INVESTicity

“Property Investing, Simplified”

Part 1

THE JOURNEY SO FAR

Over the last ten years we have managed to successfully build a multi-million pound property portfolio that consistently produces annual six figure rental income, as well as providing rolling equity release to continue building the size of the portfolio.

We’re not here to tell you that you can become a multi-millionaire overnight, or that you can leave the day job tomorrow, but what we will promise you is open, honest and transparent information and best practice based on what has, and hasn’t, worked well for us over the last ten years.

We’ll show you the performance of our own personal portfolio, including all of the highs and lows, and we’ll give you access and running commentary to our ongoing projects and explain how they fit into our overall investment strategy. We’ll also share with you our journey up to this point, which has been a road to replacing six figure corporate salaries, and creating more time for family, friends, and the things that we enjoy.

My Dad and I have tackled the journey together, with complimentary skill sets and unrelenting support. Partnerships and Joint Venture’s are something we’ll talk more about, but finding someone that can share the journey with you is a massive positive, and will really help to fuel your progress.

So, let’s get started and take a quick look at why we chose property investing as our vehicle to a better life…

A LITTLE ABOUT US

DALE SMITH

After four years studying at the University of San Diego, California I returned to the UK and ‘fell’ into the automotive sector. Over the last seven years I have been involved in running Sales and Marketing functions, Business Development and Commercial Management, however, my passion has always been towards developing our property investment business to the point that we could finally focus on it 100% of the time. My focus areas when it comes to property investment are on deal sourcing, deal structuring, financial projections and funding, the conveyancing process, and sales and marketing. Essentially, I deal with everything at the front end and the back end, and Shaun deals with everything in-between.

SHAUN SMITH

Over the last 15 years, Shaun has built and managed a multi-million pound property portfolio that consistently produces annual six figure rental income. Shaun manages all aspects of property management, from refurbishments, to conversion projects and day to day maintenance, his meticulous attention to detail results in stunning properties, and high customer satisfaction from tenants and clients a like.

STEVE VICKERS

Steve has joined the team to share his property knowledge in the field of development and extend his experience in professional sports with our clients and investors.

So, that’s us, and we’re passionate about helping other property investors along their journey, sharing our successes and our failures on the way to creating financial freedom…

WHY PROPERTY?

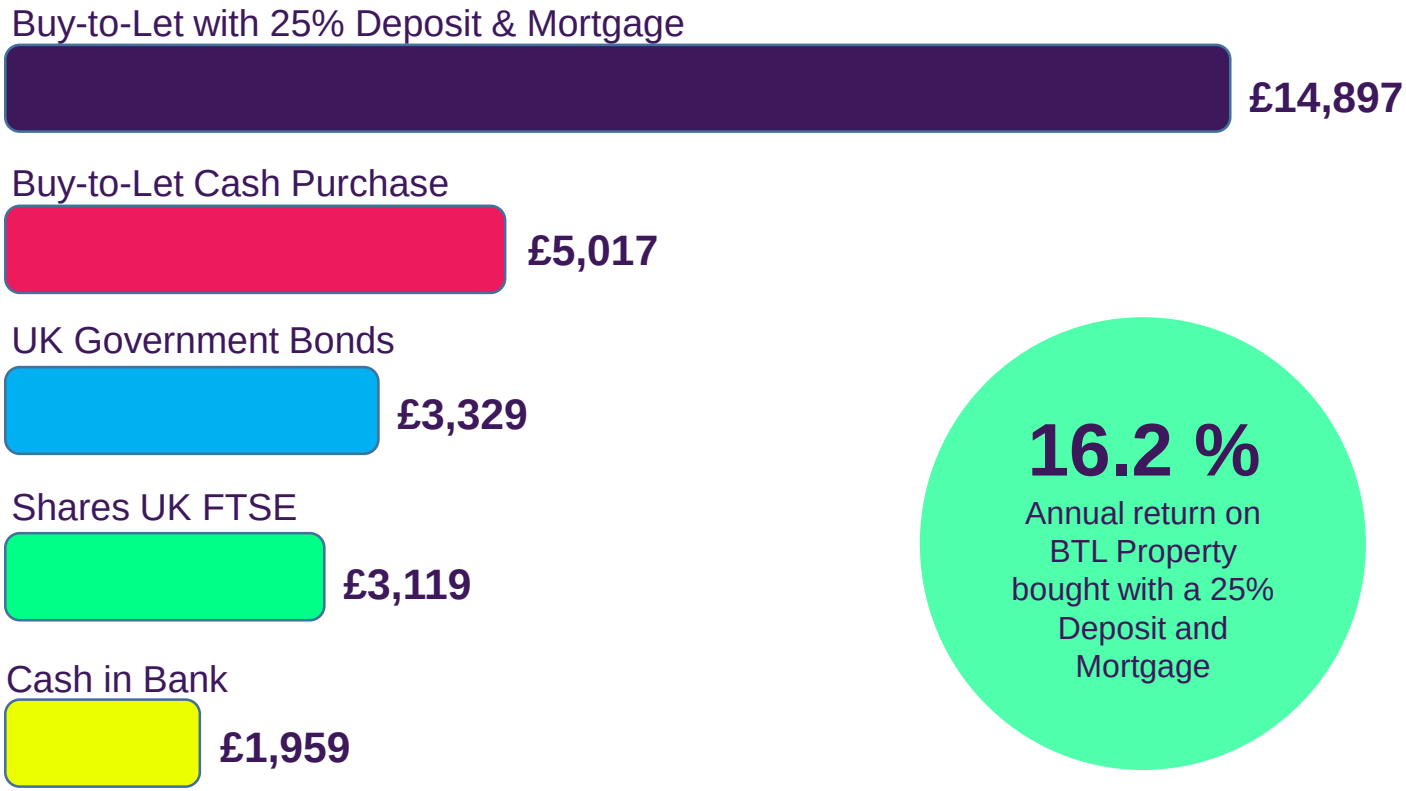
Rental income
Compounded Capital Growth
More Control
Less Volatility
Values move with inflation
100% Tangible asset
Leverage

Leverage
Compound Growth
Rental Income

To get things started, we're going to focus on what we consider to be the three key reasons that property investing is the smart choice: leverage, compound growth, and rental income (cash flow!)

How Buy-to-let property outperforms other investments

Based on performance of £1,000 invested between 1996 & 2014



16.2 %

Annual return on BTL Property bought with a 25% Deposit and Mortgage

Source: Rob Thomas, Wriglesworth Consultancy

TYPICAL INVESTMENT PROPERTY

To provide us with some context, let's take a look at what a typical investment property could like and consider the parameters that we would work to – we'll also try and bust some jargon too…

Property Type:
3 Bedroom, Semi-detached property with garden, driveway and garage.

The advertised price of the property	**£125,000**
The agreed purchase price of the property	**£100,000**
Discount or % Below Market Value (BMV)	*20%*
Usual Deposit Requirement if mortgaging	£25,000
Mortgage	£75,000
Stamp Duty	*£3,000*
Estimated Conveyancing Costs	*£1,000*
Estimated Refurbishment Costs	*£5,000*
Estimated Interest Only Mortgage Payments	£225
Total Cash Investment	**£34,000**

PURCHASE PRICES & BMV

The advertised price of the property	**£125,000**
The agreed purchase price of the property	**£100,000**
Discount or % Below Market Value (BMV)	*20%*

When negotiating a purchase, we have pre-set parameters that we work to in regards to the purchase price of the property versus what we believe the Open Market Value to be (OMV). Our target discount or % Below Market Value (BMV) is 30% - the greater this percentage the better, but we believe that 30% is the real sweet spot for a hot deal – and our minimum below market value percentage is 15%. If the numbers don't fall inside the 15% discount from market value, then we simply will not make the purchase. We'll discuss why these percentage are critical to our overall strategy when we look at "leveraging".

In the example we have used here, we have assumed that the advertised price of the property is also the market value of the property, but this can very widely depending on a number of variables. These could be, the condition of the property, the time on the market, inflated advertised price by the agent, title restrictions and use restrictions…the list goes on, but this is where fully understanding your chosen market-area it essential, and can be easily achieved with some time dedicated to reviewing key information on the major property portals, and a few quick sense checks.

DEPOSIT, MORTGAGE, CONVEYACING

Usual Deposit Requirement if using a mortgage	**£25,000**
Mortgage Amount (75% LTV)	**£75,000**
Stamp Duty	**£3,000**
Estimated Conveyancing Costs	**£1,000**

In this example, we have assumed that we have purchased the property using a 25% deposit, which means we will use a mortgage for the additional 75% of the purchase price. This would be considered as a 75% Loan to Value mortgage product, and would in most cases be purchased using a standard Buy to Let (BTL) interest only mortgage.

You can see that we would be liable for Stamp Duty on the purchase, and that we would be liable at 3% of the purchase price. This is due to all of our purchases being through a Limited Company, a method that we believe to be even more beneficial given the tax changes due to take effect from the 2017-2018 tax year. However, if we were purchasing the property in an individual name(s), then the Stamp Duty liability would again be the same due to recent changes whereby all second homes are now liable to a 3% Stamp Duty increase over and above the standard banded liability.

Conveyancing costs will vary depending on how you choose to purchase and the team that you lean on for your legal advice, and funding advice. We have a team of professionals that we use for every transaction – they know our expectations on timescales and they understand how we work and what we're trying to achieve. This team is critical to your investing.

REFURBISHMENT COSTS

Estimated Refurbishment Costs	£5,000

This is where we start to get into the finer detail, and really, where the point of difference comes in. the refurbishment standard of the property is your opportunity to set yourself apart from the competition.

Lets not forget, there are over 4 million privately rented properties in the UK, so making your rental property stand out from the crowd is crucial – plus, it is our duty as Landlords and Investors to provide good quality housing to the UK population - in the past, too many landlords haven't done this, and it is something that we need to ensure is changed for the better.
In this example, we have estimated the refurbishment cost to be c.5% of the purchase price, and within this we would look to achieve at least the following:

New Kitchen, New Bathroom, New Carpets throughout, Re-skim walls where required, Re-paint all walls, Re-place fire alarms, Check Boiler and replace if necessary

We have had refurbishments (like Burnsyde, which was 22% of the purchase price) that have been all the way back to the original brick and built back up from there, but again, this will depend on the property, your goals, and the profitability of the deal once complete. Ultimately, the refurbishment should be to a standard that will give you the highest possible re-valuation in six months time, but not over the top, because as much as we try to make a property more desirable, the location, local amenities, and recent sold prices are going to have a big part to play.

TYPICAL INVESTMENT PROPERTY

So there we have it, a quick summary of what a typical Buy to Let (BTL) property might look like. Naturally this is going to vary to fit your funding ability, market area, investment desires, etc, but at least we have a yard stick that we can now relate to.

I'll also let you into a little secret, the reason I chose the £100,000 example, is that within my market area, I have one specific niche, which is 3 bedroom properties listed between £60,000 and £125,000, that I have the possibility of purchasing at a 20-30% discount from market value, and that are located close to local amenities such as schools, shops, bus stops, train stations. I will normally look for a minimum of three amenities being within 0.25 miles.

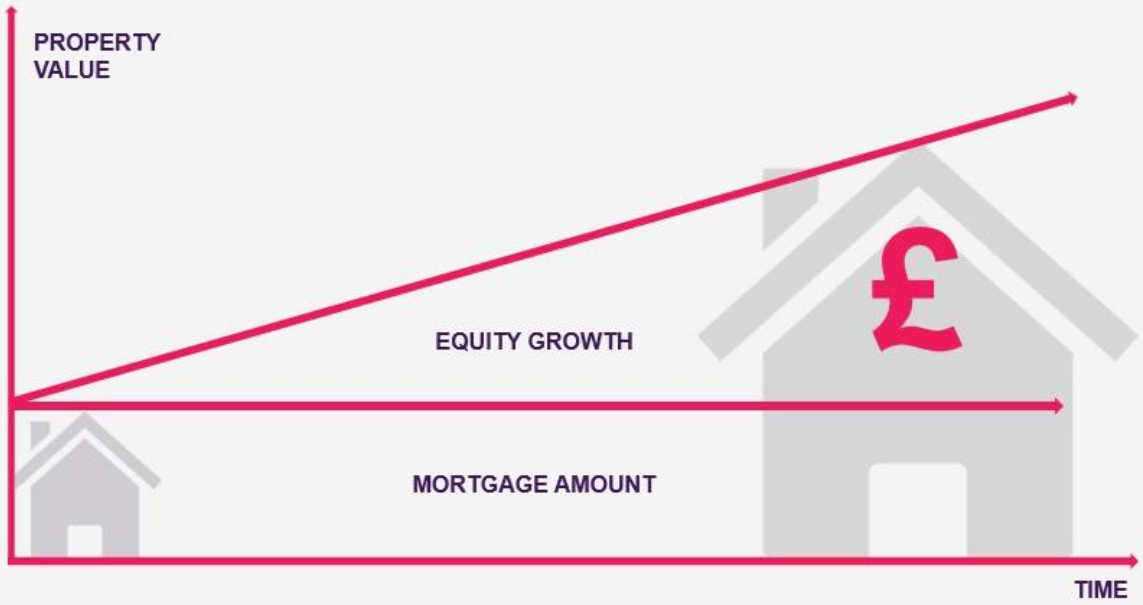
This is just one of a number of strategies that I will call upon, but gives me a set of distinct parameters that I can work to when sourcing deals that will fit this niche. As ever, if we can create some guiding structures and processes to work to it, there is far less chance of error.

Let's take a quick review of the example property we saw over the last few pages, and assume that we have now invested our £34,000 into purchasing the property and carrying out the refurbishment.

P.S. I know at this point that you may have a few questions, or be thinking, well that's all great Dale, but where do I get £29,000 of cash to fund the deposit and legals, and what about the £5,000 to complete the refurbishment? …well, I have solutions for you on that too!

LEVERAGE: what is it?

We're now going to take a look at what I would consider to be the most desirable factor that property investment has to offer…LEVERAGE!



So what is leverage? Well the dictionary definition is ***"to use to maximum advantage"*** and that is exactly what we are going to do here. It is also the single biggest reason that I love property investing – I have also been a big fan of Forex Trading, as similar to property, it offers huge leverage, even greater leverage than property investing actually, but with much greater volatility in the FX market, that leverage can also work against you – property is much simpler.

LEVERAGE: in context

To really appreciate the power of leverage let's look at an example where you were to use the £34,000 but instead purchased **shares** (stocks) with it.

The average shares would be lucky to return an average of 5% but let's say that they do for 10 years. At the end of the same 10 year period your £34,000 original investment would have grown to around £58,000. A £24,000 profit on your original investment.

Direct shares option:
£24,000 capital gain or 71% gain over 10 years (7.1%p/a)

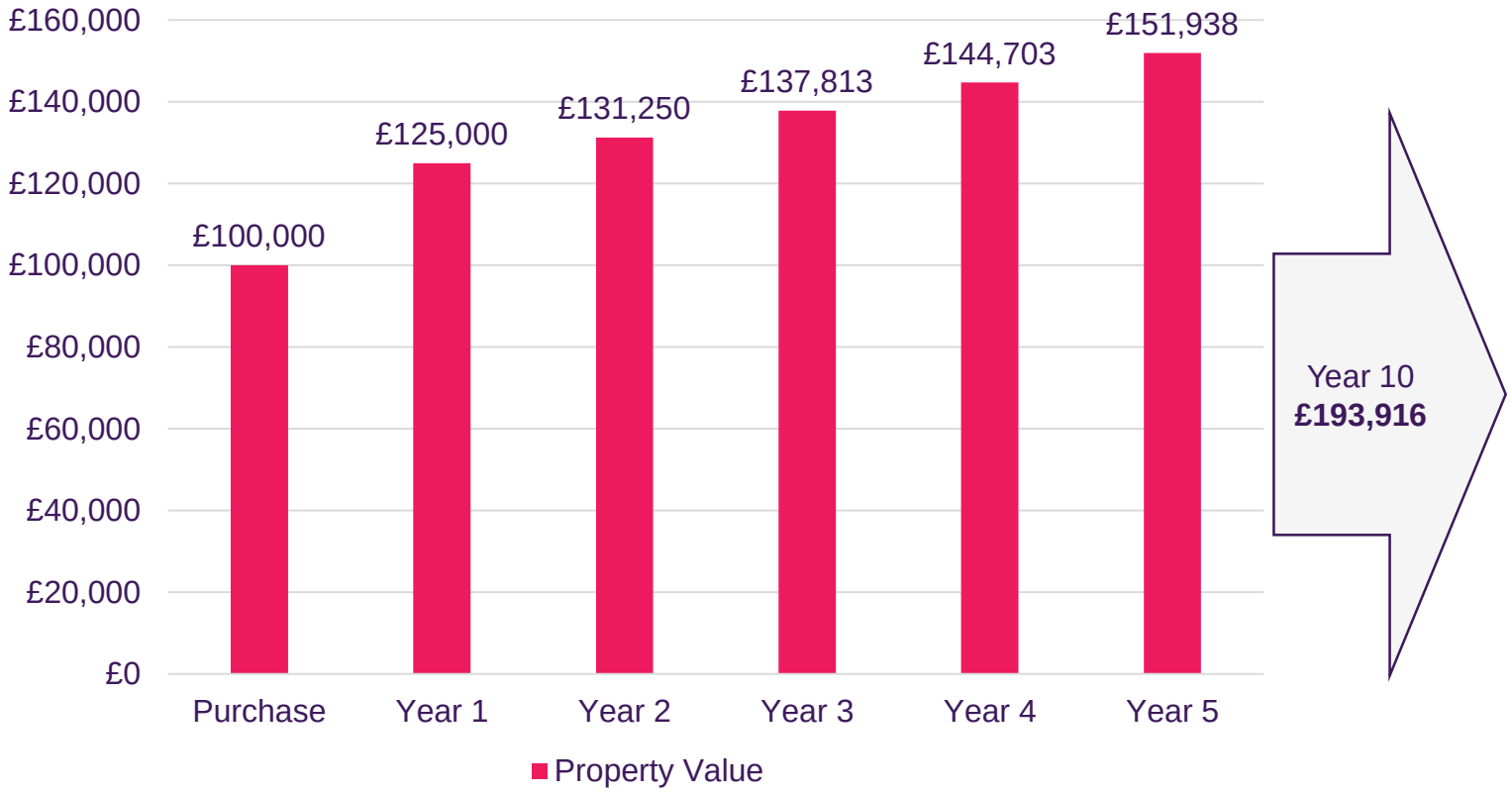
Not a bad return I hear you say, and I would agree, not bad! …and certainly better than what any high street bank would be willing to offer you, by a long way! …but we can do better!

Now let's look at how leverage works from a property perspective – and we need to make one critical assumption here – that we are going to use finance!

We are also going to assume that the property that we purchase will appreciate in value each year by 5%, again, a caveat here as this percentage will vary depending on your chosen market area – but 5% falls in-line with the UK average for the last two years.

Here's how that 5% per annum appreciation would look like over five years, and if we run that over ten years, like we did with the shares example, the property would have appreciated to £193,916 – purely from normal market conditions and inflation – a £94,000 profit.

PROPERTY OVER 5 YEARS



LEVERAGE: shares vs. property

So now, how does that compare to the shares?

Well the short answer is, better, just over 2% better to be precise, but again I hear your concerns – Dale, that can't be a direct comparison because you have taken the difference between the £194,000 value at year 10, and the year 1 purchase price of £100,000, which really assumes that we have purchased the property outright for £100,000 of cash?…

Property option:
£94,000 capital gain or 94% gain over 10 years (9.4%p/a)

…and yes, you're right, so let's scrap that 94% (9.4%p/a) return and work out the return on the actual cash that we invested – the £34,000…

LEVERAGE into Property option:
£94,000 capital gain or 276% gain over 10 years (27.6%p/a)

…now we're talking, now we're starting to see leverage at work. If you haven't seen leverage in action before, I hope you're having a lightbulb moment! I know I did when I first saw an example like this.

LEVERAGE: *"to use to maximum advantage"*

COMPOUNDING: the magic ingredient

Right, lets move on to compounding, my second favourite element of property investment, but actually, the glue that makes momentum property investing possible. What do I mean by momentum investing? The ability to keep scaling your portfolio without the hindrance of running out of cash – pretty essential unless you are already lucky enough to have enough cash to not have to worry about where your next deposit is going to come from.

After the property has been owned for six months or longer, we then have the option to re-finance, or 're-mortgage'.

This means we can have the property re-valued (remember we bought it 20% behind the listed price to begin with, then we spent £5,000 on refurbishment work) and then lend against the properties value today. The refurbished or Gross Developed Value (GDV)

We can again choose to borrow 75% of the value (today's value), BUT, this is where the magic begins….

Today's Property Price	**£125,000**
Deposit (25%)	£31,250
New Mortgage	£93,750
Conveyancing and possible Fees	*£2,000*

COMPOUNDING: releasing cash

Today's Property Price	**£125,000**
Deposit (25%)	£31,250
New Mortgage	£93,750
Old Mortgage	£75,000
Re-mortgage Costs	*£2,000*
Cash Released	**£16,750**

You can see from the example above, we have assumed the property is now worth £125,000 because of the original purchase price being behind the market value, and because we have spent £5,000 on a refurbishment, and we have then applied to re-mortgage the property on a 75% LTV BLT mortgage. That leaves us with a new mortgage of around £94,000, and £75,000 to settle on the old mortgage. Where does the difference go? Well, we get that back, minus any costs, so in tis example we would get around £17,000 back into our cash pot.

So no longer do we have £37,000 cash invested in the property, we have £37,000 minus the Cash Released, which equals only £17,250 of cash invested in the property.

Again, depending on your own goals, we could even look to scale this up to an 80% LTV mortgage at £100,000, which would release £23,000 back into the pot, and leave only £11,000 of hard cash invested.

COMPOUNDING: the % returns

Now HOW does that compare to shares?

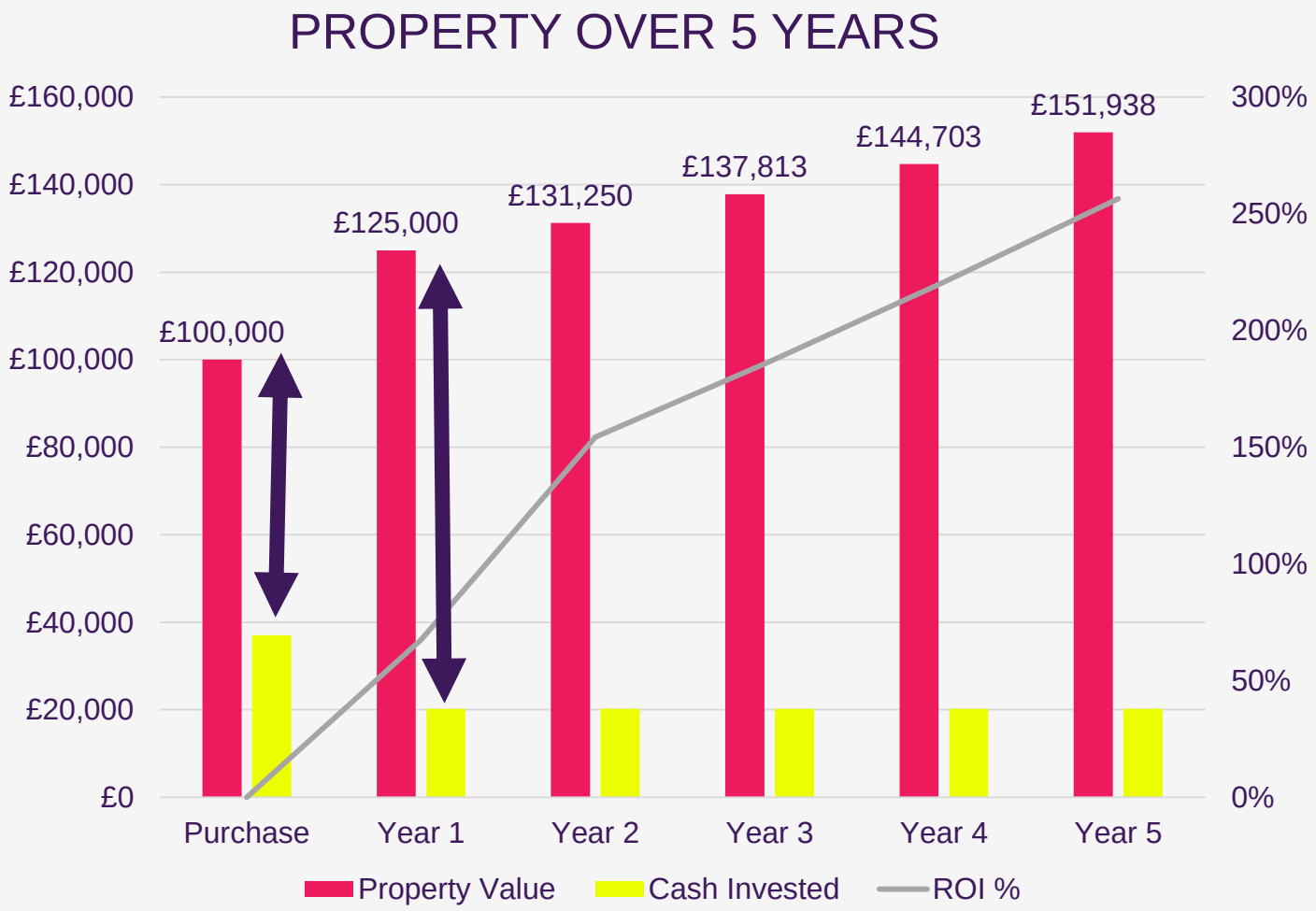
Direct shares option:
£26,000 capital gain or 71% gain over 10 years (7.1%p/a)

Leverage into property option after 75% LTV re-mortgage:
£94,000 capital gain or 544% gain over 10 years (54.4%p/a)
£94,000 returned from £17,250 of cash invested

Leverage into property option after 80% LTV re-mortgage:
£94,000 capital gain or 854% gain over 10 years (85.4%p/a)
£94,000 returned from £11,000 of cash invested

I hope this gives you a flavour of what is possible, and how the simple application of a few core principals can potentially provide astronomical returns. Both leveraging and compounding are powerful tools in their own right, but when combined they can provide something truly spectacular.

The graph below gives a visual representation of how the combination of capital growth (property price appreciation) and refinancing to reduce cash invested, directly impacts the return on investment



…AND THAT DOESN’T EVEN CONSIDER THE RENTAL INCOME…

RENTAL INCOME

The power of property investing really comes into its own when the benefits of leverage and compounding are then combined with the residual income from monthly rental payments. Rental income provides a great source of cash flow that can then be used to further increase the rate of your investing, or simply taken as additional personal income.

When looking at rental income, you will often here of something called Gross Yield and Net Yield

The Gross Yield is the yield on an investment before the deduction of taxes and operating expenses, expressed in percentage terms. It is calculated by dividing the annual rental income (before taxes and operating expenses are deducted) by the total project cost. Essentially it is the ‘Gross Profit’ the asset is producing.

Property Price	£125,000
Deposit (25%)	£31,250
Mortgage	£93,750
Mortgage Payments	£281
Rental Income	£600
Monthly Gross Profit	£319
Annual Gross Profit	£3,825
Cash Invested	£20,250
Monthly Management Fee	*£60*
Est. Monthly Maintenance	*£30*
Est. Monthly Insurance	*£15*
Monthly Net Profit	£214
Annual Net Profit	£2,565
Annual Net Yield	**13%**

The Net Yield is the yield on an investment after the deduction of taxes and operating expenses. It takes into account all the fees and expenses associated with the property. As such, it is a far more accurate illustration of the asset's financial performance. You can think of this as your ‘Operating Profit’.

RENTAL INCOME: tenant sourcing

From here, there are a number of things we could go into detail on, but again, we're going to keep things as simple as possible for the moment and take a quick look at tenant sourcing, property management, and maintenance.

In regards to sourcing a tenant for your investment property, you can look at doing this yourself through websites such as gumtree, find-a-room, house simple, or you can look to use a local agent that knows the market and already has potential list of prospective tenants. Either way, you're looking to trade money for time, whether that doing it yourself and trading your time in order to keep costs low, or you have someone do it for you so that your time can be spent elsewhere. We have already seen what leverage can do when utilising leveraged finance, and further down the line we'll look at what leveraging your time can do for your personally, and for your property business.

Whichever route you use, you'll need to ensure that you run full tenant reference and credit checks, have AST agreements in place, and that you have a regulated deposit scheme membership where your tenants bond or deposit can be held.

RENTAL INCOME: management & maintenance

During the process of finding a tenant for your property, you'll need to consider how and/or who is going to manage your property each month. Things to consider will be how your going to collect your monthly rental payment (cash directly from tenant, direct debit to your bank account) or if you will have an agent manage the property for you. If you chose a managed solution the agent will collect the monthly rental from the tenant, deduct their fee (usually between 8-10% of the rental value) and then send you on the net proceeds.

Next to consider will be who the tenant is going to call if they have a problem with the property, such as a leak, an issue with the heating or electrics, the list goes on – but the crucial question is, are they going to call you directly? Or will you look to a managing agent.

Again, the choice here comes back down to the cost of your time, and the cost savings versus time leverage.

We have been through the process of managing our own portfolio since day one, and gradually merging our own portfolio into fully managed scheme that is off-set by the management of properties for other landlords and investors. If we had our time again, I think both my Dad and I would have chosen to outsource the management of each property as it came into the portfolio. We have been luck in the fact that we have learned how to manage and maintain properties to a high standard, and we have been able to turn this into an ongoing business, but if that hadn't been the case, the time absorbed by the maintenance of the portfolio alone would have been lost value versus a monthly 8-10% fee.

STRATEGIES & OPPORTUNITIES

We have only really scratched the surface up to this point when it comes to strategy, and actually, we have only looked at one core strategy – a traditional buy to let family home that is purchased behind market value, refurbished and re-finance to release capital to continue building the portfolio, whilst leaving a monthly residual cash flow. As you've guessed, there is certainly more than one strategy in property investing, way more, but if you're looking to build wealth, real long term wealth, then I believe that this traditional strategy must be the foundation upon which all other investment strategies are built. That's why we have started here…

OUR PORTFOLIO

Hopefully the information within this short e-book has been helpful no matter where you are on your property investing journey, and if it happens that you're just starting out, then I hope we have wetted your appetite just a little bit more.

As we said, we will be open, honest, and transparent with how we do things, and what our successes and failures have been so far, and continue to update on you on how we progress along the journey – but to kick off that element of transparency, you can follow the link below to get an overview of our current portfolio and how it's performing.

https://www.investicity.co.uk/resources/ - then download our Portfolio Summary.

We'll keep this document up to date with our latest purchases and any changes to our rental income or mortgage payments so that you get the transparency on how we are building our own assets.

We're always open to questions, so please feel free to email us at info@investicity.co.uk or call us on 01287 348009 and we'll be more than happy to have a chat.