


 mikehippsfinance


## When In Doubt.....Do Nothing?

Before we begin.....a caveat.....by the time you read this the content may be out of date. In fact, by the time I've finished typing it might be old news.

In fact, I've now written this article 3 times. Each time I complete the task and head off to bed having once again dodged the dreaded deadline extension. Each morning I awake to new news, some good, some bad. It's like Groundhog Day with a twist. I awake to the same day but with a few bizarre nuances.

Yesterday I was going to comment on the positives of reopening borders, today Victoria reinstates limited gathering orders and the Queensland government makes noises about selective border openings. All those jokes about the southerners needing to clear the boom gates are finally coming true. Don't get me wrong, I'm all for state by state passports with stamps to show where you've been and special hot spot stars in red to alert the unsuspecting border guards. You could use a tracking app I guess but who knows what the government may do with your private personal data. It's not like the spooks could figure that out from your tax returns, Medicare history, Facebook page, Google activity, Instagram account or Twitter.

Anyway, enough of the frivolity.

Let's cut to the chase, what are the banks thinking? In spite of their best efforts to remain organised and supportive they are in the same boat as the rest of us. That is, they have no clear idea how all this is going to end but they are doing their best to get through and to help the rest of us survive as well. Annual reviews have pretty much been set aside for accommodation industry borrowers and I haven't seen any bank insist on a revaluation. What's the point when we all know that for holiday buildings and many motels the numbers will be horrible. All the banks have been swamped in support requests and some process these volumes better than others. Do not despair if your bank is a bit slow sorting your request, it is not a plot to send you into receivership. God knows, who in their right mind would want to force a sale at present.

At least one of the 4 majors have announced that repayment holidays and interest only conversions have been automatically extended to the end of September. I expect the other lenders to follow. One of the majors has announced an embargo on motel and holiday-based management rights lending until the end of July while another is clearly dodging any application to finance these assets.

Having said all this, deals are getting done. How can it be I hear you ask? Well, of course many buyers are using incredibly capable, professional, well regarded miracle workers like ourselves.....shameless plug, sorry!

But in all seriousness, any buyer right now needs to be better prepared than ever.

The first two questions we need to answer are, who is the borrower and why are they buying right now? Given the uncertainty out there a borrower needs to be able to demonstrate sufficient direct and /or comparable experience to show that they have what it takes to manage and prosper if things don't get better and fast. Remember, borrowers who decide to execute transactions now that the Covid risk is a clear and present danger run the risk of being left out of future bank support packages. If you get into strife post settlement or if things get worse, you may well be on your own. There are strategies for minimising this risk, but I can't give all our secrets away.

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Having convinced the bank that the borrower is a genius the next step is to address the specific transaction. If it's a permanent management rights in the 'burbs with minimal Covid impact and negligible future risk (we hope) that's a relatively straight forward discussion. If it's a holiday based MLR in Surfers or Palm Cove the argument needs to be whole lot more robust. A good starting point is the level of debt coverage offered by the BC salary. Add in a property letting cash flow with conservative assumptions and a compelling business plan and we are on our way. No other external debt? Tick. Other income streams? Tick. Reasonable post settlement cash reserves? Tick. We are on our way...not home but on the right track.

Still doesn't answer the question...why buy now and take on the vendors Covid risk? Simple. The price reflects the risk and by the time the risk can be absolutely quantified (or even better defeated) the price will go back to pre Covid levels. Put simply, prices right now need to reflect the unknown risks being taken by the buyer and, as such, removed from the vendor. Of course, as this once in a lifetime crisis has demonstrated, the future risks are simply impossible to quantify.

What we do know is that, just as we saw during the GFC, some clever, brave and/or crazy people will make money. They won't be influenced by peripheral issues and fringe discontent and will focus on a 2 year recovery horizon. If the price is right and you've got the capital to get through why not. The trick will be to find value at an acceptable risk level and as I've observed before I don't see many vendors being prepared to take a bath just yet.

Of course, you could always take the safe but potentially less profitable option and, like so many, do nothing.

As always I will leave you with Winston. I've used this one before but it's just so right for these times. *"If you are going through hell, keep going."*

And here's another from the great man. I pray that those who would deface his statue in the name of social change might one day reflect. Completely irrelevant to this article but such a cracker I couldn't resist.

*"Socialism is a philosophy of failure, the creed of ignorance, and the gospel of envy, its inherent virtue is the equal sharing of misery."*

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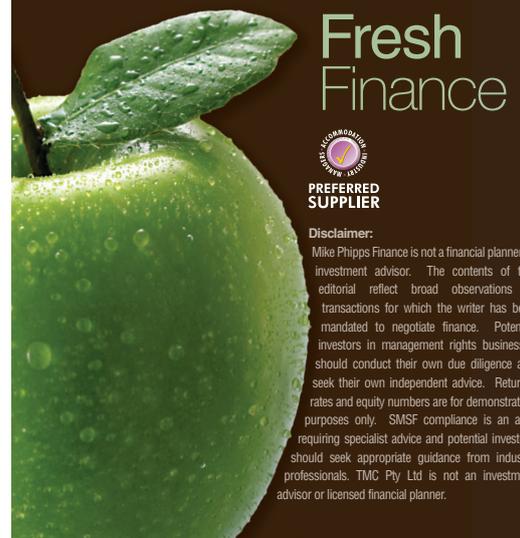
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