

**First –Time Buyers Report**

**24, Trevor Terrace,**

**North Shields**

**Tyne and Wear**

**NE30 2DE**

**09.11.2009**

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## Summary

Buying your first property can be a daunting experience. Asking the right questions and seeking expert advice are the most sensible ways to ensure you make the best decisions for you and your circumstances.

As a first time buyer two of the critical questions you're likely to be asking yourself are --

- 1. Should I rent or buy?**
- 2. If I decide to buy, will the value of my home grow?**

This is where Do the Sums Reports can help.

In the current economic climate homebuyers are questioning their investments more than ever, any additional security a buyer can seek at this difficult time will provide much needed peace of mind.

No one can be certain what is going to happen in the next six to twelve months, but what we can be sure of is that the economy will recover and growth will resume, both in general economy and the property market.

Even in a falling market property can be a sound financial investment, to maximise this there are places where, from a financial point of view, it is a good place to buy and others you should avoid.

As always when the market does recover the value of properties will not be spread evenly across the country, so this report will help guide you in your property search to ensure you buy sensibly, with the right knowledge at your fingertips and minimise risk.

Using the best available information our recommendations enable you to:

- 1. Avoid properties and areas where values are likely to fall excessively**
- 2. Identify places where values will be maintained in line with the general property market**

- 3. Choose properties and locations where the growth in value will be more than the average rate of growth in the property market**

Consider this report as an insurance on your property decisions

## **Report Recommendations:**

Your proposed purchase of 24, Trevor Terrace, North Shields, Tyne and Wear, NE30 2DE.

Using the latest information available, combined with our skills and expertise we consider the investment performance of your prospective purchase to be such that we recommend

**\*\*\* A solid buy with good prospects**

Please read on and this report will explain how we have reached this recommendation

## **Introduction – how & why**

The remainder of this report will illustrate how and why we have arrived at our conclusion and the supporting data for our recommendation

### **Why buy a home?**

Traditionally putting your money into property has been regarded as a safe way to acquire and protect capital – a good investment for the future.

The reasons for this are twofold

- 1. We consider property as an enduring asset**
- 2. We believe the demand for property will remain greater than the supply**

Even before the current reduction in house building the annual number of new households exceeded the supply of new houses by 35,000 per year.

And despite the current recession, the overall trend tracked over previous years, demonstrates that as the strength of the economy increases the value of property will increase with it.

This does not mean that every house in the UK will increase in value year on year, but the long-term trend over the last sixty years has seen an average increase of approximately 6.2% that is 2.9% above inflation.

Short term falls are inevitable, but looking at property as a long term investment, the trend for growth is good.

Over the next few pages we'll show you how your proposed purchase is likely to perform.

## **How to read the report**

The following is a guide to the terms and words used in your report and attempts to offer a brief explanation of the common ones.

### **Renovations:**

Renovations are included as an original input and are estimated by the clients if required.

### **Capital Growth:**

Capital Growth rates are formulated using a complex model of information from the Land Registry, unemployment figures, industrial output, bank rates, business activity, property sales, office rents etc.

Overall more than one hundred factors are taken into consideration when calculating capital growth rate. However, please be aware that an absolute guarantee cannot be offered when calculating this figure.

Normally a report will predict the rate for a duration of five years, and as such it is an educated forecast. The most accurate data available is analysed to reach the conclusion, which is the most likely outcome for your property.

### **Property Value:**

The property value is calculated from the initial market value, any renovations and capital growth forecast.

### **Loan Amount:**

This is the amount that is outstanding through the examined period.

### **Equity:**

This is the amount that your property is worth less the loan amount.

### **Inflation Rate:**

This report measures the inflation rate by using Retail Price Index (RPI). There is a number of different ways to measure inflation; the Customer Price

Index (CPI) and RPIX (excludes mortgages) and the (RPIY (excludes mortgaged and direct taxes etc). For the purposes of this report RPI is the best method.

**Principal Repayment:**

A principal repayment can be paid to reduce the loan on a conventional 'principal plus interest' basis.

**Interest Rates:**

This will be the rate you have supplied. Where a variable rate loan has been used the latest and the best data has been used to forecast the future interest rates.

**Loan Interest**

This is calculated from the loan type, the amount and term of the loan.

**Additional repayment**

If you decide to pay additional payments we will discuss this and add it in to the report

**Total Loan repayment**

This is calculated from the loan principal, interest and additional payment

**Special Expenses**

This will be specified by you and added to the report if required.

## **Property Value and Debt**

This section illustrates the value of the property and the property loan/mortgage over time. It shows the build up of the equity in the period

### **To rent or buy?**

To help you answer this critical question the first chart and table illustrate how the rent you currently pay compares with the interest on your proposed mortgage.

The red section is the rent you pay as 'tenant' and the green is the additional amount you will pay as 'owner'.

If the red section gets nearer to 100% then its sensible to consider buying instead of renting, because as the owner you will benefit from any capital growth.

The green area represents how much more than your rent you will be paying to become the owner of the property. So if the green area displayed in the graph is large, it's a good idea to stay as a tenant.

**Property Name** Trevor Terr, 24

**Location** UK

**Purchase Price** £90,000.00

**Closing Costs** £1,570.00

**Total Cost** £100,143.00

**Building Value** £67,500.00

**Contents** £1,800.00

**Expenses** £1,071.00

**Market Value** £105,000.00

**Cash In** £24,382.00

**Loan Amount** £76,530.00

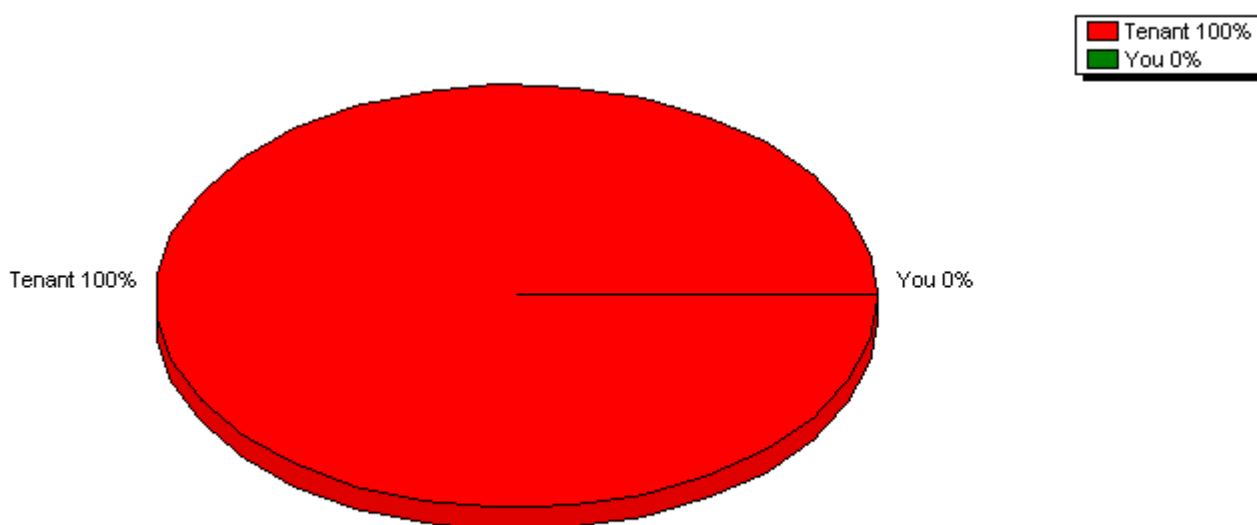
**Loan Cost** £769.00

**Annual Rent** £5,184.00

**Management** £264.90



**Who pays the interest bill?**



	<b>Interest bill</b>	<b>Rental income</b>	<b>Rental expenses</b>	<b>Net rent (Tenant)</b>	<b>Tax credit (Taxman)</b>	<b>Remainder (You)</b>
<b>Year 1</b>	3,780.58	5,184.00	1,335.90	3,848.10	0.00	-67.52
<b>Year 2</b>	3,780.58	5,313.60	1,369.30	3,944.30	0.00	-163.72
<b>Year 3</b>	3,780.58	5,446.44	1,403.53	4,042.91	0.00	-262.33
<b>Year 4</b>	3,780.58	5,582.60	1,438.62	4,143.98	0.00	-363.40
<b>Year 5</b>	3,780.58	5,722.17	1,474.59	4,247.58	0.00	-467.00

## **Property Value**

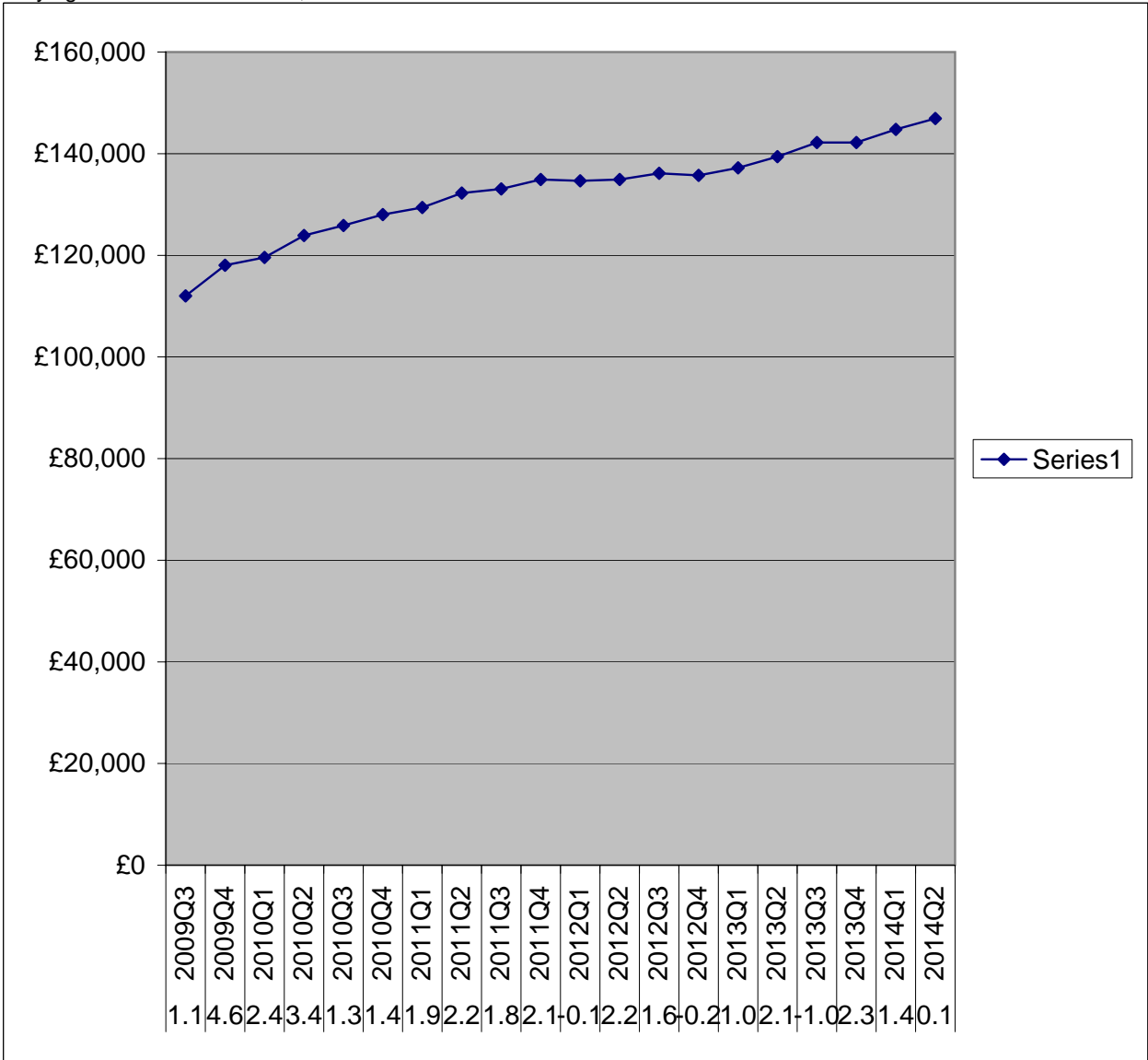
The following graph is a simple to follow illustration of the forecast value for your proposed property during the next five years.

The value is expressed in real terms by allowing for estimated future inflation.

By referring to this graph you can see at a glance if the value of the property is likely to grow, stagnate or decrease.

Buying Price

£106,000



## **Loan Analysis**

The following table lists the principal repayments and the interest on your proposed mortgages.

There are currently no tax allowances available for fully residential, owner occupied properties

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<b>Loan analysis</b>	<b>YEAR 1</b>	<b>YEAR 2</b>	<b>YEAR 3</b>	<b>YEAR 4</b>	<b>YEAR 5</b>
Loan amount 1	76,530.00	76,530.00	76,530.00	76,530.00	76,530.00
Loan amount 2	0.00	0.00	0.00	0.00	0.00
Loan amount 3	0.00	0.00	0.00	0.00	0.00
Loan amount 4	0.00	0.00	0.00	0.00	0.00
Principal repayment 1	0.00	0.00	0.00	0.00	0.00
Principal repayment 2	0.00	0.00	0.00	0.00	0.00
Principal repayment 3	0.00	0.00	0.00	0.00	0.00
Principal repayment 4	0.00	0.00	0.00	0.00	0.00
Interest rate 1	4.94%	4.94%	4.94%	4.94%	4.94%
Interest rate 2	0.00%	0.00%	0.00%	0.00%	0.00%
Interest rate 3	0.00%	0.00%	0.00%	0.00%	0.00%
Interest rate 4	0.00%	0.00%	0.00%	0.00%	0.00%
Loan interest 1	3,780.58	3,780.58	3,780.58	3,780.58	3,780.58
Loan interest 2	0.00	0.00	0.00	0.00	0.00
Loan interest 3	0.00	0.00	0.00	0.00	0.00
Loan interest 4	0.00	0.00	0.00	0.00	0.00
Additional repayment 1	0.00	0.00	0.00	0.00	0.00
Additional repayment 2	0.00	0.00	0.00	0.00	0.00
Additional repayment 3	0.00	0.00	0.00	0.00	0.00
Additional repayment 4	0.00	0.00	0.00	0.00	0.00
Total loan payment 1	3,780.58	3,780.58	3,780.58	3,780.58	3,780.58
Total loan payment 2	0.00	0.00	0.00	0.00	0.00
Total loan payment 3	0.00	0.00	0.00	0.00	0.00
Total loan payment 4	0.00	0.00	0.00	0.00	0.00

**Notes:** The loan costs are included in the deductions for the first year.

Depreciation rates : Building = %

## FREQUENTLY ASKED QUESTIONS

To help guide you through some of the most frequently asked questions first time buyers ask before and after receiving their report, Do the Sums has prepared a list of questions and answers to help you.

*Q Given the current recession is buying property still a sensible investment?*

A. As this report has shown buying property in the right place at the right price can still be a sound investment. There are many places in the UK that are already noting increases in property values, and many that have continued to increase in value throughout the recession. Over time the market will recover. However, not every property is guaranteed to go up in value and that is why the Do The Sums Report are a sensible undertaking to help protect against taking unnecessary risks with your investment.

*Q. Why include a measure of inflation?*

A. Future earnings and costs are discounted in line with a forecast inflation rate. The value of a pound today is not the same as the value of a pound in five years time. Any accurate calculation involving amounts in the future, must reflect this change in value.

*Q. Can income tax be used?*

A. Normally there are no tax allowances on owner occupied properties. Only if the property is held as an investment, in full or in part, does it attract allowances for business expenses.

*Q. Can buildings be depreciated for tax purposes?*

A. Depreciation of buildings in the UK is not generally allowable by

HM Revenue and Customs.

*Q. How about other depreciation?*

A. Depreciation of fixtures and fittings (contents) can normally be claimed if the property is used as a business.

*Q. What period can be examined in the report?*

A. In most cases the first five years is given in the report and is normally sufficient to make a purchasing decision. Other projections can be made, but obviously the further into the future the primary data is forecast i.e. interest, inflation and capital growth rates, the more problematical and less accurate the data becomes.

*Q. How do you do forecasts?*

A. Mathematical relationships are sought between past and present prices and also between a price to be forecast and other information, such as interest rates. If the relationship is strong enough to justify an attempt at forecasting, mathematical models are built to use in the forecasting process.

*Q. Can you guarantee the forecasts?*

A. The strengths and consistencies of the relationships that the forecasts rely upon vary greatly, so no individual forecast can ever be guaranteed. However, we attempt to optimise all forecasting technology to ensure that the most likely outcome, on the basis of the data history, is used.

*Q. What is a neighbourhood?*

A. A neighbourhood is defined as a postcode sector. A postcode sector is the full postcode, excluding the final two letters. So for the property postcode NE29 6XY, the postcode sector would be NE29 6. The forecast is for the UK

only, at this stage.

*Q. Where can I go if I need further information about the findings of my report?*

A. Contact us if you have any difficulties interpreting your report. Please send an email to [contact details]