

■ SYNDICATES

# HOW TO BUY PROPERTY

THERE ARE A NUMBER OF WAYS A TRUST CAN BUY A PROPERTY

Property syndicates are quite adept at informing investors how their money will be used, but how do they go about securing a new asset until they have the cash in hand?

Just as there are 371 syndicate managers out there, so too are there a diverse range of methods with which to secure the property before funds are raised from investors. Each has its different costs, risks and upside, but the most important effect of financing choice for investors is, of course, the bottom line.

"The investor really doesn't see how the initial funding is raised. All they want to know is what yield the investment will attract. The syndicate has to identify a suitable property to purchase that will show a stable income stream. For them, it's a matter of how to purchase the property. The problem many syndicates face is that they don't have the capital raised in time to proceed with the purchase, so they may miss out on the property," says Tim Johansen, financier at Investec.

At Austgrowth, the tactic is to take out an option over a property until the required capital to purchase it can be raised. This affords the syndicate a number of benefits, as it provides it with certainty that competing groups

will not get in first. It also allows the trust to avoid paying double stamp duty, as would be the case if it used other sources of finance. It is not a cheap undertaking, but the option fee is deductible from the property purchase price, which minimises the chance these costs will be passed on to investors.

Peter Arnold, executive director at Austgrowth, believes options are becoming more and more necessary given recent trading conditions. "It's a tight market at the moment, so you have to put down a fairly large sum. It varies on the size of the deal, and how much money the vendor requires to feel comfortable. In the old days, you could get an option for \$10,000, as properties used to be harder to sell," he says.

John McBain, the managing director of Century Funds Management, has a different tactic. "We enter into an unconditional agreement to buy properties. Sometimes this involves options. It depends on the stamp duty. With options, you don't pay stamp duty until you settle on the property. It wouldn't be uncommon to extend the period of the agreement by an extra two to three months, just in case something causes a delay to the capital raising," he says.

While Austgrowth enters into agreements

with a clause 'subject to capital raising' written into them, McBain believes this is not necessary, preferring to lock away into an unconditional contract, which means the syndicator must purchase the property in all circumstances. "We have never entered into a contract that has been subject to capital raising. If you are not confident in your distribution network's ability to raise the money, then you should think twice about whether you are ready to set up a syndicate."

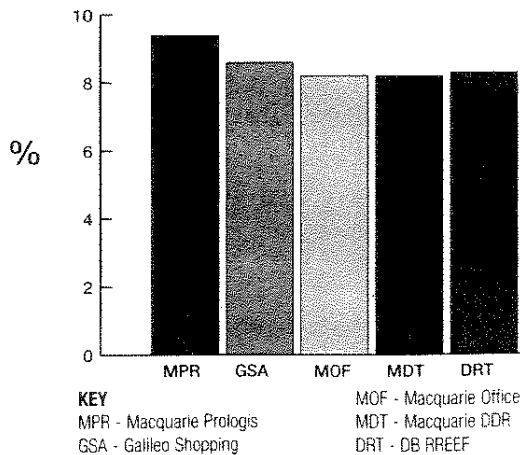
If investing in syndicates that 'promise' to raise the funds to buy property is not enough, then it is advisable to look at those syndicates that use bridge financing to secure properties before they have the cash to settle. This strategy is the most expensive, but it does provide the greatest certainty to investors and syndicators alike.

"Another option is not to raise the capital upfront, but to enter into an underwriting-style facility that allows you to buy the property, then run a product disclosure statement to attract investors. It enables the syndicate to compete effectively in the marketplace against other, larger institutions. It does cost more, up to 3%-3.5% on top of the loan interest rate which, for a bridging loan, can be up around 10%-11%," says Johansen. ■

## CRUNCHING THE NUMBERS

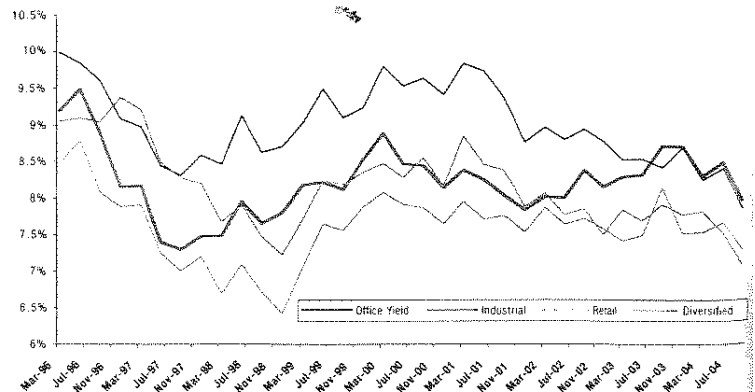
■ LPT YIELDS

The chart below shows the five highest-yielding trusts in the LPT sector.



Below: This moving line graph shows property trust yields, broken up according to the major property sub-sectors. The yields for each sub-sector are an arith-

metic average of that property sub-sector. Each line represents the yield associated with investing in that sector, as at the dates shown on the graph.



Source: JPMorgan