- Overseas activity dominates prime UK property
- Luxury assets purchased with equity & debt
- Liquidity requires careful negotiation

30th October 2009

Indulgence……Sweeter with Debt

Although the credit crunch has dominated headlines around the world, even the super yacht market, arguably a strong measure of the appetite for luxury assets, has experienced new interest: principally from overseas buyers, including Americans showing prominence in the enquiries list. Other 'pleasure' driven assets, such as overseas vacation homes, have also shown increased activity over the last quarter.

Financing through debt

Historically a luxury asset such as a Ski Chalet in the prestigious location of Les Trois Alps would have been purchased with cash. With liquidity tight, high net-worth clients are increasingly recognizing the value of preserving their important cash reserves. With interest rates at an all time low the cost of borrowing money has never been cheaper. Coupled with the unpredictable nature of today's economic climate it makes commercial sense to use blended bank debt to finance luxury purchases. In many cases even at 50% LTV (loan to value) the protected funds can be deployed elsewhere in order to generate an income that at conservative rates of return should be greater than the cost of borrowing. In the case of a super yacht this return can be sufficient to cover the annual maintenance and service costs of the asset.

Equity release

Equity release after the event of purchase can be an effective use of capital, sometimes needed when a property is being used for a nominal period of time. In a recent case of a luxury alpine residence in Les Trois Alpes, the client was looking to leverage the luxury asset to release important liquidity to support a business venture in Eastern Europe. Releasing 60% LTV on a value of circa €40m at highly competitive interest rate spreads, enabled the client to service the repayment of a higher interest business development loan. The key to successfully completing the transaction was the need to ensure that the property provided the only pledged security, retaining freedom over the other assets and collateral for use elsewhere.

Your home is at risk if you do not keep up the mortgage re-payments

- Market Indicators
- Sterling Base rate: 0.50%
- UK 3 month Libor rate: 0.59%
- Average available Residential rates from: 1.25% over 3 month Libor.
- LTV's between 50% - 70%

"The actual rates we can obtain for clients depend on and are determined by individual circumstances and what can be negotiated with individual lenders"

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