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Surviving the off-the-plan finance crunch

"More than one in three of our clients who bought off the plan are having problems," says Peter Ristevski, a partner with Chan & Naylor, a national advisory group. **Louise Kennerley**

by **Duncan Hughes**

Off-the-plan investors struggling to complete their apartment purchase because of strict new lending rules are being urged to face tough options to get their financial problems under control.

Financial advisers and financiers say thousands of investors with exposure to billions of dollars in high-rise apartments are searching for ways of deferring, reducing or off-loading payments through alternative funding or selling the apartments, typically around central business districts.

New private-equity products – with much higher charges than bank lending products – are also being launched.

The scale of the problem is unclear but anecdotal observations from financial advisers in Australia and Shanghai (where many buyers live) are that it could be big – and growing.

The problem is the most acute for high-rise off-the-plan buyers in Melbourne and Brisbane central business districts and Perth. **Glenn Hunt**

"More than one in three of our clients who bought off the plan are having problems," says Peter Ristevski, a partner with Chan & Naylor, a national advisory group.

While it seems to be mostly overseas buyers facing a finance crunch, this can cascade into big problems for local property investors. If overseas buyers want out, prices will fall.

Trying to sell

"It is getting worse," adds Ristevski, who is based in western Sydney. "Potential distressed buyers are growing more sceptical about the prospects of losing money – they are worried that they will be left holding the baby if things go wrong."

Investors rushed into off-the-plan apartments because of stamp duty tax breaks, attractive terms, the possibility of locking in a price in a rising market and prospect of rental income and capital growth. **James Alcock**

Lanny Xu, chief executive of Iron Fish China, a broker's agent in Shanghai, said about 20 per cent of his clients who purchased Australian apartments cannot complete the deal and are trying to sell.

Other agents claim financing from major banks has been "frozen" and say their

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clients are desperately seeking alternative funding or finding another buyer.

"I have stopped dealing in Australian property," says Mark Yin, an agent with Shanghai-based Home Tree Group. "All deals have been frozen," he said about Australian bank funding.

Investors rushed into off-the-plan apartments because of stamp duty tax breaks, attractive terms, the possibility of locking in a price in a rising market and prospect of rental income and capital growth.

They paid a deposit, typically about 25 per cent, when the project was at planning stage, with the remainder to be paid at settlement.

Falling values

"Buyers need to understand that while their bank may provide them with approval-in-principle for their finance, it will usually only last for a short period of time," an AMP spokesman said.

"When the building is completed, they will need to undergo a full assessment, including evaluation of the property, before their bank will approve them for the loan," he said.

Many lenders that provided deposits are refusing to provide the additional funding for local buyers amid growing concerns apartment values are falling, particularly in Melbourne thanks to over-supply and falling demand.

Lenders are increasing loan-to-value ratios, restricting some types of income as payment and scrutinising monthly outgoings on other household expenditure more closely, despite falling interest rates.

Lenders are closing the door to most offshore investors, particularly from mainland China, because spot checks have revealed widespread fraudulent details about occupations, incomes and other sources of finance needed to pay the debt.

The problem is the most acute for high-rise off-the-plan buyers in Melbourne and Brisbane central business districts and Perth.

To make it worse, many lenders are knocking back lump sums from family and immediate family members in a bid to prevent money laundering, particularly from extended families based overseas.

"Those with problems need to immediately start talking with their lender," says Ristevski. "It's no use ignoring, or avoiding, problems until too late."

Handing keys back

Handing the keys back and walking away from the loan won't get you off the hook as lenders and developers will pursue the buyer for the debt and myriad other expenses involved in tracking the purchaser, legal work and debt interest.

Some lenders are willing to provide better terms and conditions if the borrower can provide evidence of lowering other debt, generating additional income and providing regular payments.

This could mean retiring credit cars, paying down other debt, reducing household expenses and providing evidence that other costs, such as tax bills, can be accommodated within existing budgets.

"In one case, a client who could not get funding sold the apartment and made a profit," says Ristevski.

"This is an option in Sydney where market values continue to rise, but it might not be in other postcodes."

Mortgage Choice, one of the nation's biggest networks of mortgage brokers, is watching developments because its advisers are paid commission when an apartment settles.

"Buyers facing funding problems who don't have a lump sum available might be able to use the equity they have in another property," says Jessica Darnbrough, head of corporate affairs.

Rescue packages

"Struggling borrowers could also ask immediate family members to go guarantor on the loan so that any shortfall between the lender valuation and developer's price tag is covered," Darnbrough says.

Some lenders are not allowing relatives to top up arrears, or take out supplementary loans in their own name.

"Try another lender. One lender might reject but another may approve – they don't all have the same lending policies," she says.

Overseas financiers, typically based in Singapore and Malaysia, are working on rescue packages for borrowers by creating private bail-out funds or buying apartments off stressed purchasers, which means they lose their deposit.

These deals include rolling five-year terms starting at 7.5 per cent, or one-year emergency loans costing up to 12 per cent, according to financiers.

Other packages are stepped loans, where different tranches of the loan have different rates, invariably several times higher than Australian lenders' standard variable or fixed-rate loans.

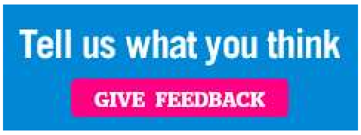
By comparison, many Australian lenders offer three-year fixed rates below 4 per cent.

Those considering third-party loans from overseas lenders need to consult with a finance broker about the terms, conditions, rates and suitability of the lender.

In Australia, First-in-Finance, an advisory and finance company, is devising products targeting distressed investors.

Loans for between 65 per cent and 75 per cent of the outstanding debt are on offer for rates of between 5.5 per cent and 7.5 per cent.

"We are being fast and flexible in offering products for borrowers that other lenders have lost their appetite for," says partner Matthew Royal.



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