

Property syndicate checklist

This checklist explains some of the things to consider before you invest in a property syndicate. You should be able to find answers to these questions in the documents you are given that explain the investment.

The property

- What part of New Zealand is the property in and is it a growing area?
- Could the property become hard to lease when the current lease ends?
- What is the condition of the building? Would this affect the sale of the property?
- What is the level of insurance cover for the property?
- What other risks have been identified that are specific to the property?

The property manager

- Who is the property manager? Are they a name you know?
- Does the manager have a track record of managing properties?

The tenant(s)

- Is there a single tenant or multiple tenants?
- Who are the tenants? Are they a name you know?
- How long are the leases and are any of them expiring soon?
- Does the syndicate have to pay a 'rental incentive payment' for any tenant to get them to extend the lease?
- Are there any upcoming opportunities to review the rent?

Related parties

- Are any of the people or firms doing work for the syndicate related to each other in any way? For example, is the maintenance company related to the company setting up the syndicate? If so, how will their charges be calculated? Think about whether you would expect people to act in your best interests or whether they are more likely to try and maximise their own fees.
- Who decides what management fees are paid, and to whom? What is the level of the fees and might they rise?
- Can investors vote to change the property manager? If so, will the syndicate need to pay additional fees to the property manager who is leaving?
- Is anyone allowed to borrow money from the syndicate?

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Bank loans

- Are there any bank loans being paid on an 'interest-only' basis? This means only the interest on the loan is being paid, and none of the original sum borrowed is being paid back.
- If so, how long is the interest-only loan for? If the syndicate is not able to refinance the loan on a similar interest-only basis, costs will increase to cover the principal repayments and the syndicate may be forced to sell the property in order to repay the loan.
- What is the loan-to-value ratio (also called the gearing ratio)? This tells you how much the syndicate owes (debt) as a portion of what it owns (assets).
- What is the interest cover ratio? This tells you how much of the syndicate's income (rent) is used to pay interest on its loans. The higher the ratio, the more comfortably the syndicate's income can cover any interest owing.

Before you make a final decision to invest, we recommend you speak to a financial adviser to find out if this type of investment is right for you.

For information on the types of advisers available and where to find one, visit the 'getting financial advice' page of our website.