

Pros and cons of the syndication route

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With the ongoing debate on the state of the Irish residential property market, savvy investors are looking for new opportunities. Commercial property, which was once seen as the preserve of those with fat chequebooks, is now becoming more accessible thanks to the advent of syndication.

Property syndication means that each investor contributes a share of the total funding and supplementary funds are borrowed against this equity. Using this mix of debt and equity, the syndicate then purchases investment properties.

Taking the syndication route gives investors the chance to own a share of a high value property without having to fork out a massive sum of cash.

One advantage of investing in commercial property is that it is less time consuming from an investors point of view. Commercial property tends to carry long term leases, which contrasts with the typical 12-month lease offered on a standard residential let.

“Investors are heavily biased towards property in this country,” said John Rockett, head of private banking at AIB. “However, we are not keen on the residential market. It looks flat at best. There is less work on commercial property since you are looking at a minimum of ten year lease.”

Irish investors looking to get into the commercial property market have a wide range of options open to them. Many Irish wealth management companies operate syndicates with something on offer for people with differing appetites for risk.

Some syndicates concentrate on more traditional markets while others focus on emerging markets. Most of the companies listed similar criteria as key factors when choosing an investment property including location, the quality of the building, the leasing and rental situation and the regions growth potential.

Former entrepreneur of the year Declan Kennedy founded Augusta in 2004. Its focus is the British and German markets and the company has more than €100 million worth of assets under management.

“Augusta’s public syndicates offer high net worth opportunities to medium net worth investors,” he said. “We structure them to be accessible to the first-time investor in commercial property. All our documentation is easy to understand and covers risks, costs and rewards equally thoroughly.” In order to invest in an Augusta property syndicate, investors need a minimum of €50,000.

Due to the structure of commercial property syndicates, individual investors are able to avail of gearing, and this widens the net of affordable investment properties. The level of gearing depends on the investment opportunity being considered and the level of risk involved.

Gearing levels are quite consistent across all players in the market. Augusta’s investment opportunities are generally 75 to 82 per cent geared.

Investors who are interested in getting involved in the commercial property market via syndication must consider three types of charges. Generally, an initial upfront charge applies for most funds and syndicates. This fee covers the administrative costs involved in setting up the deal and covers things like sourcing the property, legal fees, banking fees and any site surveys required.

Once you have taken the plunge and invested in commercial property, you will most likely pay an annual management fee for the duration of your investment. Management fees for commercial property investments tend to be structured in one of two ways, with the investor either paying a percentage of the value of the property. If you opt to invest with one of Augusta's syndicates, you will pay an annual management charge fee of 0.75 per cent of the initial property cost.