

Maximising the opportunity in property investment

If rising residential property prices are a concern, the fractional investment model might have a risk mitigation strategy you haven’t thought of, even if you own a property.

Alternatively, if you’re trying to get a foothold on the property ladder or a place to live, the fractional model can work just as well.

Syndication is the heart of the fractional model.

If you’re looking to buy a place to live you can fractionalise it by putting in what you can afford and having investors fill the balance. If that sits a little uncomfortably with you think of it this way. When you buy a house with a mortgage, you have a co-owner a bank or building society for example becomes your co-owner, and they hold the title until you pay off the debt.

So, if you’re a part owner/occupier what difference does it make if your co-owner/s is one or more like-minded investors and, instead of paying interest, you pay rent on the portion you do not own.

Although you don’t get capital growth on the portion you don’t own, it’s a better solution than not owning anything. There’s also a strong incentive to buy as much equity as you can as quickly as you can. And you’re not nailed down to fixed mortgage repayments, just your rent.

Fractional property investment is all about syndicating an asset across multiple investors who may be family and friends, SMSF trustees or strangers looking for rental income and capital growth from their investment.

It’s about sharing the asset and all its attributes; the income, the expenses and the future capital value.

The fractional model works as a unitised holding fund where contributors receive 1 unit for every $1 invested. So, if a property sells for $600,000 and you put in $20,000, you receive 20,000 units or 3% of the equity. And, if you want the property as your home you can apply to be the tenant. Otherwise, the Fund will find a tenant.

As you save you can offer to buy units from your co-investors at the current valuation, building your equity in the property. There isn’t a mortgage in sight and, if you haven’t bought a house previously, you still have access to any first home buyer grant that may be on offer when you eventually buy a place in your own name.

In the meantime, your savings are keeping pace with the property market – not the interest rate market.

If you are just in it for the investment and not a place to live the fractional model enables you to spread your investment across multiple properties in different geographies to achieve diversification. This is widely regarded as the single best way to minimise risk – not putting all your eggs in one basket as they say.

You can also mix up the property types, whether it be residential, commercial or farmland, and for further diversification add in investment in renewable energy projects or affordable or disability housing where vacancies are generally low because of high demand, and government-subsidised rent makes these very attractive.

Fractional investing has a lot to offer – although there is a fair bit to understand, But there are steps in place and although not guaranteed to avoid loss they are responsible and fundamental steps that every smart investor should undertake, and the fund manager does the same.

We’re talking about due diligence on the contract of sale, the property itself, the valuation and, if it’s a development, the financial modelling around it.

As for costs, you should be looking for a flat percentage fee; no profit sharing with the manager or anyone else except the developer if it’s a new project.

And last, but not least, perhaps you should discuss this with a licensed financial adviser familiar with fractional investing.

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