

Real Estate: Part 6

We touched on some of the real estate issues related to the citizen, and to keep the practical information from getting lost in the maze of complexity of this subject, we will return to it over and over with more writing and advice. But I'd like to include some tips and warnings now that may not be immediately apparent so far.

First, every investor in property who gets a loan from a bank should calculate the annual income of the property, discounting the income by 15% to account for expenses, vacancies, and interest rate increases. Next, deduct the annual interest charged from the financing bank. Take the sum you have and multiply by 10 (for the number of years of the loan) and then divide that number by the total loan amount. If the number you get is 1 or higher, your condition is stable. If you come up with a fraction, however, then you have a problem that requires an immediate solution. You can either reduce the debt using other sources of income, or you can negotiate with the financial institution to increase the loan period for the longest time possible. Extending the life of the loan might result in paying more total interest over the life of the loan, but it doesn't make sense to finance long-term projects with short-term financing just because it might be cheaper.

Now, in cases of negotiating a loan renewal, it is the right of the financial institution to claim full payment of the original loan amount. Usually this only happens during a financial crisis or in case of a liquidity shortage because the bank would be shouldering the greater liability. These are the times that the bank would rather cut the rope and let you fall. This was clearly the case in the 2008 crisis, where some banks canceled customers' unwithdrawn credit limits, regardless of their customers' future needs. This is what inflicts the most damage on property developers who use their credit limits along a timeline required by the construction of the property. The worst possible situation is losing access to funding while still under construction because it will not be profitable.