

Starting Point Strategy

Introduction and Disclaimer

This report has been prepared by using the same philosophies applied in the day to day business of Real Estate Angel and the identification of a “starting point” for our full service buyer advocate clients.

The report is not intended to provide the one stop solution for completing a successful investment purchase but is instead to be used as a preparation tool.

We really appreciate that you have requested the Starting Point Strategy and we believe you will find the information contained in this report very useful. However please note this report does not take the place of “full service buyer advocacy” or our “mentor services” and while we endeavour to be of as much assistance to ensure you understand the suggestions in this report we take no responsibility for any losses you may incur in your purchase process.

With respect to suggested locations, please also recognise that Real Estate Angel does not involve itself in the purchase of real estate that is further than 15kms from the CBD and at the same time the actual CBD itself is also excluded. Our suggested locations are therefore limited to the suburbs that we know and regularly participate in during our day to day activities and while finding solutions for our full service clients.

Prepared for Client

| | |
|-----------------------------|-------------------|
| First Name | Miss K |
| Surname | Withheld (Sample) |
| Age | 30 |
| Email | sample@ |
| Mobile Phone | 0418 555 555 |
| Home Phone | |
| Street Address of Residence | 4 XXXXX ST |
| Suburb of Residence | RICHMOND |
| State of Residence | VIC |
| Postcode of Residence | 3121 |
| Suburb of Work Place | PRAHRAN |
| Postcode of Work Place | 3181 |

Purchase Price Budget

There is not an adequate 10% deposit \$12,000 cash savings and no external contributions make the purchase scenario difficult.

It may be possible to buy on 5% deposit but would require bank approval of funding 95% of a maximum purchase price of \$240,000.

You will still need to provide for the costs of purchase. This would have to come from disciplined savings between now, purchase and settlement, at your existing savings of \$3,500 per month or better.

As an investment purchase the first home owners grant will not apply.

Recommendations

On the current details provided your cash savings are inadequate to make a median priced real estate purchase within the inner Melbourne market. (5 -15kms of CBD)

Your responses indicate capacity to save a further \$42,000 in 12 months. Save for another 12 months to enter at a price point closer to the current Melbourne median of \$500,000.

Seek a family pledge that meets with your banks mortgage lending approval criteria.

Total Purchase Costs - Summary

Based on a purchase price of \$240,000 for an established residential investment property, the attached summary has been modelled using two scenarios.

Scenario 1 is considered a scenario where most actions and outcomes have gone according to plan. It is a scenario that includes the guidance of a real estate mentor and use of an established advice team of real estate experts.

\$ 267,943.40

Scenario 2 has allowed for more error in the purchase process and should be used as a conservative guide to complete the purchase with adequate stores of funding. It is a scenario typical of the DIY first time investor and allows for a lack of readily available advice sources and more expensive outcomes.

\$282,285.40

Important Attachments:

Detailed spread sheet – Appendix A1.

For a detailed explanation of the costs view the attached white paper “Property Investment Costs – In Detail”

Mortgage Approval Criteria

This data and comments are provided purely as a discussion point, you should seek further advice from your accountant.

(Please read the introduction and disclaimer at the top of this report)

Serviceability

Safe Range of Mortgage Serviceability (excluding rental income)
30% - 35% of gross income (\$120,000) = \$36,000 to \$42,000

Safe mortgage limit range at 7% interest = \$514,000 - \$600,000

Safe mortgage limit range at 8% interest = \$450,000 - \$525,000

Examples:

\$550,000 mortgage at 7% interest accumulates \$38,500 in payments per annum

\$550,000 mortgage at 8% interest accumulates \$44,000 in payments per annum

\$500,000 mortgage at 8% interest accumulates \$40,000 in payments per annum

Based on serviceability alone, a suggested possible safe (interest only at 8%) mortgage limit would be \$490,000

You must seek further qualified advice from your accountant before proceeding.

Loan Value Ratio

These assumptions and estimates require that you to still pay for the additional purchase costs out of your own funding/savings.

\$12,000 deposit at 95% LVR max Purchase Price of \$240,000

\$12,000 deposit at 90% LVR max Purchase Price of \$120,000

Summary

Your starting point would be to save the additional purchase cost required to fund a \$240,000 purchase.

With an increase to income and stable household spending habits the serviceability should get easier with time and future increases in rent.

The reality of your sensible mortgage limit is dictated by a weak deposit position; the suggested mortgage limit would be \$228,000.

You must seek further qualified advice from your accountant before proceeding.

Rental Yield required

Can be expressed as Gross rent target client needs to qualify the right property return.

Provide % figures of Gross Yield based on Purchase Price Budget

Provide assumptions and occupancy rate examples at 90% or 95%

Report on clients ability to manage the gap between rental income and expenses

You have indicated a strong desire to have 100% occupancy and rental income.

Most banks only apply 60 – 80% of the annual rental income to their serviceability calculations.

92% - 95% occupancy would be reasonable to expect in this market.

For a property with a \$240,000 purchase price the gross rent the investment property requires to be capable of achieving is a minimum of \$200 a week. (Preferably \$220 per week)

A \$228,000 Mortgage (Interest Only at 8%) costs \$1,520 per calendar month.

The rent contribution at \$200 a week equals \$869.05 per calendar month (less management fees)

This equates to a gross yield of 4.35% on the purchase price before management fees, maintenance and ownership outgoings.

Your current savings capacity of \$3500 will well and truly exceed your gap between mortgage payments and rental income.

Property Type to Target

Report on clients – risk profile for maintenance and longer term gains

Report on clients expected capital gains

Report on clients time of ownership holding

Report on the clients ability to renovate or develop

Provide examples of suitable property type accordingly – Villa, Apartment, House, Townhouse

Provide examples of Building Age and Condition – New, Renovated, Partially Renovated, Dated but Serviceable, Dated and unserviceable etc.

Summary

Capital Growth is a driving decision making influence, followed by the security of very stable and continuous rental income.

Tax savings do not appear as a prominent incentive for an investment property purchase.

The time required for minor renovation conflicts with the need for immediate and continued rental income.

The time and money required for minor renovation and cosmetic work conflicts with a lack of deposit savings.

The best suited property should be in a condition that is attractive to rent immediately upon settlement. Minimal work should be a motivating influence; the acceptable work levels required should be of cleaning, appliance servicing and light maintenance.

The ideal type of real estate to begin your search would be for a solid brick low maintenance flat. Given the budget of \$240,000 it is likely to be built in the 60's or 70's.

The property should meet a standard of Land Value to Capital Improved Value that is a minimum of 35%

A generous sized 1 bedroom apartment would be satisfactory, some balcony and off street parking would be of significant merit and is advised as a must have quality.

The floor area will have to meet the banks minimum criteria and can affect the cost of Lenders Mortgage Insurance, 50 square metres is the minimum for most, some lenders may work with 40 square metres.

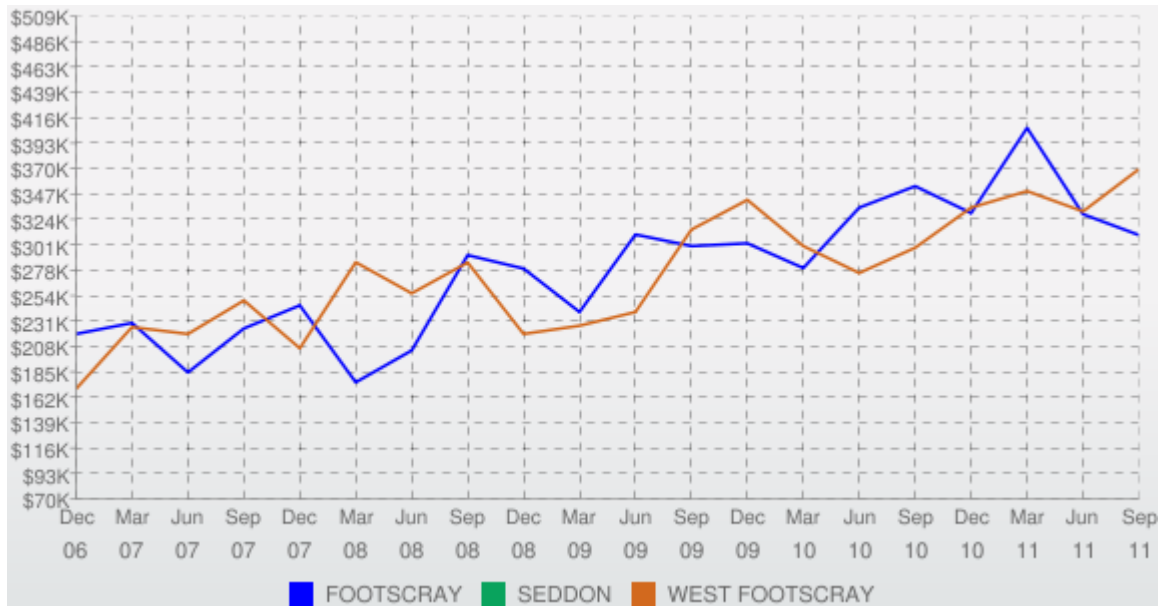
A new apartment in a boutique style building could be considered, provided that there were significant stamp duty savings and the building was not high density. Purchase of brand new buildings and off the plan purchases are significantly risky and require expert guidance.

Location Type to Target

Footscray, West Footscray

<http://www.reiv.com.au/Property-Research.aspx>

Tables of Median Price changes for units and flats.



Other suburbs to include in your search but likely to be outside your price range

Yarraville and Seddon

First Three Inspections

Provide 3 suitable examples of homes for sale to investigate by inspection.

Please note it is the clients responsibility to complete all due diligence.

This report takes no responsibility for title search or future redevelopments within the area, these addresses are provide purely as a suggested starting point for investigating the real estate market.

9/10 Carmichael Street, West Footscray, Vic 3012 \$240,000 - \$260,000

<http://www.realestate.com.au/property-apartment-vic-west+footscray-108384406>

7/7 Empire Street, Footscray, Vic 3011 \$279,000

<http://www.realestate.com.au/property-apartment-vic-footscray-109008981>

(is outside the budget but worth looking at to get a gauge of what you get for the extra money)

No address supplied you will need to contact agent first. Asking \$225,000

<http://www.realestate.com.au/property-flat-vic-west+footscray-108321336>

2/13 Ormond Road, West Footscray, Vic 3012 \$199,500

<http://www.realestate.com.au/property-apartment-vic-west+footscray-108009391>

Size may be an issue – seek lenders clarification