back the loan, they also look at the tenant risk based on the area and current market.
- Exit risk – investors will examine what risk there is to sell the property should something go wrong. How much will the investor have to spend on the property to get it market-ready and what are the chances of selling the property quickly and at the right price?
- Operating risk – Investors will also examine the operating costs of holding and managing this property. If variable costs such as rates and electricity suddenly increase, can these costs be passed on to the tenant?

When it comes to commercial property there are also basic fundamentals to be examined.

As with residential properties, commercial properties are only as good as the tenants occupying the property. Lenders are focusing on the financial standing of the existing or proposed tenants.

The area and location are also incredibly important. Buyers need to research what the going rate per square metre is in the rest of the area. This is especially important when properties are sold with existing tenants on long-term leases. Many a property owner has been caught out on reversions when a lease is renewed or reviewed. This information has a big impact when looking at income projections and the actual worth of the deal to the investor.

Again, operating expenses should be factored into projections, as well as the cap rate (the measure of value and risk of a building, calculated by dividing the net returns on rental for one year by the purchase price or market value of a building).

Taking advantage of opportunities

We see a fundamental disconnect in our investment property market at the moment. There are so many property brokers, property managers and letting agents who are essentially kicking the pavements.

On the other side of the scale you have a number of eager property investors who have cash, but no deals.

We believe that the job of an independent debt lender can extend beyond simply financing the deal.

The private lending company deals daily with property brokers, auctioneers, property managers and, of course, investors looking for a great deal. One of the key roles for us is to match-make – putting a willing investor in front of someone who has all the inside knowledge of where the great deals are hidden.

But, it's not just the knowledge of where the opportunities lie which can enable a smart investment. Having immediate access to capital to take advantage of the deal is also key.

The savvy investor or developer often needs immediate access to funding. Whether it's to quickly complete renovations on a property in order to sell in a good market, or to be able to immediately place a deposit on a time sensitive sale. Having an access facility without conditions and the ability to pay back within your own timeframe, and without penalties, can make all the difference.

The seasoned investor will always remind you that you make your money when you buy a property, not when you sell. Finding a great investment opportunity requires excellent information as well as the finance to move quickly. The only way

to achieve this is to partner with a company that can give you access to both.

ABOUT THE AUTHOR

Gary Palmer is the CEO of Paragon Lending Solutions, which he founded in 2009 and has grown into a successful provider of finance to established entrepreneurs. A chartered accountant with more than 18 years' experience, Palmer has a comprehensive understanding of the financial levers for business growth. During tenures at Ernst Young UK and Investec SA, he specialised in corporate finance, focusing on financial structuring for institutional high-net-worth individuals. In 2007, he established a finance business that became Paragon.

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