

Vor Property Bonds



An Introduction to Property Bonds

This guide offers an insight into property bonds for sophisticated, high-net-worth and professional investors; investors who are experienced with varying investment opportunities and the risk/return profiles of less traditional asset classes.

Experienced investors can utilise property bonds as an opportunity to become involved in the property market. Targeting more attractive returns than mainstream opportunities, whilst building a diverse portfolio in a manner that can tax efficient and even generate some returns tax-free.

An Introduction to Property Bonds

Contents

1. Introduction

2. The key features of a property bond

3. What is a property bond?

4. How do property bonds work?

5. Why have property bonds increased in popularity?

6. What target returns can property bonds deliver?

7. Why do experienced investors choose property bonds?

8. How do investors get involved with property bonds?

9. FAQs

10. About the Author

Introduction

Over recent years, asset-backed property bonds - the alternative investment product that provides alternative finance to property companies for the development of residential and commercial property projects - have grown in popularity. They offer investors access to the property sector, with the security of bricks and mortar, but without the hands-on nature of buy-to-let and direct property development and the downsides that often come with them.

This guide will provide investors with a detailed insight into property bonds. It will illustrate what they are, how they work, and the attractive benefits - from potentially higher target returns, to tax-efficiency - they can offer experienced investors. The questions explored will include:

- Why have property bonds increased in popularity?
- What target returns can be delivered by property bonds?
- How do investors get involved with property bonds?

The key features of a property bond

Owing to their potential for higher returns, ease of access, asset-backed security and tax-efficient investment methods - property bonds are extremely popular with experienced investors.

There are a number of key features that make asset-backed property bonds such an attractive investment consideration, including:

- Target returns of between 4% and 24%*
- Fixed term, typically between one, two and five years
- Asset-backed security via a first or second legal charge
- Compounding income or regular (quarterly) income options
- Minimum investment amounts as low as £20,000
- Often no fees or charges for investors
- Allow investors easy access to the high-yielding property market, from residential property to commercial property

What is a property bond?

Due to the attractive target returns available, property remains one of the most popular assets for investors - and property bonds allow investors access to the sector without requiring knowledge of construction or land development, and without the hands-on nature of buy-to-let.

- A property bond is a loan to property development companies for the purpose of purchasing land, buy existing properties, or for new build development finance.
- Investors into a property bond will receive a rate of interest over a fixed period of time, and at the end of the term, the investor's original capital is repaid in full.
- A legally-binding agreement between investors and the bond issuer or property company, property bonds have the potential to provide market-leading returns for experienced investors.
- Increasing in popularity with both investors and lenders after the 2008 global recession, their accessibility has widened. Once a niche asset, property bonds are now accessible through a variety of routes.
- One of these is the Innovative Finance ISA (IFISA), which shields returns from income and capital gains tax.

How does a property bond work?

Property bonds are issued in two primary ways:

- Direct via the property company
- Through a specialist lending company

Specialist lending companies offers an additional layer of knowledge, experience and industry understanding - allowing any such property bond to be structured in the most robust manner possible. Additionally, when issued through a specialist lending company, property bonds will often be able to utilise various tax-efficient methods.

Once the bonds are issued and loans are made, they are secured against the property or land by way of a first or second legal charge. These charges offer collateral and security for investors. On occasion, an Independent Security Trustee is also appointed to provide an additional element of protection.

At the close of each loaned project the principle plus an agreed interest rate is paid.

In the case of a specialised fund where multiple loans are made, investors funds are spread across many bonds reducing risk even further. These funds may also enter into other stable strong return investments to further protect against major economic events.

Why have property bonds increased in popularity?

The alternative finance generated through property bonds is crucial in supporting SME property developers, while experienced investors are attracted to their higher target returns, easy access and the tax efficient returns.

- **The requirement for alternative finance and non-bank lending:** The issue of property bonds has become vastly more common in recent years, as the aftermath of the 2008 financial crisis left regional, SME property developers - particularly in the residential housing sector - without access to the funding they needed. Alternative finance and non-bank lending became a crucial part of the funding mix, allowing property developers to continue to drive innovation, create jobs, and – build a larger and wider range of projects.
- **Potentially higher target returns for investors:** Property bonds also offer attractive benefits to investors at a time when interest rates have hit record lows - and the appeal of buy-to-let property investment is in decline. High target rates are understandably attractive to experienced investors who have, for some time, struggled to generate a healthy return on their capital due to diminishing interest rates.
- **Easy access to the property sector:** Investors with an interest in property can gain easy access to the sector through property bonds, as the complexities of other methods of property investment - such as direct property development and buy-to-let - also have a part to play in the increased popularity of property bonds. Many investors want to reap the benefits of investing into property - namely, the high potential returns - without having to confront the time-consuming responsibilities that come with being a landlord, or the experience needed to get involved in construction and land development.

- The diminishing popularity of buy-to-let: It's worth noting that changes to mortgage tax relief, duty's on second homes and the tightening of underwriting standards for buy-to-let mortgages has meant that buy-to-let has dwindled in popularity with investors. This is evidenced as landlords appear to be purchasing fewer homes than at any time in the last nine years (2010-2019).

What target returns can property bonds deliver?

Each property bond will have its own risk/return profile, and there can be a significant spread of target rates of return.

Many property bonds give investors the choice of when they receive interest payments. Typically, the options are to have interest rolled-up and paid all-together with the repayment of your capital upon maturity (at the end of a fixed term), or to receive interest payments on a quarterly basis - providing a regular income.

Why do experienced investors choose property bonds?

In a period where experienced investors are receiving low income returns on cash savings, many are looking to the alternative investment market to make their money work harder.

With property bonds, investors have the potential to achieve better risk adjusted returns with higher interest rates through secured loans to the UK's residential and commercial property market.

However, returns are just one aspect, and there are several other reasons why an experienced investor may choose a property bond.

For example:

- Investors who are attracted to the prospect of investing into the property sector, but don't have the time for the responsibilities of buy-to-let - because, perhaps, their full-time career is already too demanding - may find the ease of a property bond particularly appealing.

This is especially true when considering that most property bonds can be viewed online, to monitor the status of the investment.

- Similarly, investment into property bonds do not require investors to have expert knowledge of construction or land development.
- The often lower minimum investment amounts attached to property bonds mean that, when compared to the initial capital needed in the purchase of properties for the purpose of renting or refurbishment to re-sell, they're more readily accessible to a wider range of experienced investors.

Why do experienced investors choose property bonds?

- Many investors are attracted to property bonds because of the diversification they allow. With portfolio diversification a critical part of any successful investment portfolio, property bonds can provide it in various ways - such as the ability to invest in residential or commercial property, or property opportunities in various locations throughout the world.
- What's more, with property bonds able to target returns that can be delivered quarterly, annually or on maturity (i.e., after a four year period), diversification can be achieved in the way of income - choosing quarterly returns if your portfolio is based on long term gains, or returns on maturity if it's the opposite.
- Whilst experienced investors are appreciative of the risk involved with investing in the property market, property bonds offer a level of security that is not possible with other similar alternative investment opportunities. Although returns are not generally guaranteed, the bond is secured to a physical asset - the property or the land upon which it's built.

FAQs

What is asset-backed security, and how are property bonds secured?

Property bonds are typically secured by way of a first or second legal charge over the underlying asset. These charges offer collateral and security for investors. This means that in the event the borrower defaults on their loans, the bond issuer has the right to seize the asset (the development) and use it to pay back the investors.

Will I pay tax on the returns I earn from a property bond?

This depends on how you choose to invest. There are several tax-efficient methods of investing into a property bond - where there is some, little or in some cases no income or capital gains tax to pay on any returns realised. If you decide to invest directly, returns are usually taxable.

Can I access my funds before the fixed term property bond matures?

Property bonds are considered a fixed term bond, investors will usually be unable to access their funds before the bond matures at the end of the term. Although when through a secondary company like a fund that holds multiple bonds they may have ways to exit early.

Why are property bonds necessary, why don't property developers borrow from banks?

Since the 2008 recession, many smaller, developers have struggled to secure the funds needed for property projects from traditional financial institutions. But the development of property still remains crucial on both a societal and economic level, and in some locations the tourism market is essential. The alternative method of finance offered by property bonds can facilitate the delivery of much-needed residential and commercial property developments. The finance accessible by the issue of property bonds also means developers are able to take on bigger, more ambitious projects.

Author

Shaun Herran-Venables, Vor Property Fund Chairman, has over 25 years of experience in business and corporate investments across the globe. Providing tailored solutions to individuals and businesses. He has a demonstrable track record in originating and structuring property transactions all round the world. As well as entering many other sectors when opportunities arise.

Vor Property Bonds

Vor Bonds provide experienced investors with access to fixed term investments by generating returns from making secured loans. They hold 1st charge on all investments; even as a minority investor by arranging all the financing for a project, through its larger financing partners.

Vor funds are obtained through the investment fund which combines multiple bonds together with short quarterly term loans and in other medium term investments in other sectors.