IP GLOBAL

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10 CRUCIAL TRUTHS
ABOUT PROPERTY INVESTMENT

By

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IP Global | Creating wealth through intelligent property investment.

We provide our clients with access to the best property investment opportunities across the globe and deliver an end-to-end service that guides them through every step of their international real estate investment journey.

5500+
units sold

USD 3 BILLION
on behalf of our clients

18 COUNTRIES
where we've invested

IP GLOBAL'S BUSINESS MODEL

With a commitment to the financial futures of our clients, our investment team scour the globe for property investment opportunities underpinned by robust market fundamentals.

We then co-invest by making a financial commitment for the majority, if not the entirety, of the development. Our business model gives our clients the reassurance that whatever we present is something we firmly and demonstrably believe in.

It doesn't end there. After a client selects a unit, we offer a straightforward service that guides them through the various stages of their investment journey. Through our valued partners, we are able to assist with mortgage acquisition, lettings and management and even resale. So that you can rest assured, wherever you are and at whatever stage of the journey you're in, your investment is always in good hands.

THE CONTENTS

1. Removing Emotion from the Equation

"The first thing that I want to talk about, and the challenge that we come across all the time as far as property investment is concerned, is removing emotion from the equation. What I mean by that is removing emotion from the decision-making process. I think one of the main challenges that people face is getting emotional about what type of property and location they're choosing. However, if you think about the other investment classes out there –stocks, shares or commodities- that is never the case. You buy commodities based on the price and where you think it's going to move; you buy an equity based on the dividend or potentially the PE ratio –and property should be the same. If you're purchasing a buy-to-let investment, you won't live there. You need to focus on the fundamentals and where you can make some money. And, counter-intuitively, often the best places to invest are not necessarily the nicest places. These are the areas undergoing regeneration and improvements to infrastructure which will drive up value.

It can be difficult to decide to invest in areas that perhaps you yourself wouldn't want to live in. But ultimately, you're looking to the future and what it will be like then. If I think back to some of the less-desirable areas that we've invested in over the years, there's no question that they have performed the best in terms of price growth. So it is essential that you try to focus solely on the numbers and remember that this is purely an investment decision rather than a place you might end up living in."

Jonathan Gordon
Director, Wealth Management

2. The Prescribed Market Fundamentals

A shortage of housing supply

A rising demand for housing

Population Growth

Wage Inflation

Infrastructure Additions

Regeneration/ Gentrification

EXAMPLE CASE STUDY: ISLINGTON, LONDON

Islington was one of the first London borough's IP Global identified for investment. It was a very undesirable location that is now popular with young professionals due to the proximity to City of London and Old Street. Many people were hesitate to invest in the area but our clients who did have now made staggering returns.

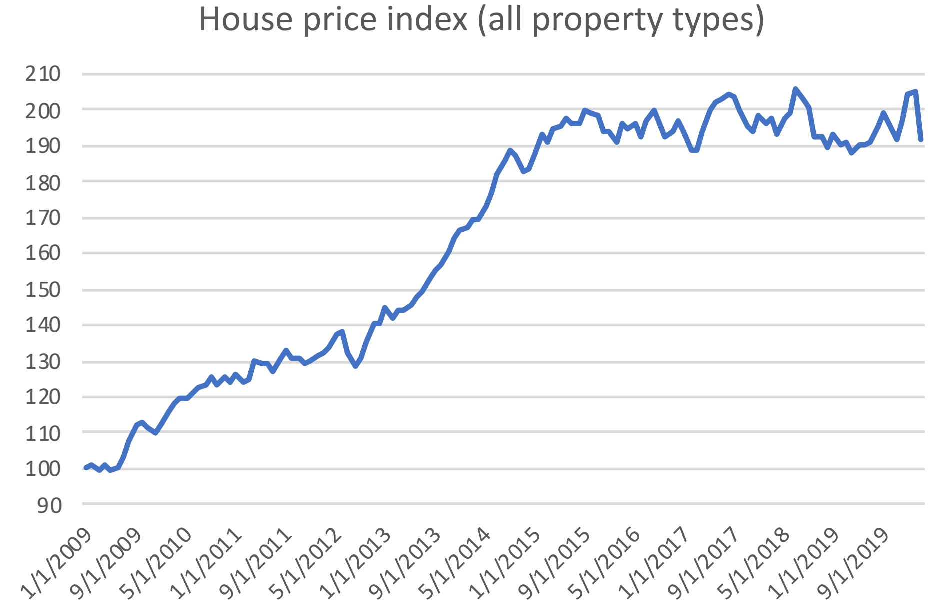
1 Previously **UNDERVALUED**

2 **CLOSE** to the **CITY**

3 Excellent **TRANSPORT** links

4 Fantastic **QUALITY** of life

5 **POPULAR** with **PROFESSIONALS**



3 developments launched

92% unleveraged house price growth

150 units sold

8.4% annualised unleveraged house price growth

Pegaso Building

Launch Date: 2009

No. of Units: 45

Distressed Asset

£PSF at Sale: £447 average

171.28% increase since project launch

15.57% increase per annum since project launch

Elmore Street

Launch Date: 2012

No. of Units: 12

£PSF at sale: £633 average

63.65% increase since project launch

7.96% increase per annum since project launch

3. The Power of Leveraging vs Cash

Many people are scared of the word ‘debt’. With regards to property investment, however, debt can increase your returns exponentially. Investors who take advantage of banks willing to structure loans at cheap rates are the ones who become truly wealthy building up leveraged property portfolios.

<u>Scenario-based example</u>

Investor A buys an apartment in cash worth £250,000.

- Assume average appreciation of 5% p.a. for 6 years
- Apartment is now worth £325,000 (30% increase = £75,000)
- Rental income is £1,000 per month, resulting in £12,000 (4.8%) p.a. or £72,000 over 6 years

Total Profit = £147,000

Return on Investment is 58.8%

Investor B invests in an apartment worth £250,000 but takes a 70% mortgage. The split is therefore £75k : £175k Equity to Mortgage.

- Assume the same average appreciation of 5% p.a. for 6 years
- Apartment rents out at 4.8% yield while the mortgage interest rate is at 4%
- Apartment is now worth £325,000 (30% increase = £75,000)
- Rent covers mortgage = Cash flow neutral

Total Profit = £75,000

Return on Investment is 100%

4. Important factors to ask your property provider if you’re an international investor:

- ☑ Can you own the title outright?
- ☑ Is there valuation risk?
- ☑ Can you get a mortgage?
- ☑ What are the currency risks?
- ☑ Are there language challenges (particularly with ongoing management)?
- ☑ Is there regulation behind service charges, maintenance costs and tenancy?

5. How Incentives Are Factored into Price

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Head of UAE and SA,
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"We see incentives a lot, they come in all shapes and sizes. They can come in rental guarantees, price discounts or furniture packs. Its worth pointing out that sometimes genuine incentives do exist. For example, at IP Global we essentially buy in bulk at the outset, adopting a more wholesale model and that does benefit us. Sometimes we do get decent discounts that we can then pass onto clients that are below retail value. Another example is the offering we can make through our sister company, Complete Ltd., based in the UK. They can occasionally get properties pre-let to local corporates to the extent that we can offer genuine rental guarantees to our clients.

But sometimes you'll see situations where you're buying a property and you'll be given a very high rental guarantee for an extended period of time. And you think: how does that work? The best way to look at it is to compare what the market is currently providing and what the developer or the agent is providing, if the latter is offering a 7-8% guarantee but the market is offering 4%, there's something amiss. And secondly, after the guarantee period you might be back to a situation where your cash flow is problematic. So, you need to understand at the outset what it is that you're paying for. Has the price been moved up to factor in those incentives? And that will only be found out by doing genuine research into the market and talking to local agents to get some comparables."

6. Why Yields Are Not Everything…

Yield is often a reflection of risk, lower yielding markets are typically more secure

A Yield difference of 1-2% is not significant

Capital growth should be the primary target

Leverage has a far larger impact on returns than yield

7. How to Identify Profiteering

Always remember to factor in your exit strategy. An investment is supposed to grow in value which means you'll need someone to buy it at a higher price when you're ready to sell. There are many different forms of investment properties to choose from and not all are created equal. If there are challenges mortgaging the asset, it could limit the resale value. If there are rental guarantees, it could present inaccurate future yields after the stipulated period. Speak to one of our wealth managers for a free consultation before investing in any 'get-rich-quick' real estate schemes.

Assets to be wary of:

Car Park Spaces

Student Pods

Aparthotels

8. Payment Structures & Hidden Costs

- 15-20% deposit off-plan should be your maximum
- Ensure your developer has the construction finance and isn't using deposits to fund the build
- Is the deposit protected and how? Insist on a copy of the policy
- Always request a detailed cash flow
- Legal fees, mortgage fees and service charges are key information to receive beforehand
- Service charges in some markets are a risk due to the lack of regulation

9. Key Tips on Liquidity & Exit Strategy

Supply vs Demand

Always think about exit strategy, you need to ensure there is a shortage of supply and that there is demand in the local market, not just from buy-to-let investors.

Availability of mortgages

You need to invest in a market where there are a variety of mortgage options as a limitation on this reduces your pool of potential buyers when its time to resell.

Foreign restrictions

Make sure you're aware of the limitations pertaining to the market you're investing in. For example, in Australia, foreigners can only buy new-build not secondhand properties. You've got to make sure your property can appeal to the masses.

Legislative changes

Be aware of changes that could happen down the line in less developed markets, putting your investment at risk.

10. Questions on Mortgaging

- How many banks are in the market?
- What documentation is required?
- Is there valuation risk?
- Is there change-in-circumstance risk?
- Are there off-plan mortgages available?

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