

Wise purchase of investment property in the price boom

From Dr. Roger Stettler, Tanguy Bonbled, 21.06.2021

Competition for attractive properties in the Swiss real estate market has increased further over the past 12 months. Attractive properties are in demand and prices have risen further. This applies not only to owner-occupied residential property, but also to investment properties in particular. The price upswing is particularly pronounced for properties with a predominantly residential component ("Residential").

A purchase becomes more and more demanding

This development can also be observed in the other major markets, particularly in the world's largest and most liquid real estate market, the USA.¹ Median transaction prices for residential properties increased by 11% in the USA, 9% in Germany and 8% in the UK in the course of 2020, a trend which continued in the first half of 2021.²

We observe that even solvent buyers in Switzerland are finding it increasingly

challenging to acquire the desired property. In addition, the proportion of properties for which the transaction is above the original advertised price has increased significantly.



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Lengthy bidding rounds or quick transactions

All real estate sellers prefer in the transaction:

- 1) Price: Highest possible transaction price
- 2) Reliability: High transaction security
- 3) Speed: As fast as possible, definitive purchase decision.

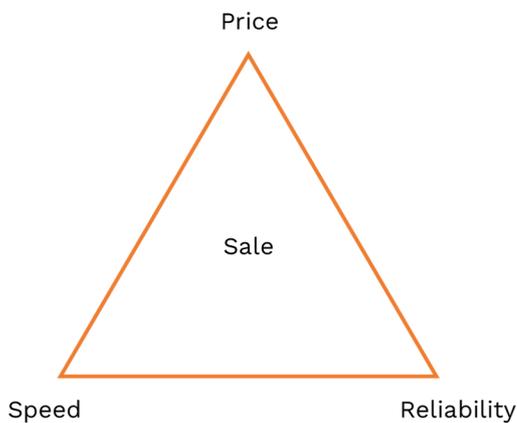
However, these goals are in conflict with each other; bidding processes regularly lead to higher prices, but they are naturally more protracted and costly.

¹ <https://cdn.nar.realtor/sites/default/files/documents/2021-05-13-realtors-legislative-meetings-residential-economic-issues-and-trends-forum-lawrence-yun-presentation-slides-05-13-2021.pdf>

² <https://www.economist.com/finance-and-economics/2021/04/08/house-prices-in-the-rich-world-are-booming>

In the current market environment, a buyer wishing to secure a property has to offer a very competitive price directly and also to rely on the factors of speed and security. In practice, the buyer must either have the purchase price available at the time of the offer ("all cash offer") or be able to convince the buyer that he will be able to pay the purchase price within a very short time.

Figure 1: Conflict of objectives in selling real estate



The processing time of traditional financiers outside the retail segment have deteriorated further over the past 18 months. In our experience, it takes on average more than 4 weeks for a traditional financing partner to make a binding decision for cases with a volume of more than CHF 5 million. Therefore, if you start looking for financing only after you have identified a property, you will not be able to score with the factors speed and reliability.

Bridge Loans as a solution

The ideal situation is, of course, when a buyer already has the entire purchase sum at his disposal at the time of purchase. If

this is not possible, then the provision of a promise of payment from a financial partner has a comparable effect.

«With Bridge Loans you can organize financing very quickly»

Due to the mentioned long processing time, short-term loans ("bridge loans") are a potential alternative. These are organized by specialised partners at very short notice, sometimes within 24 hours of the request.

However, the disadvantage is that they are expensive. Typically, there is a one-time commitment fee of about 2% and a high interest rate. On the other hand, there is the possibility to find the optimal financing solution with the most suitable partner without time pressure.

Alternative to direct investment in real estate: Subordinated mortgages

An alternative to the currently very difficult search for a suitable investment property are mortgage-backed high-yield loans. This means that instead of investing directly in real estate, the investor grants loans with liquid funds. These loans offer an attractive interest rate - which is often higher than the gross yield of the financed property. In the event of a default on the loan, the lender is very well positioned to take ownership of the property in question on very good terms.

These instruments are only suitable for professional, discrete and risk-averse investors and typically require a minimum investment of over CHF 1 million per transaction.

Outlook: Creativity and speed

Even in today's market, it is possible to build up an attractive real estate portfolio at economical viable prices. Any investor wanting to be successful in the current market conditions, needs a clear strategy, has to be able to make fast decisions, and needs to go off the beaten track. And in

our opinion, any investor should either avoid bidding processes or only participate in them with a very high degree of discipline.

Hyrock is an independent mortgage expert for sophisticated private and institutional clients in Switzerland, with offices in Zurich and Geneva. In 2020, Hyrock realised a total of over CHF 850 million in financing solutions for its clients, with an average volume of CHF 7 million per transaction. Around CHF 250 million of these were mezzanine and bridge loans. www.hyrock.ch

