Avoid acting in haste. Rather sweat the assets you have

Rather than raiding retirement annuities and selling off a valuable property at a fraction of its worth, Gary Palmer, CEO of Paragon Lending Solutions, looks at the benefits of sweating the assets you have.

Gary Palmer, CEO of Paragon Lending Solutions

“People are understandably concerned and anxious. This pandemic is lasting longer than we initially predicted and the effects are dragging on. The lending moratoria are nearing their end, and no one knows if, or for how long, banks may extend them. If the markets don’t bounce back quickly, the banks are going to have to start acting. We have already seen some banks asking for additional information from borrowers. This includes updated valuations on properties and their latest management accounts. While we have seen some borrowers resisting these requests - after all, most people are now poorer on paper - we always recommend that those seeking finance supply all the information requested. Unfortunately, the liquidators are seeing a sharp uptick in activity, which is an ominous sign,” Palmer says.

Post Covid-19: How the property market will potentially evolve

27 Aug 2020

Acting in haste to reduce debt

“As the effects of a stagnant economy drag on, many are trying to minimise their exposure to a very shaky market. And, while this may be good in theory, Paragon is seeing more and more people trying to reduce their debt by selling homes and investment properties, sometimes at bargain basement prices,” Palmer explains. “We have recently seen a client with an asset that was worth around R18m who was happy to accept just R12m in order to settle his debt. This is not ideal for the client in the long run.”

Palmer’s concern is borne out by industry findings. Sanlam Employee Benefits’ recent survey shows 16% of retirement fund members requesting access to their savings in order to stave off the effects of reduced or lost income.

What’s more, the Experian Consumer Default Index, which is designed to measure rolling default behavior, is showing composite levels at their highest in five years. One of the primary contributors to the increase was the spike in first-time defaults in secured lending products, with the home loans index increasing from 1.68% to 2.32% from April 2019 to April 2020, and the vehicle loans index growing from 3.88% to 4.34%. Credit cards and personal loans, meanwhile, saw an increase from 6.56% to 7.47% and 8.61% to 10.19% respectively.

“What’s interesting now is that we are seeing some very high net-worth individuals who aren’t too highly geared, snapping up properties. Property brokers and bankers are now laser focused on these individuals who are still cash rich and some really big deals are coming through. However, these are often at the expense of the distressed buyers who are victims of this pandemic economy.”

Property investment - to sell or not to sell
5 Aug 2020

Rising tenant delinquency

According to Palmer, the rising tenant delinquency is putting particular strain on property investors. His team is seeing a growing number of properties coming onto the market, often with resulting real damage done to partnerships that are decades old.

“Collateral damage of these fireside sales is the partnerships which are being destroyed. With one partner determined to sell and another wanting to ride out the storm, it is often the relationship that bears the brunt of the market turmoil. This is particularly sad since a different attitude could make all the difference.”

Palmer goes on to explain that with the very low interest rates, now is the time to pivot, ditching outdated business models and re-imagining investment properties. This includes property owners converting AirBnBs into Covid isolation accommodation and hotel owners pivoting to retirement homes, which are currently in short supply.

Latest JLL report examines key investment trends following Covid-19
28 Jul 2020

Leveraging assets

“Now is the time to look at what assets you have and see how you can leverage them to improve your balance sheet. Could you turn your commercial property into a shared space offering? Storage and student accommodation are an option and so is converting B-grade office space into affordable residential apartments – after all, people will always need a place to live. Rather than just saying I need to sell, look to see how you can maximise your property in order to sell.

While Palmer acknowledges that it is difficult to make bold moves in a market such as the one we are in, he says companies like his are open to realistic proposals.

“If clients can show us that there is a solid business case, we would rather see the property improved and our clients sweat their assets. In the worst-case scenario and a client wants to consolidate their debt, it’s best that they reach out to an expert – a financial partner who can help them see the opportunity as well as the risk. Interest rates are at lowest we have seen in a decade. The cost of property ownership is at its lowest. It would be foolish to lose your asset now, only to struggle to get back into the market when rates go up,” he warns.