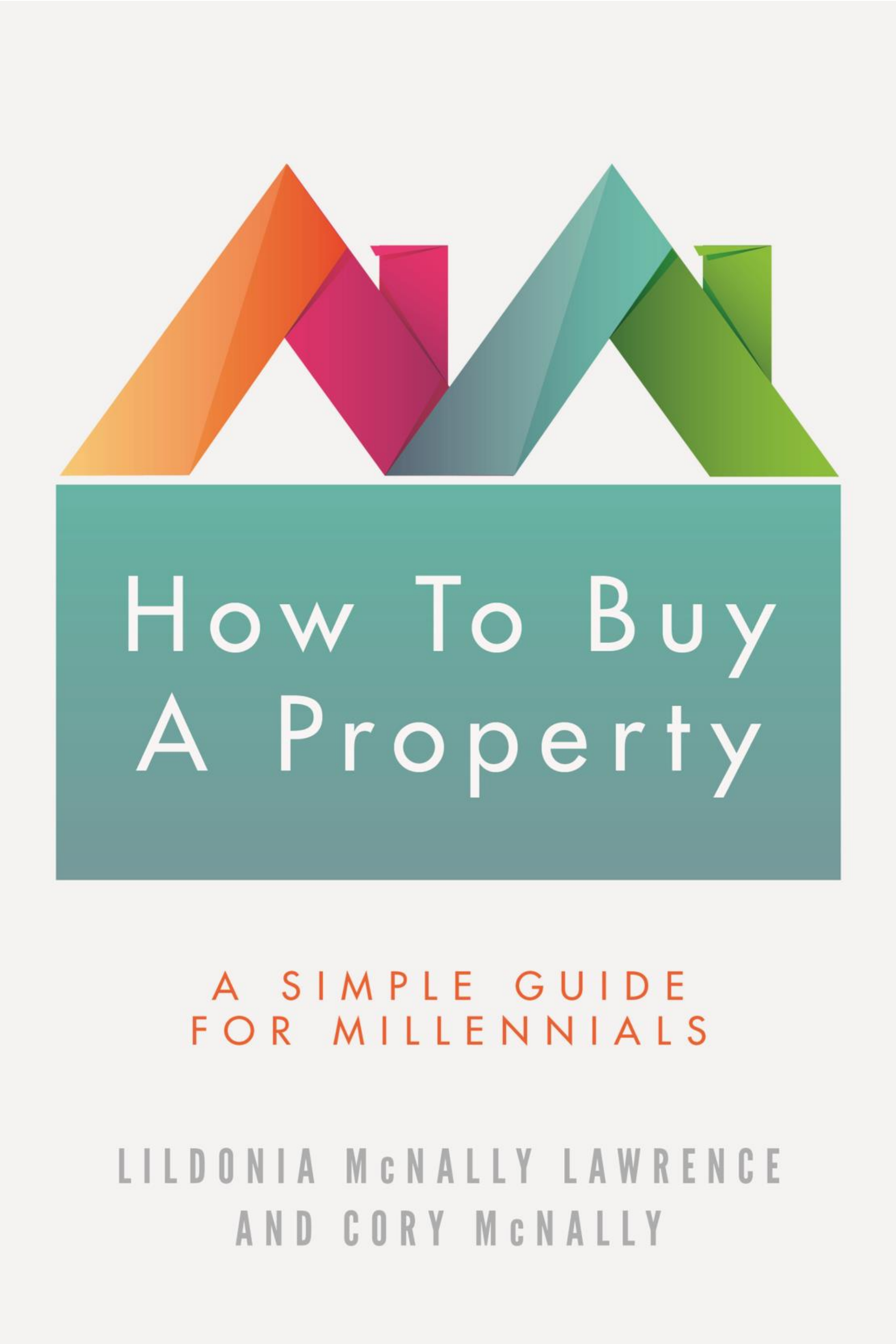
How to Buy a Property: A Simple Guide for Millennials


How To Buy
A Property
A SIMPLE GUIDE
FOR MILLENNIALS
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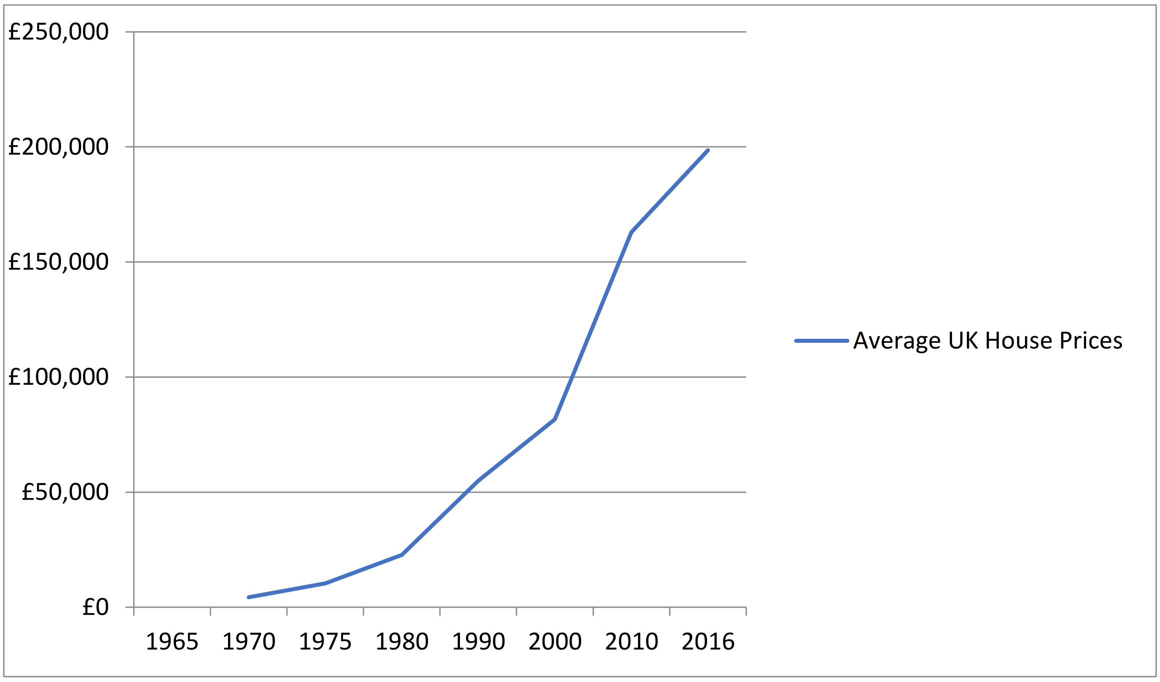
1 Why to Buy?

Trends in the property market

Property is the topic of the moment and investment is high on many people's radar, as well as big on the Government's agenda. So, what is all the fuss about buying? Why can't we simply be like our European cousins, and rent for life?

Well, the main reason is because in the UK, property and land is the dominant and most consistent way of building and sustaining wealth. Let's take a look at the facts.

Figure 1: Average UK house prices, 1970–2016



As you can see, the percentage increase of the value of property is enormous. Traditionally, property has been known to double in value roughly every eight to 10 years. This has been the case throughout the last century, and is set to continue.

There will always be people who say the property market will eventually crash, fall or decline. However, there is no reason to suggest that this will happen, based on historical upward movement of the property market. Even if this were the case, there is no reason to suggest that that this trend will *suddenly* change. Of course there are regional variations and fluctuations in price, but these statistics give a macro view of property trends in the entirety of the UK.

As property tends to rise steadily in value, your home can make you money and serve as an asset.

Example

A lucky homeowner bought a property in the 1970s worth £4,321. They were £194,000 better off in 2016 – which would take a lifetime to save. If they had saved £200 a month for 47 years, they would only have reached a total of £112,800.

Considering that salaries in 1970 were a lot lower than they are now, that would have been pretty difficult to achieve. For an everyday individual in the 1970s with an everyday job, property was a sure-fire way to build wealth.

This scenario still rings true today. An individual on a £28,000 salary who purchases a property will be generally much wealthier in 20 years than someone on a consistent salary of £100,000 with no assets. This is because the asset is increasing in value day-by-day, whereas the person on the fixed salary is tied to their job and wage. If a high earner loses their job, they will have nothing bar perhaps some savings, whereas the person with property will have an asset that earns for them consistently.

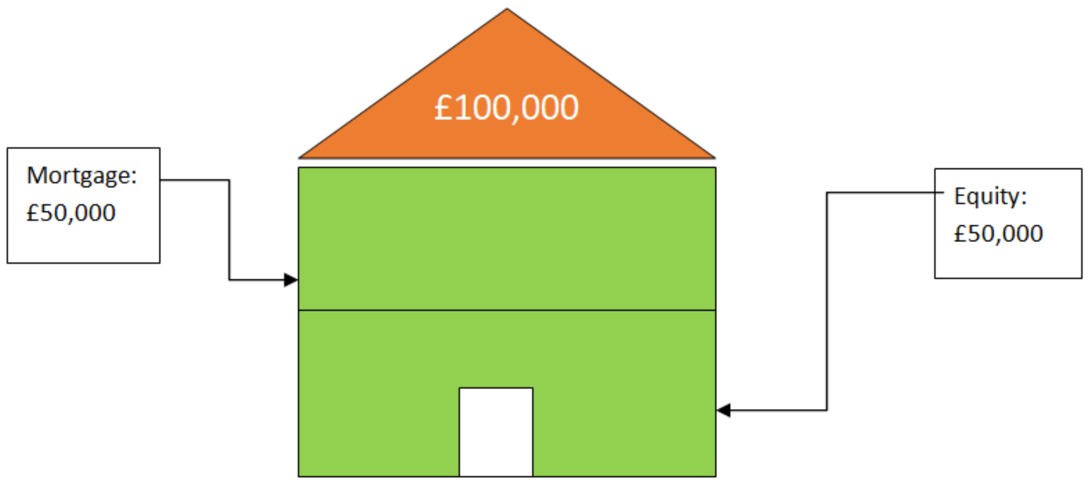
Equity

This leads us nicely to our next point, which is the concept of **equity.** Equity is the difference between the value of a property and what is left outstanding in the form of a mortgage. Equity is your golden ticket to property heaven: it is what developers and individual purchasers chase alike, as it is the core element that creates wealth.

In fact, 'equity' and 'wealth' are generally interchangeable concepts. They are completely separate to how much a person earns, how much they have in savings or how they spend their money.

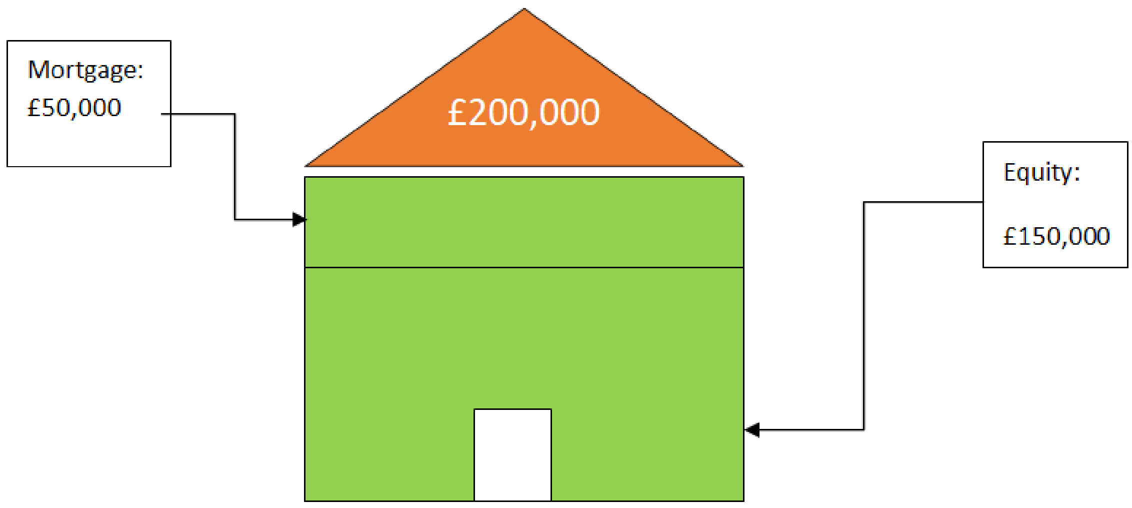
Essentially, equity is a bank account built into your property, where its worth is stored. Let's look at some examples.

Example 1: Property value of £100,000



If you own a property worth £100,000 with a mortgage of £50,000, your equity amounts to £50,000. So, if you were to sell your property (all associated fees aside), in theory the money you would have left over is £50,000 in hard cash. Without selling, the £50,000 is still present but it is tied up within the property – therefore you don't have access to it. (There are other ways to release this equity without selling, which we will talk about later in Chapter 7.)

Example 2: Property value of £200,000



Using this example, if the same property were to double in value to £200,000, your equity would increase threefold to £150,000 (£200,000 – £50,000 mortgage = £150,000). This is irrespective of how much you earn, how much you've saved or any other factors relating to your earning potential. Owning property can effectively take you out of **The Matrix**, and release you from the notion that you make money by having a good job and a high wage –

which is what many of us still believe.

As you can see, building equity within property is a guaranteed way to increase your wealth, both in assets and potentially in real-life cash terms. The more equity within your property, the wealthier you are.

Leverage

Now we've got to grips with equity, it's time to move on to the notion of **leverage.** Leverage is using other people's money (namely, the bank) to provide a greater return on your investment. In a nutshell: the more money you borrow, the higher leverage you have.

This is also present in the business world, as this example shows.

Example

You take out a start-up business loan of £10,000 to open a shop. You buy stock, hire staff and start to sell your products. You make £30,000 after the first year.

You pay back the bank (with interest) at £14,000, and have made a profit of the remaining £16,000:

£30,000 – £14,000 = £16,000

Without the initial start-up loan you wouldn't have been able to make that profit. Therefore, you have used the loan as leverage to provide a return. With property it is exactly the same.

Let's take a look at a theoretical example.

Example

You put down a 10% deposit of £10,000 on a property worth £100,000. The bank lends you the remaining 90% = £90,000.

The property goes up in value over two years to £120,000, but you still only owe £90,000.

£120,000 – £90,000 = £30,000

£30,000 – £10,000 original deposit = £20,000 increase in value

In the above example, this would mean that you've accumulated a 20% increase for yourself in the form of an extra £20,000. That's a 200% return on investment, with only a 20% increase in value!

If you were to put the same £10,000 into stocks, shares or material items and the value increased by 20% to 12,000, you would be left with an increase of only £2,000. Compare this with the £10,000 used to invest in property and, as you can see, there is potential to make an awful lot more.

Of course, in real life things are a lot more complex than our basic examples here, but these figures do illustrate the possibilities that investing in the property market can offer.

It's important to mention that there are many other factors to consider, such as additional costs and property value. The figures for return on investment will vary greatly depending on mortgage rate, location and property. It's also important to note that there are ongoing maintenance costs associated with owning property. However, looking back at the general trends, the average property now is worth a lot more then it was 10 years ago, regardless of initial purchase price or location.

As we mentioned earlier, some people worry about prospective market crashes and reductions in property value during economic downturn. The property market is cyclical, and there is always a chance that an investment will go down. However, if it is a long-term investment you are looking for, this shouldn't be too much of a cause for concern. Considering the history of the property market and its present-day trajectory, property prices are set to rise. This has been previously consistent, despite the occasional blip. Hold on to your property long enough, and it should go up in value.

So, considering the factors of why *people* buy, it's time to figure out why *you* want to buy. Have a go at our 'Why to Buy' quiz to figure out your buying motivation.

Quiz: Why do you want to buy?

1. Why are you reading this book?

   a) I want to become a multimillion pound property investor!
   b) I need somewhere to live
   c) I'm vaguely interested in the possibility of property as an earner

2. What is your main motivation for wanting to buy?

   a) Financial all the way – I want a good income
   b) I'm looking to settle down in one place
   c) I don't want to live at home forever

3. How soon do you need to move?

   a) It's not urgent, but I can't stay where I am forever
   b) Like, yesterday!
   c) I'm quite happy where I am for now

4. How does buying a property fit into your long-term plans?

   a) I want to work for myself, and I see the property market as a potential way to make that happen
   b) I want somewhere I can live for the foreseeable future
   c) I'm not too sure yet

5. What are your thoughts on **'flipping'** a property?

(Flipping is purchasing a property and selling it on quickly, with the sole aim of making a profit.)

   a) I'd love to give it a go – I watch those property shows and it looks great!
   b) It sounds awful, way too much stress!
   c) It looks like a lot of work, but it's something I would consider

6. Would you consider becoming a landlord?

   a) I would – it looks like a great way to earn an income
   b) Not at the moment, I've got too much on with work/family and other commitments
   c) I'm not averse to it – I'd like to find out more

Mostly As: Future property guru

Let's just call you Mr/Ms Hotshot Homeowner! It's clear you've got a passion for property and that you want to make a living from being an investor. There is no reason why you can't have that. Feel free to use this book as a springboard to find out the ins-and-outs of property purchase, before moving on to property investment-specific books.

Mostly Bs: Homely homebod

You want somewhere comfortable to lay your head at night. That's a fantastic plan, and something to which many people can relate. Use this book as a guide to make an airtight plan to find your perfect home.

Mostly Cs: Adaptable abode owner

You're open to the opportunities that owning property can bring. You may not be in a rush to leave where you are, so you can use this book to take your time and decide the right plan for your property journey.

As you can see from our very scientific quiz, there are three main routes to take when purchasing property:

1. As an investment
2. As a home
3. As a mixture of both.

We're going to go through all three in detail to help you figure out exactly which feels right for you. Once you've worked out your motivation for buying, it is important to keep your goal in mind when making any grand plans – especially those which involve spending great big wads of cash.

Property as an investment

This is probably the most talked-about type of purchase, and it is based on the previously described idea of leverage. Property as an investment can be extremely lucrative, and there are fantastic gains to be made. There are many different routes and strategies into making a living from investment: we have highlighted three of the most popular types:

1. The Big Flipper
2. The Landlord
3. The Off-Plan Chancer.

1. The Big Flipper

Big Flippers buy property and increase its value through renovation and refurbishment. Then they sell it on for more than the total cost of the purchase price (including works done).

Pros:

- Short-term – flipping can be a relatively quick process
- Potential for large gains.

Cons:

- Risky – there is no guarantee that your work will increase the property to the value you desire
- Complex – there are multiple factors to consider such as budget, architectural design, managing trades people, planning permission, sales potential and fees.

2. The Landlord

Landlords buy a property, keep hold of it and rent it out. The rental income should cover all costs associated with the property, plus a little on top. The longer you retain the property, the higher the value. This means that once you have built enough equity, you can **remortgage** and purchase another property, while retaining the first. This process can be repeated many times until a stable income is reached.

Pros:

- A safer strategy – less risk is involved, with a more straightforward route to building equity
- Simple model – it can be upscaled as time progresses
- Potential for a large and stable income.

Cons:

- Long-term – unless you have many properties, one to two rental units usually will not provide you with enough income to live off. Acquiring numerous properties can take many years
- You have to deal with finding tenants, estate agent fees and other ongoing costs and responsibilities associated with property management.

3. The Off-Plan Chancer

Some investors choose to buy **off-plan** from large property development companies. Developers invest a high amount into designing a complex, and need to raise a certain amount of capital before they can build. In order to do this, they sell off as many units as possible before the build at a relatively low price. Investors buy one or more incomplete units in a block of **new builds**, and sell them once the development has been built.

(NB: This is not something we've personally tried or have much experience of, but it is out there as an option.)

Pros:

- Possibility for an easy return once the property is built, as you can simply sell it and move on
- Instant equity.

Cons:

- Uncertainty – you are spending thousands of pounds on something that won't be completed for two to three years, possibly longer
- If the developer runs out of money, sometimes building work is delayed.

Property as a home

This is the other side of the coin, and was where we were when we first started. Initially we just wanted a safe, comfortable and welcoming place to live. For some, buying a property is simply about having a secure base where they can reside for the foreseeable future. This is the majority of people in the first-time buyers' market.

Pros:

- Escape the feeling that you're throwing away money on rent
- Complete autonomy over your living space – e.g. decoration, fixtures and fittings
- Long-term security, as long as you can afford your mortgage.

Cons:

- You are responsible for anything that falls into disrepair with the property
- Earning potential with one property as a home is limited.

Property as a mixture of both

In this case, people may have their primary residence and one or two rental homes that supplement their income, or provide a cosy nest egg for the future.

Pros:

- All of the same pros as property as a home –a lovely, stable home with which you can build equity
- A greater level of security than owning the one property
- Supplementary income from rental proceeds.

Cons:

- Need to be a good multi-tasker – focusing on managing your rental properties, home and potentially still holding down full-time work.

Here, we will be focusing on the latter two options. We want to support the everyday person: from the individual who just wants a really lovely home, to the person who is also interested in a 'side hustle' in the form of a rental income, and everyone in-between.

Case studies

Let's have a look at some real stories and how they fared when trying to become homely home bods and adaptable abode owners.

Sasha, 59

Sasha had known she wanted to buy a property for as long as she could remember. When she had her first child at 32, she was granted a three-bedroom council house. Although the house was perfect for them, she didn't have **right to buy**, and applied for a **council swap**. Her request was granted, and Sasha ended up in a lovely top-floor converted flat in a desirable area.

Having been a council tenant for a long period of time, Sasha qualified for a substantial discount on her deposit, so she saved up and bought the flat. She lived there happily for a number of years until her children reached their late teens. It was at this point that Sasha decided that she wanted to live abroad. She had built up a large amount of equity in her flat, so she decided to rent it out and buy another smaller abode in an exotic location.

Before renting out the flat, Sasha chose to complete some home improvements, and remortgaged the property. However, as she received a large amount of cash from the remortgaging, she began to overspend. She designed the flat very personally, as if she were going to live in it herself, rather than preparing the property for tenants.

Unfortunately, by the end of the refurbishment she had no contingency funds left. Sasha was forced to sell her property. As the property market had increased she had no money left to buy a replacement flat, and now has to rent a place to live.

Sonny and Samantha, 32

When Sonny and Samantha got engaged, Samantha lived with flatmates and Sonny lived at home with parents. They knew they wanted a family home for the future – somewhere they could stay for many years, and in which to raise a family.

After getting married, they decided to move in with Sonny's parents to save for a deposit. Sonny's parents allowed them to stay at home rent-free, meaning that the couple could save up to £2,000 a month. They both had reasonably paid jobs, and were able to save this amount comfortably. They treated themselves to one large holiday a year, but they did not go out much, ate most meals at home, and made social occasions as inexpensive as possible.

After six years Sonny and Samantha had saved enough for a deposit on their property. They now live in a three-bedroom house, in a town close to Sonny's parents. They are looking forward to starting a family in a stable base.

Aoife, 29

Aoife was keen to move out of her parents' flat: she wanted her own space and some security for the future. She made a plan to save up a deposit for a flat in two years, with a plan to buy before her 30th birthday.

Aoife had a successful career in London, but she decided to move to the Middle East so that she could earn a tax-free salary in a short time frame. She worked as a nanny, meaning that her accommodation, food and often travel was included.

When Aoife returned from the Middle East after a year, she had saved £30,000 – which was more than enough of a deposit for a flat in her home town on the outskirts of London. Aoife moved back in with her parents in order to start her property search. However, she missed the buzz of the city, and when a friend had a spare room going in a flatshare in London, Aoife couldn't resist. She moved back to the city and began paying £900 a month in rent. That, plus nights out and a return to a lower taxable income, meant that after one year Aoife had spent her savings, and was now back to square one.

Sadly, Aoife had to move back in with her parents. She has taken up bar work alongside her full-time job in order to start saving again.

Lacey, 34

Lacey was 25 when she decided to buy a property. She didn't mind where she lived, but she knew that she didn't want to live with her parents forever. Lacey was working part-time and studying. She began saving small amounts of money each month. She also contributed a small amount to her parents for rent, so began working on the weekends in order to supplement her wage.

By the time that she was 29, Lacey had saved up enough money to begin her property search. Price point was her main guide, and she was able to find a flat about 10 miles from where she grew up. She was happy as the price was within her range, but she could still easily access her friends and family by car. Lacey knew that she couldn't quite afford to move out just yet, so she decided to rent out the property while continuing to live at home.

After five years, and once Lacey was working full-time, she decided to move into the property and make it her home. As Lacey had built up a large amount of equity in her property, she was able to release some cash to do up the flat before she moved in. Lacey stayed focused on the goal of moving out of her parents' house, and was able to achieve it.

As you can see, the people who kept to a game plan were the most successful on their property journey. Once you have figured out what path you want your property journey to take, the next step is focusing on creating a goal. This is your *final destination*: the destination you will think of with every single action you take.

For example, if you are planning to rent out your property, don't kit it out with uber-trendy, expensive furniture. Conversely, if you want a long-term home, stick to viewing properties in areas in which you could see yourself living, as opposed to areas of high investment potential.

Creating your SMART goal

This is the point where you solidify your goals and aims. Your first step is to create a SMART goal. These are criteria used to set goals in the fields of professional and personal development.

SMART goals are useful, as they cover all aspects of your plans and provide a framework for you to work with. SMART stands for:

Specific

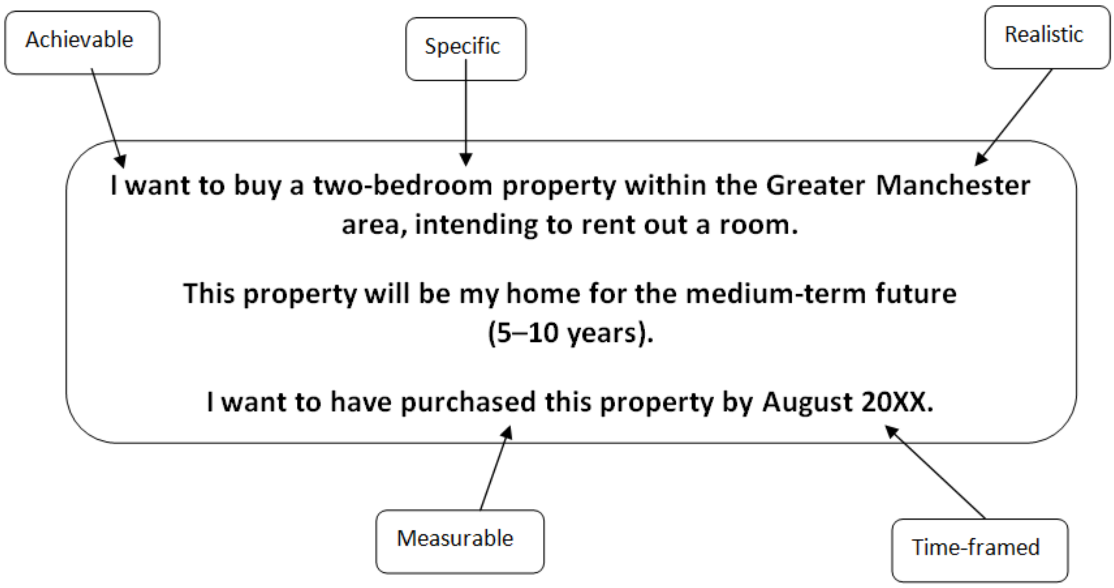
Measurable

Achievable

Realistic

Time-framed.

Here is an example of a SMART, property-focused goal:



Specific – There is no point being vague about things: be precise, and nail down exactly what you want. For example, change 'I want to buy a property' to 'I want to buy a two-bedroom property within the Greater Manchester area, intending to rent out a room'.

Measurable – Make sure you've always got a marker to go by: how will you know you've achieved your goal overall? For most of you it will be when you've bought your property, but depending on your goal it could be, for example, 'When I've got a tenanted property'.

Achievable – Is your goal achievable? For example, are you able to buy a property if you are currently a newly-qualified professional trying to get your first step on the career ladder? Probably not. In this instance, perhaps an initial goal would be saving towards a deposit.

Realistic – How realistic is your goal? If you're crippled with debt, perhaps this is not practical right now, so the goal might need to be clearing any monies owed first.

Time-framed – All great goals need to be time-framed. This is a fantastic point of reference against which to check your progress.

Creating your action plan

Once you've got your SMART goal in place, the next step is to create an action plan. Using the example above, this person may have a long way to go to get to their end goal. Their action plan may start with the simple step of having a chat with a mortgage adviser to find out what they can realistically afford on their salary.

With a suitable action plan drawn up, then you can start devising mini-goals to get you there. For example, a simple initial action for the above would be:

> **Speak with an independent mortgage adviser about my options and budget by [XX] date.**

It's important to break your final goal into small, attainable steps. This way it will not become too overwhelming, and you can give yourself a little pat on the back every time you reach a milestone.

We've included more information on what to do once you've established your goal in the next chapter, but for now, think about where you want to end up, and what you want your SMART goal to be.

My Smart Goal:

Conclusion

Remember to review your SMART goal regularly. Things change, and goals may need to be tweaked, re-examined and, on occasion, completely overhauled. That's fine: the most important thing is to have a goal and an action plan from which to work. Whatever you do, stick to the plan, and don't lose sight of the final destination!