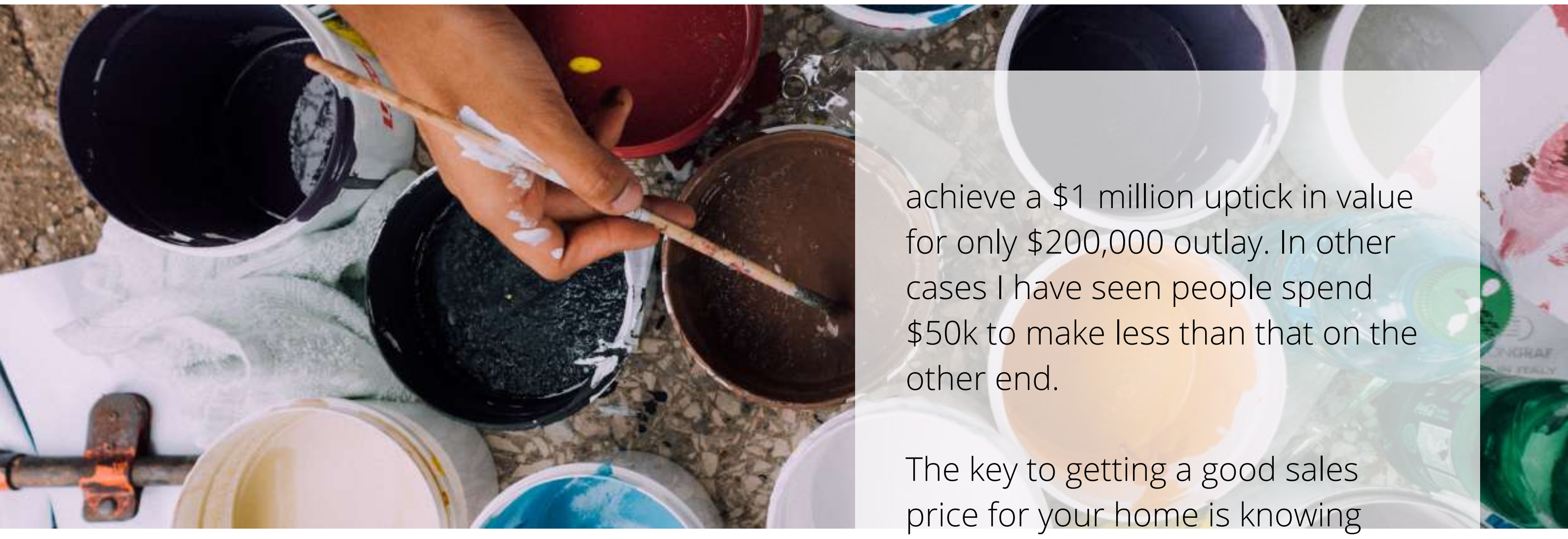
HOW TO MAXIMISE YOUR HOME'S SALE VALUE USING OTHER PEOPLE'S MONEY

FLIPPRO

RENOVATE NOW PAY WHEN YOU SELL

MARCH 2020

HOW TO MAXIMISE YOUR HOME'S SALE VALUE USING OTHER PEOPLE'S MONEY



Introduction

Selling a home is an exciting time for most, but it can be a stressful one for many. The reality is most homes achieve a higher sale price when they are fully renovated or at least cleaned up and neatly presented for sale, as the majority of buyers want to purchase a finished product.

Obtaining the necessary funding to complete renovation works can actually be the most difficult part of the project, which is why I have written this short e-book to help you through these potential challenges.

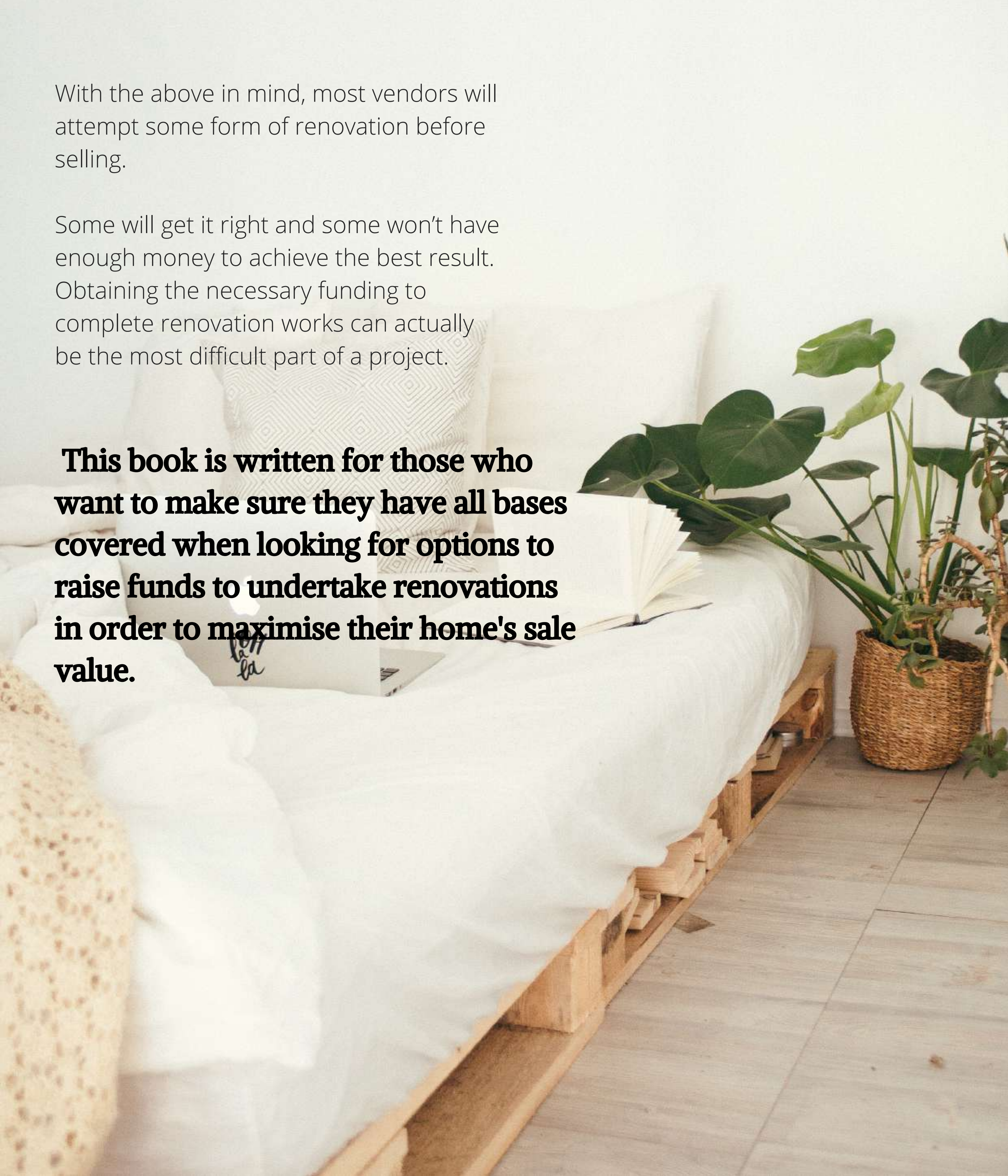
The differences in sale prices can be massive when comparing small to medium renovations. Over 15 years in the renovation industry, I have seen some instances where properties achieve a $1 million uptick in value for only $200,000 outlay. In other cases I have seen people spend $50k to make less than that on the other end.

The key to getting a good sales price for your home is knowing your market. The best way to do this is by speaking with the right, competent local agent that knows the market and what the market wants. For instance, if your property is most likely going to be sold to a developer, then there is probably no point in wasting money and time on a renovation.

However if an agent tells you that by upgrading the kitchen and bathroom and adding an extra bedroom you should achieve an extra 500k on your “as is” sales price, then it just comes down to the cost benefit analysis and how to raise the funds to do the renovation so that your sales price is maximised.

MARCH 2020

HOW TO MAXIMISE YOUR HOME'S SALE VALUE USING OTHER PEOPLE'S MONEY



With the above in mind, most vendors will attempt some form of renovation before selling.

Some will get it right and some won't have enough money to achieve the best result. Obtaining the necessary funding to complete renovation works can actually be the most difficult part of a project.

This book is written for those who want to make sure they have all bases covered when looking for options to raise funds to undertake renovations in order to maximise their home's sale value.

What is

OPM?

Let’s take a closer look... Most people think Other Peoples Money is an old movie with Danny DeVito or OPM being some kind of drug. Although both are kind of true, in the lending game, other people's money, or OPM, is a slang term that refers to financial leverage.

Financial leverage to me basically means that you can make a profitable deal without having to use all or any of your own money. This maximises your return on time especially if you are someone that is good at finding and negotiating deals.

Other People's Money refers to borrowed capital that is used to increase the potential returns as well as the risks of an investment. OPM can be used by individuals or by corporations.

If that doesn’t make sense to you, think of it like this... On a simplistic level if you can buy a house for $1 million that you know is worth $2 million once renovated but you don’t have the money to purchase the property or complete the renovation, then you basically need to find an investor that will do some sort of profit split with you on the deal.

The same goes if you currently own a property that needs to be renovated. For it to realise its highest sale value, you'll need to do at least some renovation work. If you don’t have your own funds to complete the work, then you will need to use OPM.

When it comes to real estate, other terms for OPM can include Bank Funds, Private Loans, Equity Investors, Joint Venture Partners and Flipro

Let’s have a look at these in further detail.

Banks

At the top of the OPM tree are of course the Banks.

Banks, or similar financial institutions such as credit unions, hold money deposits from people and offer them an annual interest or deposit rate. They then lend these deposited monies out at a higher interest rate to borrowers and the like than what they pay their depositors. The margin or difference between what the pay and what they charge borrowers is obviously one of the many ways banks turn a profit.

When you are renovating your home to sell and the only thing you need is money, the best and cheapest place to go will always be your bank. They more or less have unlimited supplies which means they can always give you any amount required. As long as you meet their lending criteria, which brings me to my next point.

The banks are notoriously conservative and treat serviceability as their main priority next to asset value or LVR IE loan to value ratios

The term serviceability refers to a borrower's capacity to repay a loan or, at the bare minimum, to meet interest only payments on a loan. Through complex algorithms, banks can quickly determine whether or not a borrower is a good risk to lend money to.

Most people think that risk for a bank is capital losses against falling asset values but the other main and very real risk for a financial institution is the inability to make interest payments on their deposits or to repay these deposits should the funds be recalled. If a bank loses this ability, they become illiquid and risk being shut down. So a borrower's ability to repay interest and principal is just as important as an acceptable asset value to lend against.

Now I hear what some of you are saying, the bank will never lose capital due to asset security! This is true.

But if the bank has a large defaulting book, they can lose years in the legal system getting their money back and the whole thing can lead to an inability to repay or meet payments to their depositors which could cause them to be shut down due to being illiquid or unable to meet their financial obligations.

When renovating a home to sell, the banks will most likely say no to the following situations including if you; are unemployed or elderly, have bad credit or loan term under 12 months, or have high LVR i.e. low equity amounts available.

In summary go to the bank if money is all you need and you can obtain the required amount from them. They are the cheapest and largest form of OPM around. But they're also the most conservative.

I always advise people to deal with a good broker as opposed to the bank directly (unless you already have a good relationship with your banker) because banking products, offerings and guidelines can change overnight and brokers are usually at the forefront of these changes. If you need a referral to a good broker, please feel free to email us and we can put you in the right direction.

PRIVATE MONEY LENDERS

While banks are generally public institutions that have high regulatory requirements, you can work with private lenders that may be willing to invest alongside you in a deal.

The good thing about private lenders is that they tend to be a lot more flexible in regard to serviceability and real estate asset value.

The bad thing about private lenders is that they tend to be more expensive than the institutions.

For instance, an institution would charge between 4-8% Per Annum (PA) on a secured first mortgage basis whereas a private lender would charge between 8-12% PA on a first mortgage basis.

On a second mortgage basis, one can only go private as banks don’t offer this service and for this sort of money it’s not uncommon for interest charges to range from 15-30%+ PA depending on the actual purpose of the loan and the repaymet strategy.

When people talk about private lenders, most people think angel funds, investment groups or lender associations. The reality is the best and easiest private lenders are friends and family.

If you have a good renovation opportunity to maximise your sales value and you need fast flexible funds, my advice would be to get a simple loan agreement drawn from a local family / commercial lawyer using your property as first or second mortgage security which will help all parties stay compliant and within the boundaries of any specific lending / borrowing laws.

If you don’t have access to a good lawyer, then make contact with us at Flipro and we can put you in the right direction.

In summary, private lenders are the most flexible to deal with and often the best to approach are friends or family but be careful mixing business and pleasure!

Investors Equity Partners Joint Ventures

When investment opportunities have a higher risk profile it can be more difficult to raise funds and also more expensive.

In other words, say you have a property that is worth a million dollars and you owe the bank $900,000. This is what is called a high loan to asset value ratio of 90% and the problem with it is that both banks and private lenders would normally find this sort of opportunity too risky.

Even if the renovation costs $100k and the uptick or value added is say $500k with an end sales price of $1.5 million, it will still be quite difficult to get cheap investment funds to maximise your property's sale value, in my experience.

This is because there is risk in construction. Getting the right builder, completing jobs on time, withstanding the elements and withstanding market conditions are all but a few risks that investors look to justify their risk fees versus appetites.

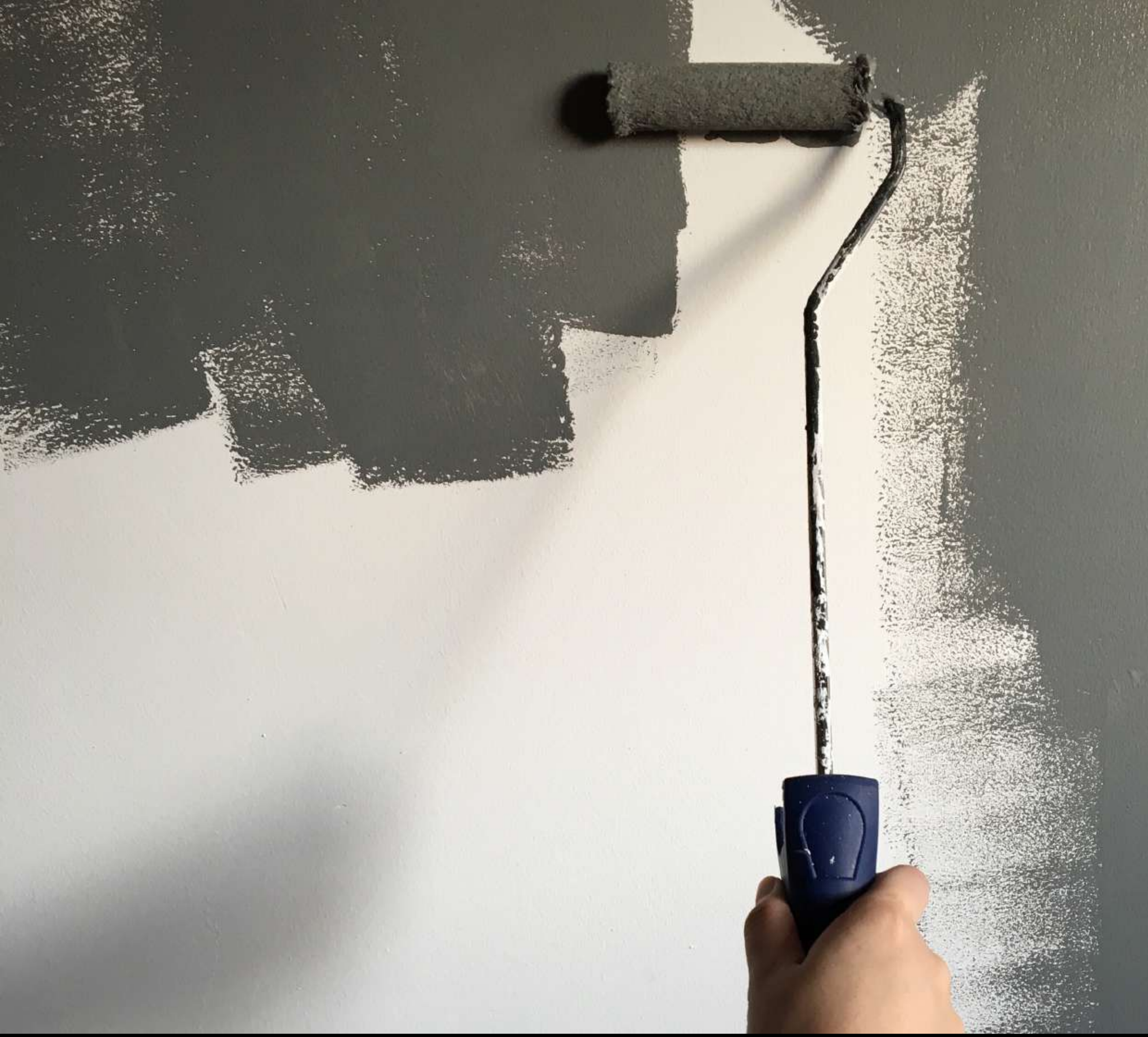
So what you need is a Joint Venture equity partner. Unfortunately, they will want more of the honey pot than your average bear but in return you will get a deal done and reap more rewards yourself than you otherwise would have selling as is.

This means you need to put together a solid investment proposal that shows the potential of return for the investor. Ideally, you would have done one already for the bank or private lender so it should be ready to go. If you are struggling with a format at this point please email us and we can send you a template to work with.

If you don't know anyone that would go into a joint venture with you, then don't be afraid to put an ad in the paper, do a Google search, join a business group or give us a call to help point you in the right direction. Also, a crucial step is using a local lawyer to make sure the agreement is secure, binding and compliant.

Keep in mind though, before approaching anyone your offer needs to be clear and your business proposal needs to be complete. Also, joint venture partners tend to offer only money as the value add, whereas maximising the property's sale value needs both market and building expertise.

In summary, joint venture partners will be prepared to take on more risk but will want more of the profits in return and they can also be hard to find and structure a quick deal with, but they can enable a profitable project to get off the ground that otherwise would not.



FLIPRO

Finding a one-stop shop for organising strategy, skilled trades and paying for the works on sale completion is really every flip renovator's dream!

Welcome to Flipro where every renovation scenario is considered and assessed on its own merit.

Negotiating all renovation works to be paid for when the property has sold and settled is ideally how anyone would want to use OPM to maximise their home's sale value. Not only do you get access to the payment terms, you also get the right strategy and the right skilled trades.

We will still consider working with you to achieve your maximum property sales price outcome even if you; are unemployed or over 55, have bad credit, have a high LVR and low equity levels.

Financing a renovation is only one piece of the puzzle. It's extremely important because without the funding, a job can't even get started. But there is no point in doing a lousy job. No business at all is better than bad business!

Other aspects; having the right strategy, knowing your outcome, avoiding the pitfalls and engaging the right trades people, are just as important as the financing arm.

For instance, if you employ the services of a trades person that isn't up to the job they can destroy any profits by putting you months, even years behind. This can have a devastating flow-on effect. These effects include budget blowouts with variations, financial hardship with mortgage repayments, market deflation risk etc. The list goes on and on. Many marriage breakups and nervous breakdowns can be attributed to renovations. It's not because they all go smooth sailing most of the time, it's because something goes wrong with the strategy or trades, which put stress on finances and timelines.

Combining all three skill sets is the best way to maximise your property's sale value. Even if a vendor has their own trades, it's still important to make sure simple things, like the right contracts, are being used. At the very least you want trades with a good track record undertaking works. If small things aren't checked by an old hand, even if they seem like minor details, your project can quickly get out of hand! Luckily we are here to hold your hand along the renovation journey.

Here are some guidelines to enable any OPM funder to make a fast decision on your project

How to present your renovation opportunity to any of the above parties

When presenting information to any financier or investor, basic financial information needs to be made available and presented in an acceptable format to save time. Banks will generally want to know everything including credit scores, personal tax returns and property valuations. Going with a bank means you will need to sign one of their formal applications. On this page you can find a brief annexure of some of the information that will be required to obtain a finance offer or to attract an investor who can help speed up the process in regard to obtaining an offer.

Description of strategy

- 'As is' value
- Market condition / comparison
- Anticipated uplift / feasability
- Due diligence

Project Brief

- Description of works to be carried out (this should include current state photos)
- Preliminary budget
- Timeline

Finance

- 1st mortgage loan statements (ensure the last 2 months loan statements are provided)
- Full list of real estate assets and liabilities (if not enough room, provide in separate document).
- Current rates notices (ensure a council rates notice is sent for each security property).
- Recent Valuations (If available, any recently completed valuations).
- 100 pts ID for all owners (ensure that front and back ID is sent in a clear and legible format).

Take the headache out of financing and sourcing trades for your home renovations. Our services include: **Renovations, Extensions, Granny Flats and Subdivisions**

Get your free assessment today 1300 888 552

Schedule a free consultation call

Qualify for a pre-sale renovation package

Line up contractors and complete renovation

Pay us back when you sell

www.FLIPRO.com.au