The PiC Group

SIX STEPS TO BUY YOUR FIRST HOME SOONER

A safe, fast-tracked strategy that needs a little help from your parents - without using Guarantors

INTRODUCTION

This Ebook has been created to outline the six steps to get into your first property.

Our strategy works off using your parent's equity as a loan, plus the increased First Home Owners Grant (FHOG) for building brand new property, and not just buying a regular home.

Dual Occupancy properties are a key element to this strategy, because they look like a normal home, but really are two halves of a house. This optimizes your situation by adding in good rental yield to help pay down your mortgage faster.

Not only are you paying less yourself, paying down your loan faster, but if you decided to (in 12 months' time) you can turn the property into an investment and move into something bigger and better next!

We have thought about every facet involved, including a cash flow management and budget system, selecting the correct property, funding the process and accounting for anything that could go wrong.

But this six step system is designed to give you the basics, and hopefully the 'light bulb' moment where you realize this could work for you.

At the PiC Group, we co-ordinate the purchase of properties for our clients, we are professionals and do it every day.

After reading our Ebook you feel this strategy could work for you and you need a professional 'running-mate' then contact us on info@picgroup.com.au

STEP 1: GETTING THE DEPOSIT

Instead of asking your parents to be Guarantor (which means that they are liable for the entire loan for the house) you can access equity in their existing mortgage, and have it act as a loan.

This would be similar to a line of credit, which is considerably smaller in value then having your parents go guarantor across your entire home loan facility.

This equity is sometimes referred to as lazy equity, meaning it is just sitting there, and as long as you make the repayments your parents won't have to worry about a thing.

Using our loan repayment management system, you can pay back your parents loan in full, within 3 ½ years.

Shorter than most car loans…

As the month's progress, the exposure & liability to your parents reduces - Just think about how fast time flies! In just 18 months the exposure is little to nothing.

STEP 2: MAKING THE REPAYMENTS

For this strategy to work, the property needs to be brand new, therefore there will be a few months' lag between signing contracts and actually paying for the loan once the house is finished.

We plan on using this time to start repaying the loan to your parents, which begins the new pattern for your payment schedule.

When you move into one side of the house, the other side is then rented out and the loan is being repaid to the Bank - this becomes the highest amount of strain to your cash flow.

Even at this point it will only cost you approx. $150 per week, which is a lot less than most rents (unless you are still living at home).

Now at this point you are living in one Unit, paying $150 per week, the tenant is paying their rent and all this money is enough to cover the interest on the loan, rates and insurance for the property.

Fast forward 12 months and (if you chose) you move out, then your Unit can now be rented out and the whole property will make approx. $95 per week after all costs.

Instead of this extra money being spent, it needs to be allocated to the parents to continue paying down the loan they gave you.

STEP 3: BUYING THE RIGHT PROPERPTY

The Dual Occupancy property (Dual Occ) looks like a 5-bedroom house that is split down the middle, built single story or double.

One Unit typically has 3 bedrooms, whilst the other Unit has 1-2 bedroom (depending on the local Council). They are similar to a Duplex but are not on separate titles

These Dual Occ's are priced between $450,000 and $650,000 and pay a combined rental income of 6.2% - known as the yield.

For a $500,000 property, it would pay $600 combined rent per week.

These are attractive to tenants as they are a part of a house (where they get a yard and a secure car garage) instead of a Unit in a complex.

STEP: 4 CRUNCH THE NUMBERS

Let's start with using some assumptions so we can show you how this plan could work;

Type of property: Dual Occupancy

Purchase price: $500,000

Loan from parents: $45,000

Your current savings total: $5,000

Your annual income: $40,000

Weekly allocated savings you make: $200

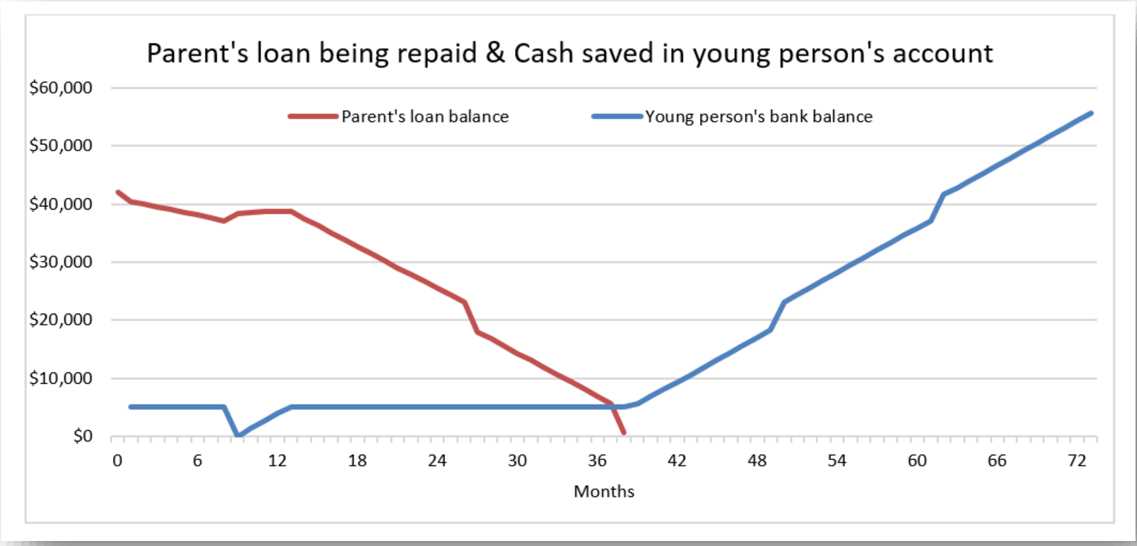
Current weekly rent: $250

Loan from parents will be repaid in 38 months

In 5 years you will have accumulated $37,161 in savings, which is after paying back the loan from your parents.

In 5 years there will be $100,000 of equity in the property if it grows by 2.0% per year.

NB We have assumed the rent, savings, interest rates and salaries all stay constant during that 5 years.



Step 5: WORK OUT YOUR REPAYMENT SCHEDULE

There are three cash flow stages for this project, and it is important to capture the income that is moving around between everyone.

1. After Contract is signed and the house is completed – this is the construction phase.

   During this construction phase the money you were saving before, is now being automatically paid (direct debited) to the loan from your parents, after paying for rates on the land.

2. When you move into one side, and rent out the other Unit.

   The money being received as rent from one side, and your savings are now both being paid to the Bank loan and the parents loan automatically every month

3. When you move out (after 1 year) and both sides are rented out.

Now all the surplus income is being directed to the bank loan and the parents loan.

Once the loan to the parents is completely paid off, the allocated funds will now go to an offset account to reduce the interest on the home loan until it is needed for the next property purchase.

To make this work it is essential to use realistic figures for the cash flow. Often we see people use high rental income and low interest payments which only sets up a high chance of falling short of the forecasted cash flow.

We include the tax benefits of the depreciation after the first year once both sides are rented out.

STEP 6: HOW TO MAKE THIS WORK

There are a number of components to make this strategy work, here are the main points;

Your Responsibilities & Obligation

To remove any subtle obligations that could exist it may be important to ensure that everyone is doing this for the right reasons.

You may be concerned in not risking your parent's assets and repaying them as quickly as possible -while your parents may not be concerned about this because they have more experience in these sort of financial matters.

Your parents may feel a sense of obligation to protect you from the investment risk.

From a financial perspective you should primarily be concerned about paying back the loan to your parents, just like a bank, make sure there is a system and capacity to ensure that the loan will be repaid on time.

The Loan from your Parents

It will help to make the lines very clear about the loan and everyone's responsibilities – you may even want to put a Loan Agreement in writing. As added security, your parents might want to put a second mortgage on your property, which will give both parties comfort and added security.

Cash flow System

A system should be put into place, and in writing, so everyone knows what is going on – may the payment automatic and fuss-free.

First Home Owner's Grant and Stamp Duty Exemption

These applications are made when applying for the bank loan and the money is paid by the Government at property settlement

Property Management

Some people may want to manage the property and collect the rent themselves, but we believe it is better to have a property manager do this. Not only is this less hassle, it creates a point of separation between the property owner (you) and the tenant who is living next door.

It will cost about 8.5% of the rental income for the property manager, should you chose this include it into your figures.

Owner & Tenant Separation

It could be difficult to live next door to your own tenant. Unless you approach this property, every time the tenant next door leaves their bins out or doesn't weed the garden then you could get frustrated.

It would be best to assume that you are renting your side as well – Sure we know you are the property owner, but it could open up unnecessary stress if you don't make the separation.

Ok, now what's next?

You will need to find the right property to meet all the objectives and government outlines. We specialise in this area and we have a good knowledge of what to build and where to find the best value for money. We also have the cash flow and budgeting system in place ready to go.

So, if you want a hand then give us a call.

If you want to do this on your own, then start looking for this new property – time is running out. The Government has only offered this money until June 30, 2017.

If you want to know more then send us an email at info@picgroup.com.au

We'd love to help