The Stepladder

How to build a Property Portfolio quickly, without your own money, one step at a time

- Borrow $50,000 or $100,000 from your Mum and Dad, pay them interest and pay the loan back as soon as possible.
- You buy a share of a brick and tile unit in Auckland.
  You and the other investors agree there will be no mortgage on the unit, ever, but we will help you to borrow your share with our expert finance brokers.
- Your share of the property's net rent should almost cover any 'Mum and Dad' interest.
- Management, when and how to sell is all covered.
- At 9.1% growth (we're targeting over 10%), in 10 years your $50,000 share could be $135,000. From nothing. And your parents are paid back.
- We expect to repeat this formula for you as you pay down the first $50,000 step.
- So that in 10 to 15 years you have champagne-rented where you choose to live AND built a portfolio of shared units across Auckland.
- Then you might buy that mansion you never dreamed of AND look after your parents.

Stepladder Buy Fee 4% + GST

Stepladder Contract Fee $2,000 + GST

On $50,000 contribution you pay $54,600

On $100,000 contribution you pay $106,900

Real Estate *Together*

realestatetogether.co.nz

Book a meeting today *...and bring your parents!*

Martin Dunn FELLOW REINZ

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Unit market history

Median value of units 2011: **$330,000**
Median rent: **$360pw**

Median value of units 2021: **$790,000**
Median rent: **$520pw**

Compound Annual Growth
Rates (CAGR): 9.1% .... and 3.75% rent

FIGURES FROM REINZ

- At 8% CAGR a property doubles in value in 9 years
- At 9% CAGR it doubles in 8 years
- At 10% CAGR it doubles in just over 7 years (And add 3.5% for initial nett rent).

Of course past performance doesn't guarantee future performance, but... read on!

The above historical figures are for all two bedroom units across all Auckland suburbs.

Our own figures are higher due to our specialist knowledge, buying power and focus on suburbs where we identify culture change, infrastructure change and/or gentrification. And brick units only with careful note of flood plains.

We asked REINZ for the 10 years only to 2021 to specifically avoid the 2022 manic boom and current correction of the Reserve Bank, Covid-inspired, interest rate manipulations.

After not buying for the entire 2022 year and its reported 28% boom and 12% (?) crash we believe huge opportunities now present.

Auckland is in a good place

Despite no contribution from our Covid-decimated Tourism, Hospitality and Education industries, taxpayers paid an historically unprecedented $100m in one 2022 contribution and our 50% debt to GDP is quickly reducing to our comfort level of 20% again.

Our intense shortage of doctors, teachers, police, veterinarians, drivers, fruit pickers, nurses, fire fighters, hospitality workers and tradies is forcing a reluctant Immigration Department and Minister to relent on restrictions - and a new Government is promising to throw the doors open.

A nett gain of 30,000 new immigrants was immediate at the first quarter of 2023.

Yet Auckland is strewn with fenced off residential development sites where developers cannot attract tradespeople, finance or even materials to build. And we have the ongoing shame of Aucklanders sleeping in motels, cars and garages.

So our logic is that we are in a very good place to invest and provide rental accommodation. We feel a return to strong residential growth normality is imminent and that it will be very sudden.

What to do

For the sake of conservatism we use the REINZ projections and apply them here specifically to a $50,000 contribution and $100,000 contribution to a $700,000 unit. If selling after 10 years this will have passed the current 10 year 'Brightline Test' — ask your accountant if this should be tax free. Where your share of rent is added it is NETT RENT after management fees, rates, insurance and then say 30% tax are all deducted. (This 30% is a guesstimate as investors might have lower or higher liabilities).

In summary, using the REINZ figures (9.1% capital growth and 3.75% rental growth compounding), a unit at $700,000 offers 7.15% ownership share for $50,000 and 14.3% for a $100,000 share. Rent of $720/week is used as the median expected over the next 10 years.

Invest $50,000

10 year mark value: $120,000
Add Rent: **+$15,700**

Say **$135,000**

With enough of these over time you approach millionaire status;
where else could you possibly achieve this?

Invest $100,000

10 year mark value: $240,000
Add Rent: **+$31,450**

Say **$270,000**

With a few of these over time you approach millionaire status;
where else could you possibly achieve this?

Is it even smarter to borrow the contribution?

Borrow $50,000

10 year mark: $120,000
Add Rent: **+$15,700**
Deduct say 5% interest x 10 years: - $25,000
Pay back $50,000

Nett effect **$110,700**

Borrow $100,000

10 year mark: $240,000
Add Rent: **+$31,450**
Deduct say 5% interest x 10 years: - $50,000
Pay back $100,000

Nett effect **$221,450**

You agree the borrowing cannot be secured against the property and will likely come with parental assistance to help kids get started. It should instill a saving discipline that is clearly comprehensible to them. We expect the 'loan' to be paid back over maybe three to five years (as soon as manageable) making the below figures change dramatically towards the previous scenario.

However the borrowing is calculated at 5% (interest only), for the entire 10 years, nonetheless. Work your own calculations at your own interest rate predictions.

This 'borrowing regime' is designed specifically as a family startup to perhaps get together a **$500,000 deposit** for a first home.

This would entail, over time, **4 × $50,000** contributions or **2 × $100,000** contributions from the family. The properties bring an immediate income, and the opportunity of a lifetime for a generation despondent at ever owning their own home.

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Parents - consider the maths

Would a self-funding mortgage on the family home for this purpose be feasible for you? Try this mathematical exercise if you are doubtful:

Nett rent on our chosen product is **3.6% (on a $700,000 purchase less "say" 30% tax)**.

In today's market this is:

$600/week x 52 = $31,200
less $3,000 Management
less $1,800 rates
less $1,200 Insurance
say **$25,000 nett** (ie. 4.45% gross & 3.6 % nett)
3.6%
less 30% tax is 2.5%,
add presumed compound growth of 9.1%
= 11.6% return

Ask your accountant if this is taxable.

Tax and selling

Owners can lobby at any stage to sell but at about seven years ownership, investors should have enjoyed monthly income, plus hopefully capital growth. For the sake of practicality, we do not expect owners to hold forever so will be orchestrating an annual 'vote-to-sell' after the seven year mark, and being cognisant of the current 10 year 'Brightline' tax test. If 50% of Stepladder participants vote to sell, Real Estate Together intends to instruct its preferred Realtor Agency to market and sell the property. Funds will then be distributed through our lawyers, according to share.

It is critical that you take advice from your accountant as to how they see your liability to pay tax (including any tax on Capital Gains).

Past performance does not guarantee future performance

Key points

- All investors names are on the title
- You collectively agree no debt may be lodged against the title
- We assist you to borrow the contribution if setting the kids up
- We advise the kids to pay you interest out of the rent and to pay you back as fast as they can, then to request a 'repeat'
- Consider investing personally as well
- There are EXIT and EARLY EXIT procedures
- All funds are held in our audited Trust Account then our lawyers' Trust Account
- Each purchase is subject to a valuation by a Registered Valuer
- A Governance Committee then approves each investment, checking funds held, due diligence on the title, LIM and flood plains
- You are then <u>invited</u> to commit
- The property is managed by New Zealand's leading real estate agency
- Your lawyer must approve the process and all documentation

Summary

This has not been done before and while compliance has been onerous the process could not be simpler. You are just chipping in with others to get an otherwise unattainable start towards your own home or retirement.

Please get going. We have the best stock on the market right now. You need to do this.

Of course we are constantly buying for individuals who can purchase their own, entire property and not shares with others. These are usually Baby Boomers grateful for a credible vehicle for retirement and with all the sourcing and negotiating done for them at a modest fee.

Next steps

Call or email me, Martin Dunn, anytime for an appointment to meet. I travel extensively to meet clients personally if at all possible.

When satisfied, you will be emailed documentation allowing me to act as your Buyer Agent and establishing what you are comfortable investing and your suburb preferences. We have strong opinions on suburbs of perceived growth.

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Martin Dunn FELLOW REINZ

0274 984 097 | martin@realestatetogether.co.nz

Martin Samuel Dunn was made a Fellow of the Real Estate Institute of New Zealand in 2018 for services to the profession. He has been a Vice President of the Institute and Chaired the five Disciplinary Committees for four years.

Martin has been the top broker at two of New Zealand's most prestigious Agencies.

Martin pioneered the Auckland apartment market's inception and founded specialist agency City Sales in 1997, the agency becoming a household name.

Driven by a social concern of New Zealanders entering an era of permanently renting, Martin has created this unique, simple vehicle where ordinary New Zealanders can easily aspire to their own home and step onto and off the property ladder.

A Buyer Agency like Real Estate Together is unique to New Zealand but is standard real estate practice in the USA and is common in the UK.

Scott Samuel Dunn

CEO City Sales Ltd MREINZ

B. Communications, Graduate Diploma in Business

Governance Committee

- Scott Samuel Dunn (above)
- Martin Dunn, Managing Director

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