

Alternative
deposit
products on
the market

WHILE compelling evidence exists that SA's property market is improving, it is going to take time for increased buyer interest and lenient lending criteria alone to restore purchasing activity to its pre-credit crunch levels.

Rhys Dyer, chief operating officer for mortgage originator ooba, says one of the key lessons learnt from the market difficulties of the past two years is the important role that viable and cost-efficient finance alternatives have to play in stabilising the market by encouraging purchasing activity.

Ian Slot, MD of the Atlantic seaboard area for Seeff Properties, says because of the market difficulties since 2008, property investors and developers are insisting on more intelligent and cost-effective finance alternatives before they decide to re-enter the property market.

"The demand for such intelligent alternatives, especially as a replacement for traditional cash deposits, is understandable. Particularly when one considers that the difficult economic conditions experienced since 2008 have seen most people moving their funds into other, safer forms of investment — many of which are now beginning to generate decent returns on the back of the equity market upswing."

Mr Slot says these investors are loath to now liquidate their investments to finance the deposit on a property purchase, with the result that the market has had to come up with alternatives and interim finance mechanisms.

Antony Solomon, of Lombard Insurance, agrees, saying this call for an intelligent cash deposit alternative is now being answered by means of the introduction of deposit guarantee products like Lombard's Deposit Advantage.

"Not only does Deposit Advantage afford savvy property investors and developers a viable and cost-effective means by which to cover their deposit requirements," he says. "But it does so in a way that enables them to avoid having to plunder any other investments they may have, thereby presenting them with a very effective win-win solution".

"Not only is Deposit Advantage an affordable alternative to a cash deposit, it makes good tax sense; the interest earned on cash deposits are not only quite low but are also subject to income tax, making the net return to the purchaser paltry.

Conversely, the cost of your Deposit Advantage guarantee is, in the case of a purchase for business purposes such as a rental enterprise, a tax-deductible "cost in the production of income" and it is also, in all circumstance including private home purchases, a tax-deductible expense when calculating your capital gains liability."