

# Unrest, uncertainty spills over to property valuations

According to Gary Palmer, CEO of Paragon Lending Solutions, the recent unrest set a new financial low in South Africa's already difficult economy and, much like the initial start of the Covid-19 pandemic, dealing with the fallout will take time. Recovering from the approximately R50bn - and counting - in losses won't be easy, even though Sasria has played an exceptional role.



Gary Palmer, CEO of Paragon Lending Solutions

“The unrest and uncertainty have spilled over to property valuations, which has a knock-on effect for all of the industries in the property value chain,” says Gary Palmer, CEO of Paragon Lending Solutions. “The trouble is that there is a disconnect for many as to what they think their property is worth versus what it’s really worth on the market. Property stock is coming to the market but to find buyers who meet sellers’ price expectations can be a challenge.”

“Economic and political concerns are leading some buyers to look overseas while locally, disagreements between sellers and financiers about the value of a property when deals have to be restructured can become highly contentious, causing a bottleneck in pushing through new deals,” he says.

From a financier’s perspective, everyone is treading with caution as it’s becoming increasingly difficult to look ahead. “The yield at which you are buying a property and the cost of the loan is currently quite wide, which is advantageous for a buyer, but you’ve got to add risk into the equation, including Covid-19, the economic impact of the virus, the recent riots, and the fact that we were in a recession before either event began.”



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## Opportunity from hard knocks

Where investors might have been optimistic about South Africa previously, now they are more opportunistic. “Numb from repeated blows to their optimism, they’re now prepared to look at opportunities that arise, but caution is very much in play,”

Palmer says.

Buyers are putting more suspensive conditions into their offers. Some are unrealistic or even unfair and this is also causing some stagnation in the market.

It can become a bit predatory when there are good deals to be had, even though people don't feel positive about the environment. But Palmer warns against buying an asset you don't want even if it's at a price you can't resist.

## Looking to loans

When it comes to outstanding loans, these unfortunately don't go away simply because times are tough. Debt will still need to be repaid, and defaults can pile up considerably but there are solutions. Palmer says it's essential to reach out to financiers now as loans can be intelligently restructured with the right guidance.

"Banks are penalised by the Reserve Bank for customers who default, making it more expensive to hold a non-paying client's debt as there are requirements to hold more capital. The cost of this will be passed onto clients, resulting in the loans becoming more expensive."



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## Past behaviour matters

When it comes to banks, they will look to individual customer history when deciding to offer any financial relief. "Clients who have not defaulted until now stand the best chance of having fees reduced or their debt restructured. However, it's very important to understand what the new structure and full cost entails," Palmer adds.

## Putting in more protection

After July's events, ensuring that assets have the right cover is now a strong focus for financiers. "Covid has driven a trend towards life cover being a requirement for deals and since the riots, financiers are also carefully examining insurance. All in all, completing a funding deal is now a lengthier process. Financiers will also check social media, so your reputation, whether true or not, can impact your desirability as a borrower. All this due diligence can add major delays."

As a niche lender, Palmer says Paragon is treading with caution but continues to look to lend in the right circumstances, even though property valuations are difficult to determine.

“The reality is liquidity is tight, and there is more stress on property valuations, insurance, life cover and business continuity. The recent unrest added to South Africa’s vulnerability and has made it tougher to get a feel for the economy. These are uncertain times but there are still opportunities, and if you find the right asset at a fair price, it could be something to consider,” Palmer concludes.

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