

LENDING FOR RENT ROLL PROPERTY MANAGEMENT BOOK



FINANCING A RENT ROLL DONE RIGHT

Buying a Rent roll can be a significant investment, and it's important to consider several factors to make sure it's a sound decision. It's important to conduct thorough research, seek professional advice, and carefully evaluate all factors before buying.



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RESIDENTIAL AND COMMERCIAL PROPERTY RENT ROLLS.

Both types of Rent Rolls can be financed. There are different lending criteria for each type of property book.

Residential rent roll covers properties such as apartment buildings, and family homes.

A commercial rent roll covers properties such as office buildings, retail spaces, and warehouses.

Notes for Residential

- Normally smaller properties than commercial book.
- Valued on a higher multiplier than a commercial book.

Notes for Commercial

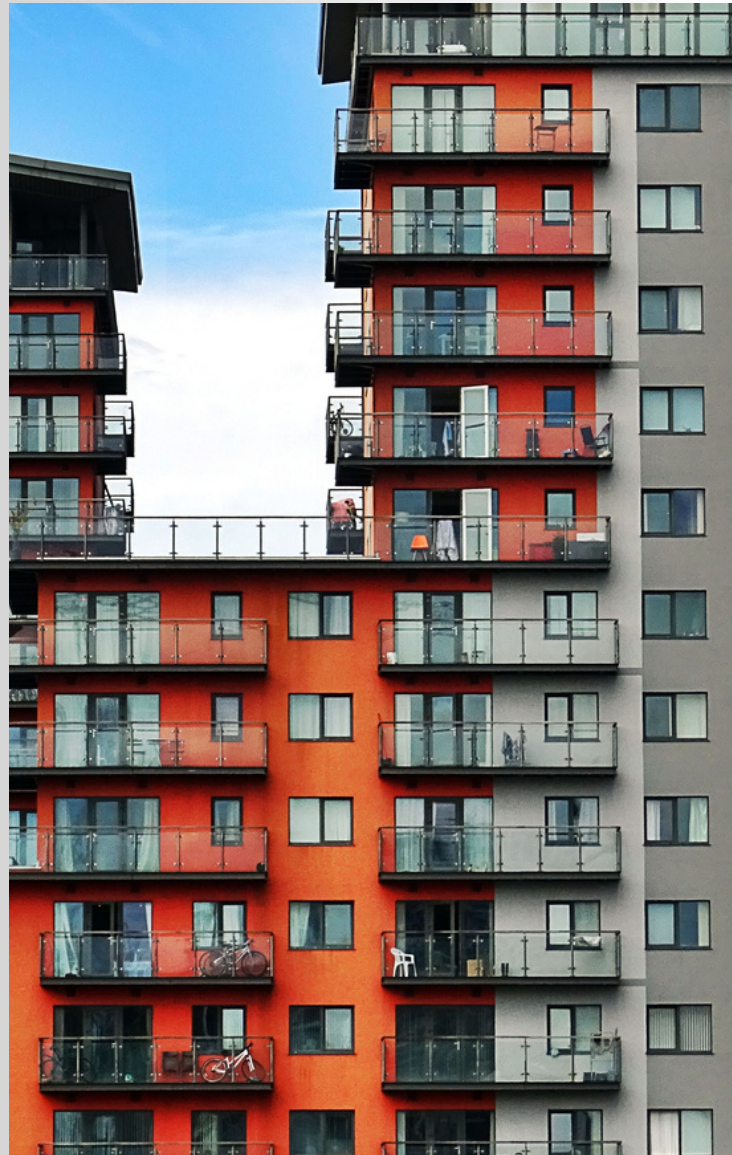
- Normally less properties but a higher per property Management Fee.
- The leases can be for substantial amounts.
- Commercial leases have longer terms than residential leases, often ranging from 5 to 10 years. Can also have longer vacancy periods.
- Usually valued on a smaller multiplier than Residential
- Commercial tenants usually require more specialized space and infrastructure than a residential tenant.

Notes relating to both types

Properties would need to split out between Residential and Commercial to ensure correct valuation if in the one property management book.

Commercial rent roll and a residential rent roll will have different metrics, terms and requirements since the two types of properties cater to different markets with varying characteristics.

One important factor in any purchase is that management authorities are in place.



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BORROWING TO BUY A RENT ROLL

LET'S LOOK AT THE OPTIONS AVAILABLE

Use the equity in owned real estate property.

Purchasing a Rent roll using equity in a home involves using the difference between the home's value and the mortgage amount owed to obtain a loan.

This loan can then be used to buy the desired asset while using the home as the collateral.

Using home equity to purchase an asset provides access to capital at a lower interest rate than other types of loans. This can make it an attractive option for financing a large purchase such as a rent Roll.

If you use a Mortgage loan it is normally over a 30 Year Term. This can mean you pay more interest over the long term.

If you choose to take out a longer-term loan, such as a 30-year mortgage, you will typically pay more interest over the life of the loan than if you choose a shorter-term loan, such as a 15-year mortgage. This is because the interest accumulates over a longer period of time, so even if the interest rate is lower on the longer-term loan, you will still end up paying more in total interest charges.

For example, let's say you take out a \$200,000 mortgage with a fixed interest rate of 4% and you choose a 30-year term. Over the life of the loan, you will pay a total of \$143,739 in interest charges. If you instead choose a 15-year term with the same interest rate, you will pay only \$66,288 in total interest charges, less than half of what you would pay with the longer-term loan.

However, a longer-term loan can also have benefits, such as lower monthly payments, which can make it easier to manage your cash flow.



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Use the Purchasing Rent Roll as Security.

You can potentially just use the Rent Book being purchased as security.

This will mean the purchaser will have to put in a Deposit and any costs related to the loan/purchase. The Lender will Value the book and then lend to a Max LVR of that value which may not equal the Purchase price.

The maximum LVR varies between lenders.

For example, the average LVR is 65%. So, if the value of the Rent Roll came in at say 100K the lender will loan 65K. The balance plus costs would need to be paid by the Purchaser.

Since the lender is primarily relying on the rental income as collateral, they may require higher interest rates or more stringent loan terms to offset the risk.

Use New and Existing Rent Rolls as security.

Similar to the above however the purchaser already has an existing Rent Book that they own that can be used as security. Depending on the value of the current rent roll the purchaser may not have to find any funds to purchase the new rent roll.

For example, the average LVR is 65%. So, if the value of the Rent roll being purchased came in at say 200K the lender will loan 130K.

If their current Rent Roll already owned is valued at 180K the purchaser would have available to them, the additional \$70K plus costs leveraging the equity in the existing portfolio.

Term Business Loan

A term loan is a type of loan that has a set repayment schedule over a fixed period of time. The borrower is usually required to make regular payments over the term of the loan until it is fully repaid. This type of loan can have a term up to 10 years. This facility would generally require security.

Cashflow Loan

A cashflow loan is a type of loan that is granted based on the borrower's cash flow and ability to repay the loan, rather than on collateral or assets. In other words, the lender evaluates the borrower's ability to generate sufficient cash flow to repay the loan, rather than relying on the borrower's assets as security.

These loans are typically unsecured, which means that the borrower does not have to provide collateral in order to secure the loan.

They are normally for a maximum of 3 years. However, they can be rolled over. Useful for the purchase of a small Rent Roll.



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Key Rent Roll Funding Criteria

How much can I borrow?

All participating Lenders have differing credit criteria, and the type of Rent Roll will also impact this. They have different LVRs and will do different loan terms.

Rent Roll Data

Number of Properties

Suburb spread.

Number of property managers

Vacancy rate

Owners Industry Experience

Will normally require a minimum of 3 years' experience.

Term loan

This varies greatly from lender to lender. Minimum is 3 years out to a maximum of 15 years.

Is interest only loan an option?

Some lenders will offer this for a period of 3 to 5 years and then revert back to a P&I Facility.

Security Required

Management authorities in place

GSA – General Security Agreement

Property

Valuation requirements

Normally be a requirement of the lender. The basis will be on Management Fees only and not include Letting Fees.



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Professionals to Assist

Rent Roll Brokers.

The Rent Roll Broker is a business broker specialising in the sale of rent roll portfolios and real estate agency practices.

Valuer

There are valuers that specialise in Rent rolls. Cost will vary.

Accountant

Will provide financial, Tax information and the corporate structure to be used.

Legal

Will Prepare Contract of Sale and handle Settlement.

Finance Broker

Will assess your needs, find the best option for your requirements and work with the borrower to prepare an application. They will also negotiate with the funder on your behalf.



Opibus Finance Team

Michael Evans

I am a qualified Accountant and Director of Opibus Finance.

I worked for several years in a boutique Agency. I have performed various duties.

I participated in several Rent roll transactions from both sides – buying and selling.

I have worked across many industries throughout my career including real estate, property development, construction, retail, marketing, and advertising.

Michael's extensive experience in the real estate and property industry gives him solid knowledge of all the steps involved in buying, selling, financing, and managing property Rent Roll transactions.



Neil McKay

I am an experienced finance professional and a Director of Opibus Finance.

I have lending and risk management experience having held a credit discretion of more than \$15 million. I always take the approach of understanding the customers' business and matching the financial products available to provide balance sheet and cash flow solutions.

Neil has an extensive network of contacts across the banking and finance industry providing him with an up-to-date knowledge of the various products available utilizing not only the usual range of loan and deposit products, but also more specialized products such as trade finance, equipment finance, wholesale, and dealer finance.





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