How to invest in the alternative property market

Reece Mennie, co-founder of Hunter Jones investments, gives his insight into the Alternative Property Investment Market.

Alternative Property Investment covers a wide range of structures: from DIY landlords investing in buy-to-let through to part-share investment and lump-sum deposits into development projects.

There are a number of areas you can invest into, but the UK has a chronic shortage of housing stock, so there is always value to be had in this sector. The UK has a target of 200,000 new homes every year but, according to the Home Builders Federation, this has been hampered by planning regulation and local opposition to building. However, this is changing. The Government is in the process of relaxing planning regulation and attitudes are changing too. A recent report from the Centre for Policy Studies shows that 56% of people support the building of new homes in their local area, more than double the figure of 28% in 2010. The two big barriers to development are coming down.

However, investment opportunities in this sector have got more complex. The 3% rise in stamp duty for additional homes, along with other taxation, means it is becoming more expensive for individual investors to get a second or third home. The old adage of 'be the lender, not the landlord' still stands so structured products are a good way to invest in the market without all the associated expense.

Most people look at the property market as a long term investment; but some products allow investors to get in (and out) over a shorter period, typically two to four years. What's more, they are still investing into a tangible asset.
Given the current economic climate – and the British psyche – investors often associate high returns with high risk. While the old adage 'if it looks too good to be true, it probably is' still stands, there are good deals to be had out there, but investors do need to consider a number of factors.

Firstly, you need to look at where you are in the 'credit' chain. Investors should look for opportunities where they have 'first charge over the asset'. This means that all of the investors own a share of the property. In the worst-case scenario – and the developer runs into difficulty – a trustee is in place to step in – holding the charge on behalf of the investors – and would then sell on the development and return funds back to the investors.

Investors need to pay special attention to this; sometimes developers will borrow money from a bank – for example to purchase the property – and then put a call out to investors to develop the property. But this means, almost invariably, that the bank has 'first charge' and investors are second or third in the queue. If something goes awry, the bank gets the money first and whatever is left the investors get. Depending on what stage the development is at, the investors might get their money back. Or they might not.

Many investment opportunities make use of what is known as a special purpose vehicle (SPV); a limited company – set up by a law firm and a separate entity to the development – that takes funds from the investors and then uses them to finance the developer.

The scope of the SPV will vary, depending on the structure in place; in some cases, it would invest in equity of a developer, in others it would act as a lender taking the place of the bank for debt.

Providing it has been set up correctly, the SPV can eliminate much of the risk to an investor, as it ring fences funds from the development and holds first charge on behalf of investors. Most (but not all) SPVs also have a trustee in place. Again this role will vary depending on how the SPV has been established; you should enquire about the precise set-up when considering an investment

After you've done your research – and assuming you like what you see – investors should wait until they get a due diligence pack. There's a few things to look out for: firstly who structured it (is there a solicitors behind it and put it together) , who are the trustees – are they in the UK, how long have they been going – and security, are you first, second or third charge. But if you get a tick in all three boxes, it could be a good opportunity to investigate.

While banks generally lend sequentially to developers – awaiting completion of one project, return of funds and then moving onto the next development – the money from and SPV allows the developer to simultaneously run multiple developments. This means our developers can operate at the rate they need to make it worthwhile. At the end of the day, you're giving them the opportunity to turn a healthy profit; they give good returns on that.

Read More: http://www.whatinvestment.co.uk/invest-alternative-property-market-2553387/