Property investments for FI

There are many ways to make money in real estate but ,I will cover in this presentation only the following topics:

- Residential property investment in Ireland (Invest for capital growth, invest for rental income or a mix of both).
- How to buy a property.
- When to buy a property.
- Tools and useful information.
- Property market cycles.

I won’t cover:

- Goal setting.
- Single Family Investment Property(Rent rooms in your home).
- Commercial property investment, purpose built student accommodation, hotel rooms, Airbnb/holiday lettings,buying off-plan.
- Details of mortgage rates, return on investments, comparison with other investments,legislation and regulations,management costs and fees.
- Rent to rent, property sourcing,borrow a deposit,invest with friends/family/strangers,property lease options, property crowdfunding, peer to peer lending.
- Invest with a limited company or partnership.
- Invest in property with your pension. auctions.reits.
- Foreign investments.

Residential property investment

- It is one of the most popular strategies for FI to fund your retirement or to generate additional income.
- Setting your goals is definitely the first question you should ask yourself so you can make a plan and stick to it.
- Big advantage is leverage through the use of "other people's money" and lower interest rates than traditional loans and credit cards.
- Rent from real estate can provide steady, reliable cash flow on a month-to-month basis. Many investments only improve your cash flow in the long-term or when you sell them.
- You don't just earn rental income but if real estate values increase, your investment rises in value giving you capital appreciation as well.
- Residential property investments can be done in the following ways depending on your FI goals:
- Invest for capital growth
- Invest for rental income
- A mix of both

Invest for capital growth-Flipping

- Flipping is the purchase of a revenue-generating property that you can quickly resell for profit,usually, after adding value.

- A common strategy is to invest in a rundown\old house and add value with renovation,redecoration,layout change,add a room,add a bathroom,planning permissions,change of use,extensions,attic\garage conversions, lease extension ….

- It works best when you add value with your own work and/or project management skills and sell for a higher price or release the equity and invest in another project and repeat.

- It allows for a short term gain that can be immediately reinvested in the next project and avoids the risks of being a landlord. During the renovation you will have to pay taxes and the property will not make you any money so it should be done as quick as possible.

- Most people buy at auctions to find motivated sellers and buy below market value.

- It works really well if you have experience, a good team you can rely on and the property market trend is favorable.

- It is not as passive as buy to lets but even just one deal every year could allow you to live on that income without working 9 to 5.

- You risk losing money if the property market turns; unexpected expenses are eating into your profits or you are not aware of the ceiling price in the area thus leading you to overspend.

- This method requires good knowledge of the neighborhood and usually works better in up and coming areas.

- You need to have enough cash to purchase the property and do the renovation.

- Drawback is high transaction costs and capital gain tax that may not make the strategy worthwhile if profit margin is narrow unless you buy well below market value.

- Don’t overspend on a big kitchen if you renovate an apartment that will likely be sold to a single person or a young couple. Renovations need to target the right customer

- You can get back some of the costs of the renovation if you avail of tax reliefs for energy efficiency or similar.

- It is more profitable if you sell to owner occupiers rather than investors because they will likely make a more emotional decision and pay more for the property.

- Capital growth properties tend to generate lower rental income but appreciate more in the long term and can deliver a better return.

- If you can afford it or manage to team up with other people,you could buy an apartment block in bulk at a discount and sell individual apartments already rented out to investors.

- Given the high capital gain taxes, a possible strategy in Ireland, would be to buy your primary residence during a downturn, wait until property prices rise & sell.

- You would still be using leverage to make a bigger gain; would pay lower interest rates than those you would pay for buy to lets and require a lower deposit(10-20% instead of 30%).

- Then after you have sold you can go back to renting or buy a much cheaper property in a cheaper area of the country.

- Alternatively, you can buy a cheaper property to let and you move to it, once you have sold the more expensive one.

- You would still pay lower capital gain tax as you have lived for some time in the property.

- The advantage is to grow your capital without having to deal with tenants and be tax efficient as your gain would not be taxable.

- The disadvantage is that you won’t get any rental income and the market may not behave the way you have anticipated.

Invest for rental income

- Many BTL investors see this as a form of pension, as they get an income each month and could generate positive cash flow over time. You can slowly grow your rental portfolio until you have enough passive income to exceed your monthly or annual expenses.

- It is one of the most passive investments because it can be delegated completely to estate agencies and It can be even more passive if you avail of government schemes or chose guaranteed rent.

- Unlike flipping, with the BRRRR Strategy(Buy, Rehab, Rent, Refinance, and Repeat)you can recover the capital you left behind in the traditional method. You get your cash back and you can finance the renovation costs. Closing costs (solicitor,valuation fees..) could be high.

- If you buy a property as investment for rental income you need to consider the following:

- high occupancy (location close to employment,schools,hospitals,public transport, amenities).Factor in the property sitting empty for one months of the year, just in case.

- Target the type of tenant you prefer(family,single,students)

- To calculate the rental yield you can check the average rent and trends in the following link: https://bl.ocks.org/pinsterdev/raw/234b4a5310a14a32e080

- Set aside cash for repairs and damage to the property unless you have a good landlord insurance cover. Insurance can cover for loss of rent ,legal expenses and liabilities…

- Landlords can protect themselves against tenants defaulting with an insurance product which covers up to 11 months defaulted rent an costs about 2 percent of the annual rental income.

- Rents fluctuate depending on the Country’s economy and supply so don’t make your plan assuming that rents will be stable this could lead to serious cash flow issues.

- If you are risk averse and prefer a more passive investment, you can rent the property ,under the the long term leasing Initiative(Guaranteed Rental Income-No management of tenants-No rent or arrears collections) for periods of between 10 to 25 years.

- The Repair and Leasing Scheme in Ireland allows you to get a 0% loan to refurbish an old and vacant property and rent to the council. Ideal if you don’t have much cash.

- HAP is another way to minimize the risk of arrears because the council make payments on behalf of tenants directly to the landlord for rent subject to maximum rent limits.

- The Rental Accommodation Scheme (RAS) provides accommodation from the private rented sector for persons who are in receipt of Rent Supplement(guaranteed rent from Dublin City Council for 6 years).

- It guarantees a stable income in less desirable and low growth areas where property prices are cheaper but it is unlikely you will get much capital appreciation.

- Another option is to let your property long term to agencies which give you guaranteed rent.(No tenants or agents to deal with).

- It’s a good idea to decorate to a high standard to attract tenants quickly and attract higher quality tenants.

- Unlike stocks, you can't instantly sell real estate if the markets go sour or you need cash so plan an alternative strategy to quickly release cash if you need it.

A mix of both

- Property investors focusing on capital growth will look out for properties in nicer,more central locations with good kerbside appeal, and buy homes that they could imagine living in themselves.

- These types of investment normally follow a long-term investment plan so they will be eager to buy in areas expecting regeneration or improvements.

- Living near a "premium" supermarket brand or hipster coffee shops can help boost a property's value significantly, discount chains can also command a premium but not as much.

- As cities change shape and property prices continue to climb, it is inevitable that run-down areas are revived to accommodate growing population numbers so there could be opportunities for those who are patient.

- Long term investors tend to be those who don’t necessarily need a high monthly income, believe that the economy is improving, are confident house prices will continue to rise and they tend to like newer properties in commuter towns with strong demand from young professionals.

How to buy a property

- Location is one of the most important things to consider because you don’t want to be stuck with a rental property in an area that is declining rather than stable or picking up steam.

- A city or locale where the population is growing and a revitalization plan is underway potentially represents an investment opportunity.
- It is a business, not an emotional purchase. Better an ugly property in a good location than a nice property in a bad location.

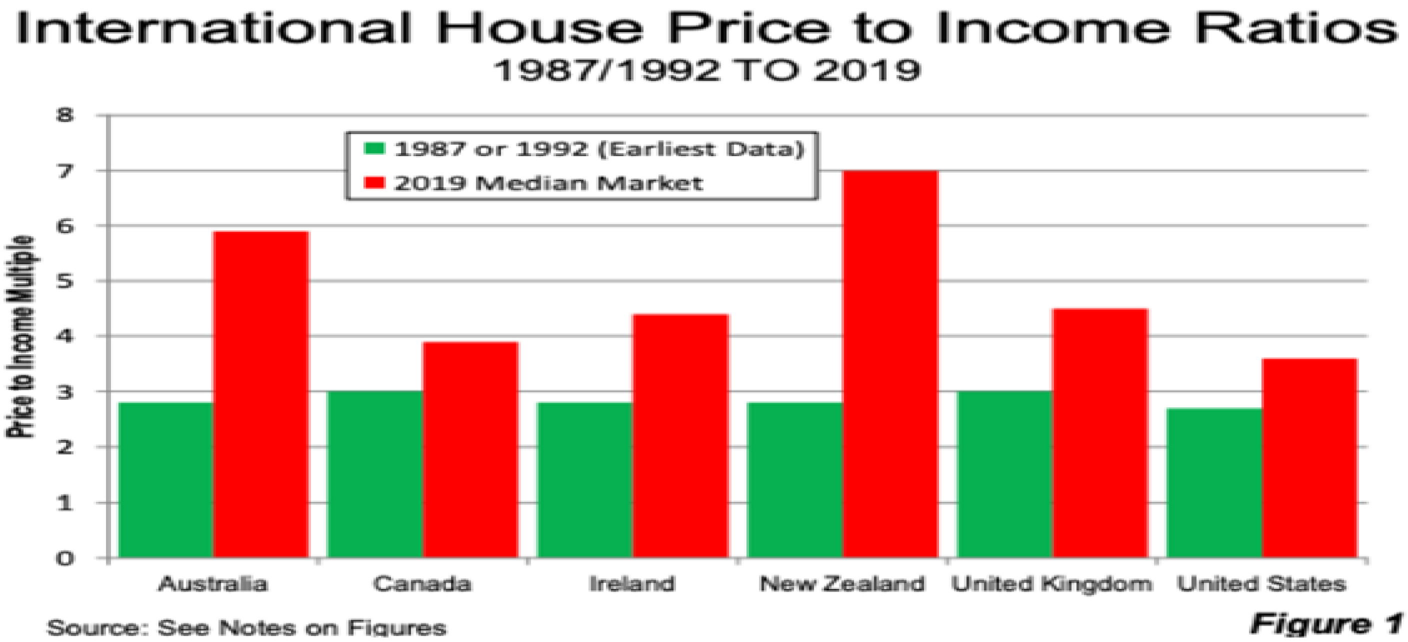
- Location cannot be improved but sometimes with limited amount of money you can improve the appearance of a property.
- Like everything in life a property(materials) deteriorates but the land on which the property sits ,being scarce does not.
- The cost of building properties are tax,land,materials,people. Any change in those, can affect property prices for new builds.
- Property could increase or decrease in value because of inflation,supply, jobs, amenities,schools, transport links,crime.

- If you are not familiar with the area ask around and go back a few times especially in the evening.
  Check property register for historical price of the same property or similar properties in the same road or area.
  Go for a property in an up and coming area that will see improvements in the future. Job opportunities in the area may increase if new amenities will be built in near future.
  Check New dwelling completions and planning applications.

  More information here:
  http://www.dublincity.ie/swiftlg/apas/run/wphappcriteria.display
-
  http://www.dublincity.ie/main-menu-services-planning-city-development-plan/dublin-city-development-plan-2016-2022

- Negotiate, if possible but very difficult if sellers are in no rush to sell.
  Properties that are badly presented may fail to attract a lot of interest and could be easier to negotiate.
  You can easily figure that out if you check how long properties stay on the market.
  Find sellers who are motivated because of personal problems, property concerns, and economic concerns.
  Most common motivations are health,retirement,divorce,estate sales,obsolescence,local economic changes,local neighborhood changes,law changes.

- You need to know your goals and your target and demographics
  Be mindful of housing affordability.
- Some properties may look cheap but are not, if they are not affordable for the locals or job opportunities in the area are limited and salaries are low.
  The Demographia International Housing Affordability Survey covers 293 metropolitan housing markets in nine countries. This index rates middle-income housing affordability using the "Median Multiple" which is the median house price divided by the median household income. This index rates “affordable” as 3.0 and under, up to a “severely



- The links below can help you to make a better decision
- Cso - Regional Population Projections

https://www.cso.ie/en/media/csoie/releasespublications/documents/population/current/poppro.pdf

https://www.cso.ie/en/releasesandpublications/ep/p-plfp/populationandlabourforceprojections2017-2051/populationprojectionsresults

- Net inward migration for Ireland

https://www.cso.ie/en/releasesandpublications/er/pme/populationandmigrationestimatesapril2019

- Good analysis of the Irish housing market.

https://www.centralbank.ie/docs/default-source/publications/financial-stability-notes/no-16-an-overview-of-the-irish-housing-market-(kennedy-and-myers).pdf?sfvrsn=4

Property market cycles

The main drivers of property cycles might be categorized under the following headings: demographics, financials emotional drivers, technological innovations,inequality, inward/outward migration and solar\planets activity,depending on the theory you follow.

I believe ease of mortgage,credit and interest rate are the most relevant.

One of the biggest factors in a property market cycle is emotional, and put simply, the herd mentality you can see in the fear of losing money when prices are falling and the desperation for fear of missing out when they are rising.

Property markets in the **recovery phase** usually show the following:

- net migration and population growth
- falling or low vacancy rates
- rents increasing
- dwelling construction gradually beginning to pick up
- rising employment

Property markets in the **boom phase** show:

- net migration/population growth approaching its peak
- dwelling construction increasing fast/
- vacancy rates falling to very low or tight levels
- time on the market very low
- rents reaching a peak
- approaching full employment
- a low number of listings
- property values rising strongly and thus affordability falling
- a lot of property related articles in the news
- an increase in the number of persons per household

- Property markets in the **slump phase** show the opposite:

- net migration/population growth slowing
- rising vacancy rates
- economic growth slowing
- rising unemployment
- time on market high
- high number of listings but low sales turnout

- The nature of urban development is cyclical therefore there are periods of frenetic activity, followed by intervals of relative quiet because nothing happens if there is no profit to be made.

- There are a few different theories but most agree that the property markets goes around in cycles of around 15-20 years.

- Property prices rise for 10-15 years and then decline for around 5 years, before the cycle starts all over again.

- Based on this theory the next big fall in property prices should take place in 2026/2027.

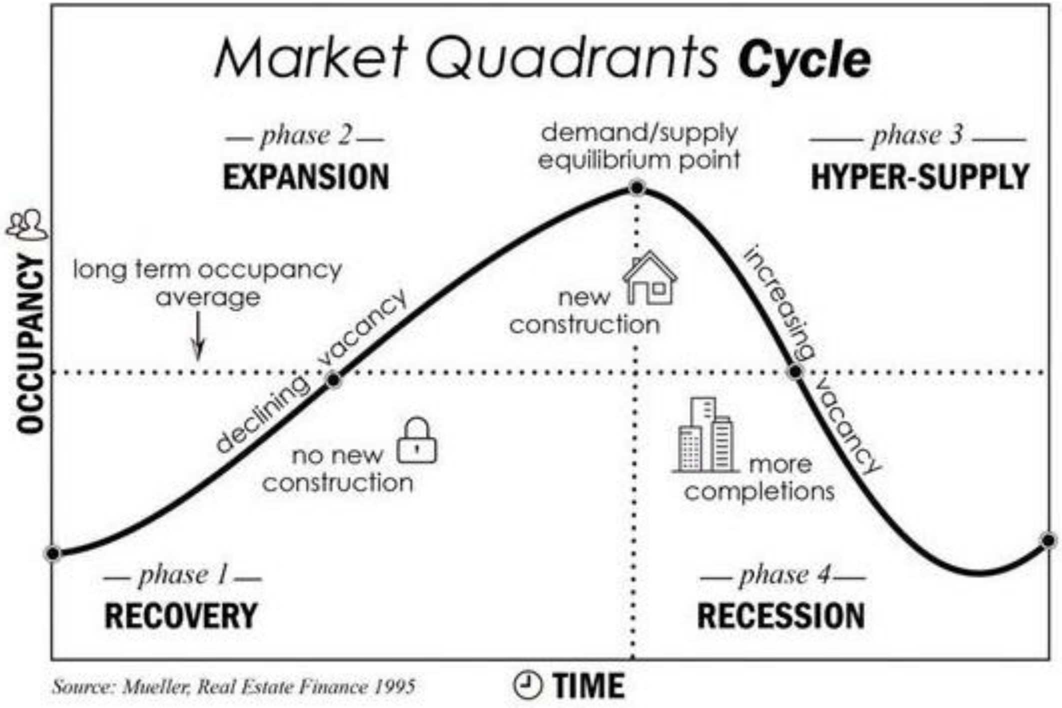
- It may not be too important if you are investing for rental income and your properties are giving you a good yield but it would be good to not overstretch and borrow too much when you are at the end of the cycle and stress test your investments.

- The theory has been proven right for over 200 years and it did not apply only when big changes are happening such as world wars.

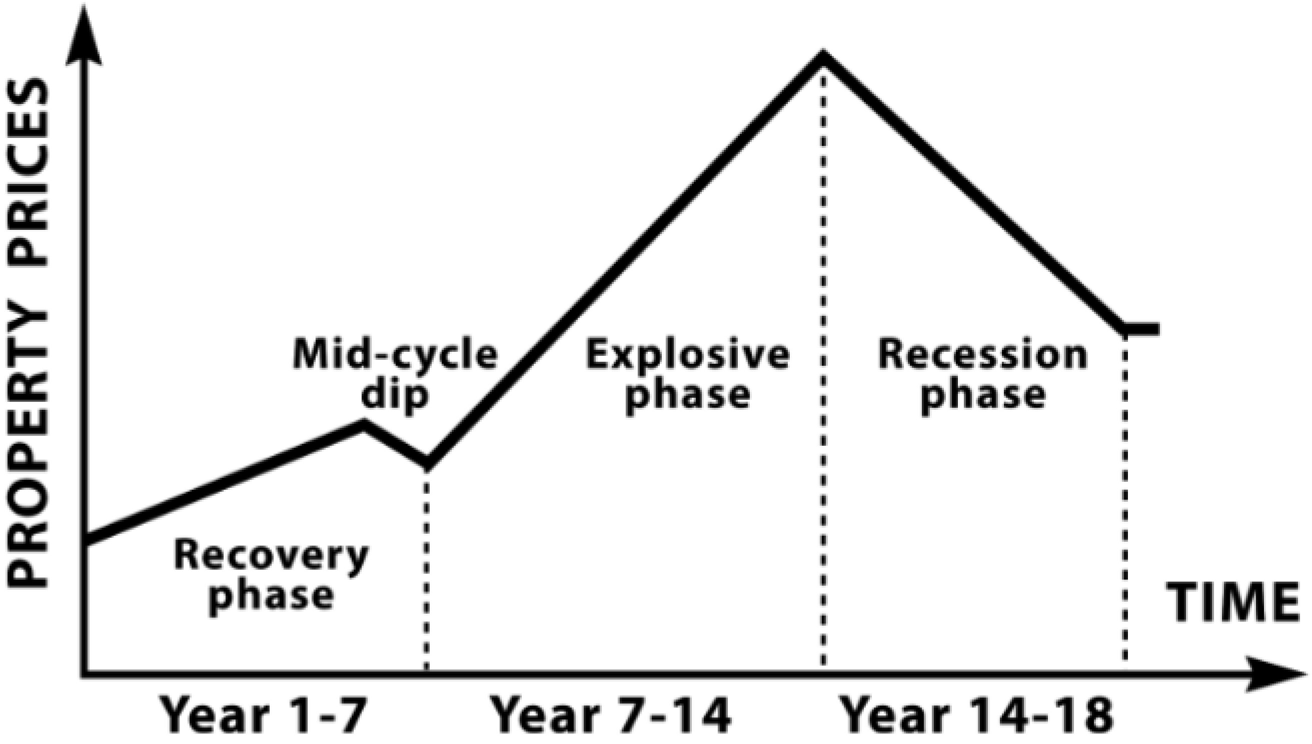
- The theory is mostly based on the 18-year cycle in land values which has a knock-on effect on the construction cycle, the business cycle, and consequently the overall economy. It is a cycle of economic distortions caused by government policies.(tax breaks and tax exemption for property investors).

- Should you be interested to know more about cycles you can follow the links below:

http://www.foresightguide.com/kuznets-cycles-u-curves
https://www.amazon.co.uk/dp/B008M0QJIM/
https://www.amazon.co.uk/Exploring-Financial-Universe-Planets-Finance-ebook/dp/B01MXDMCZM/ref=tmm_kin_swatch_0?_encoding=UTF8&qid=1591537697&sr=1-2



Source: Mueller, Real Estate Finance 1995


PROPERTY PRICES
Mid-cycle dip
Explosive phase
Recession phase
Recovery phase
TIME
Year 1-7
Year 7-14
Year 14-18

When to buy

- Timing the market is more important in property investment than if you invest in stocks(essential for flipping) because the asset is not liquid and to invest more you need the ability to borrow and to have a deposit while in the stock market you can invest small sums, anytime.

- A good indicator is the long term average of the property prices that go back 200 years. Historically, prices tend to go back to the average over time adjusted for inflation.

- If you see a lot of cranes in a neighborhood or city you are too late and should avoid investing there. Up and coming areas are the safest as prices will eventually increase when the area improves.

- It could be a good time to get a discount to buy a property in the following cases as the seller could become more desperate:

- The home is priced well above neighboring properties for sale

- The home isn’t seeing a steady stream of buyer showings.

- The home hasn’t seen a single offer, despite months of marketing on online property portals.
- You know that you are entering in the downward phase of the cycle if you see little or no dwelling construction and new properties remain for long time on market and affordability and yields are not.
- Be mindful of the Ripple Effect which means that even if you missed the bottom you could still buy at good prices in a different location in the same country.
- The capital city and the areas around the City are the first areas to increase or begin booming. Next comes the middle ring and eventually price growth ripples out across most of the country.
- There could be a lag of 2-3 year that allow you to invest at rock bottom prices even though you have missed the boat to invest in the capital city.
- Good time to buy is also subjective and depends on FI goals. To wait for the bottom is usually not a good thing as you need to factor in inflation and lost income and could delay your early retirement.

- Don’t be too risk averse or you will just never act for fear of not making the right decision. Not acting is still a decision and often you are missing out on good opportunities that can be found in any phase of the cycle.

- If there is a lot of hype around property and TV shows are making it all look relatively easy, buyers will grab and pay anything, at almost any price through greed and fear of missing out.

- If Vendors smell the desperation from potential buyers, they may increase their asking prices or wait for better offers once achieved the asking price.

- When properties become overpriced governments can stop inflation getting out of control and slow down the price growth by raising interest rates or limit borrowing or increase stamp duty, property taxes ,limit purchases of non resident investors and so on.

- The opposite is true if the governments are trying to increase the demand for properties in a sluggish market as they can also offer visas for foreign property investors or tax breaks to encourage foreign investments for those who want to become residents...

Mortgages

- Lenders may limit borrowings to 50 – 75% of the cost of the property for investors in residential property.
- The main options for borrowing are interest only mortgages or repayment mortgages but it mostly depends on your goals and when you want to reach FI.
- A repayment mortgage means you will be repaying the interest and capital monthly over a set period. At the end of the term, the property will be owned entirely by you.
- Interest only mortgages are much cheaper monthly as you are only repaying the interest on your loan. However, at the end of agreed term you will still owe the initial amount and will need to repay this somehow.
- Interest only have higher interest but could be a good strategy when property prices are good value or undervalued as you can have more leverage without taking excessive risks and the inflation rate is high. The advantage is that they are usually tax deductible. They never last more than 15 years and then you have to start repaying the capital or sell the property.

- In case of high capital gain taxes it may not be of worth to sell when the property value rises but just remortgage so you can release the equity for other investments.

- Some investors such as Kiyosaki, advise to always use interest only mortgages if possible. Over many years the property may go up significantly and you can sell out without having paid the capital or re-finance.

- He recommends putting all effort into fully paying off the lowest mortgage first and then use the rental income from mortgage-free property to help you pay off the second lowest mortgage .

- Be mindful that mortgage repayments can increase if you borrow money to buy the property and interest rates rise and falling property values could lead to negative equity.
- A pension mortgage allows you to buy a property through your pension fund.

- As all income and gains within pension schemes are exempt from income tax and capital gains tax, both rental income and profits from sale of the property will not be subject to these taxes. In Ireland is not that easy to borrow through the pension but it is definitely possible.

- You can set up a self-administered pension scheme if you wish to buy property with the money in your pension.

- With an endowment mortgage you pay interest off your mortgage and also pay into an investment policy, called an endowment policy, for the term of the mortgage.

- You then cash in the policy at the end of the mortgage term to repay the original amount borrowed.

- Equity Release allows you access the wealth tied up in your buy to let property and borrow part of the value of your property and invest in other projects but you need to make repayments unless you are on an interest only mortgage.

- If you have achieved your financial independence goals you can definitely retire much earlier than the pension age even if you don’t have a huge wealth.

- If you own your home and are over 55, an equity release scheme could allow you to release some of the value of your home without having to make repayments during your lifetime, move out or sell your home on the open market.
- One of the conditions of equity release is that you cannot have an existing mortgage on your home.

- In case you own a house and the mortgage is paid off the above options allow you to retire early from age 55 without having to make any repayment and once you reach 60 you can access your private pension if you have it and then at 68 your state pension.

- A Lifetime Loan (sometimes called a lifetime mortgage or reverse mortgage), is a form of mortgage loan available to older people, typically aged 60 or older, in which you borrow against the value of your home and retain 100% ownership of the home.

- It can be a good option for those who want to retire early if they own their primary residence. It does not need to be paid back until you sell your house.

- You do not need an income to apply for a Seniors Money Lifetime Loan and the the rate is at around 1.5 - 2% above the major Irish banks.

- It’s important to understand that you can use your property\properties as a Bank account and borrow when you need it at relatively low interest rates instead of using a credit card or credit union loans(usually they charge a 12-13% interest).

Tools and useful Information

https://www.daft.ie/rss.daft(Rss feed to monitor price changes)

https://www.auctioneera.ie/rental-yield-calculator (Rental-yield-calculator-Approximate Property Valuation)

https://www.auctioneera.ie/capital-gains-cgt-tax calculator (Cgt tax calculator)

https://www.auctioneera.ie/property-price-register (Property register)

https://www.mortgages.ie/go/first_time_buyers/mortgage_payments_calculator
 (Mortgage calculator)

https://www.cso.ie/en/interactivezone (Population-Crime statistics)

https://proper.ie/allcounties (Property price average and trends)

https://www.auctioneera.ie/fire-safety-rental-accommodation
(Fire Safety in Rental Accommodation)

https://www.cso.ie/en/releasesandpublications/ep/p-rc/recordedcrimeq42019

https://www.nationaltransport.ie/wp-content/uploads/2016/08
Transport_Strategy_for_the_Greater_Dublin_Area_2016-2035.pdf

https://www.cso.ie/en/releasesandpublications/er/cpi (Inflation)

https://www.cso.ie/en/statistics/labourmarket/monthlyunemployment (Unemployment)
https://onestopshop.rtb.ie/check/index.html (Check if tenancy is registered)

https://onestopshop.rtb.ie/register-a-tenancy (Register a tenancy)

https://onestopshop.rtb.ie/images/uploads/Comms%20and%20Research/RTB_A_Guide_to_Be
ing_A_Good_TenantLandlord_V3_%28WEBSITE%29.pdf