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LATTO PROPERTY INVESTMENTS LTD

# Property Investor Monthly

## Property Market Overview - Will the Property "Bubble" Burst?

There has been much interest surrounding the property market recently in an attempt to predict when "the bubble will burst". Whether that will happen still remains to be seen, but there have been many comparisons with the late 80's and early 90's which saw some people lose their houses or end up in negative equity. **Is this time around the same?** Whilst every generation always thinks that the past will never happen to them, the indicators are that in some areas there will be fluctuations and in some areas there won't. The South-East in particular will see some areas

struggle to maintain both rental income and capital increases on properties. But the old adage of "location, location, location" remains true. In some parts of London, the market will provide lower rental income due to a surplus of 2 bed apartments for example.

### **London and the South East account for 48.3% of all buy-to-let lending.**

Although this year we have seen an average increase of 24% (up to the end of the year) in the value of property, several sources are anticipating an increase of just 8% for next year. Compared to stocks and shares, I would prefer my 8% in property any time.

Remember that a property worth £100,00 that appreciates 8% increases by £8000 - my original investment is still only 15%, or £15,000. £8000 divided by £15,000 multiplied by 100 for a percentage is still a 53% increase on my capital employed, plus with the income of at least £100 per month on each house. Possibly the capital increases of over 30% on the overall value of property in the South East have disappeared due to the high saturation levels of buy-to-let investors, but I have to conclude that property is where I want my money to be right now.

## Investor Awareness

— Increase your chances for Success.

I have often been asked the question "what is the best property for me to buy", or "have a look at this deal and tell me what you think". Whilst I am flattered by the questions, the normal response I will give is "have you read this book" or "Read such and

such a book, it will enable you to learn more about the subject of property investing". Unfortunately the response to that usually is "I don't have time" or, "No, I just want to spend my 10k on houses". If this is you, then I'm afraid to say that the

chances are that you will fail. You wouldn't drive your car without taking a lesson or two now would you?

We live in an information age, and knowledge is the key to your financial freedom.

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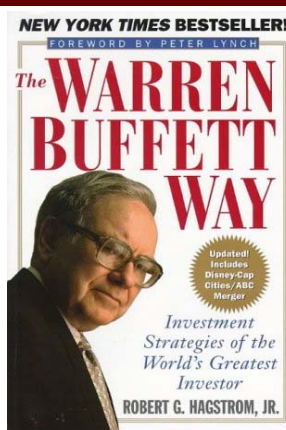
### Buy-To-Let facts

- Average buy-to-let loan is £80,200, rising to £202,800 in prime areas of Central London.
- London and the South East account for 48.3% of all buy-to-let lending
- Average rental return is 6.5% in the South East, 7.4% in the rest of the UK
- Average void period is 6 weeks in prime areas of Central London, 36 days in the rest of the UK
- Three quarters of all buy-to-let lending is arranged through financial intermediaries

Source: Association of Residential Letting Agents

# Book Review - "The Warren Buffet Way"

Quite possibly one of the duller books I have ever read, but also one of the most useful. The book talks openly about Buffett's methods of beating stock market averages year in year out. While most "men in red braces" have different reasons for buying and selling stocks. The book states that this is possibly to do with following what everybody else is doing. The idea being that if they pick the one stock that takes off then they are a hero for a while, conversely if they pick the one stock that fails miserably, they'll be looking for a new job – it's easier to follow what everyone else is doing.



*"Above average results, Buffett has learned, are often produced by doing ordinary things. The key is to do those ordinary things exceptionally well."*

*- Buffet on motivation  
"Like the chicken farmer who rolls an ostrich egg into the hen house and says, 'Ladies, this is what the competition is doing'"*

*"Quoting Keynes, he says, 'I would rather be vaguely right than precisely wrong'"*

Buffett has three key areas that he looks at when he purchases a stock – He looks at ;

- 1. Business Tenets** – a) is it simple and understandable, b) does the business have a consistent operating history and c) does the business have favourable long-term prospects
- 2. Financial Tenets** – follows these basic principles a) Focus on return on equity, not earnings per share, b) Calculate "Owner Earnings" to get a

true reflection of value, c) Look for companies with high profit margins and d) For every dollar retained, make sure the company has created at least one dollar of market value  
**3. Market Tenets** – a) What is the value of the business, b) Can the business be purchased at a significant discount to its value.

"The most distinguishing trait of Buffett's investment philosophy is the clear understanding that, by owning shares of stock, he owns businesses, not pieces of paper. The idea of buying stock without understanding

the company's products and services, labour relations, raw material expenses, plant and equipment, capital reinvestment requirements, inventories, receivables, and working capital needs – is unconscionable", says Buffett. This mentality is reflected in the attitude of business owner as opposed to a stock owner. In the summation of another book, *The Intelligent Investor*, Benjamin Graham wrote, "Investing is most intelligent when it is most businesslike." These words are, Buffett says, "the nine most important words ever written about investing."

Although I found this book to be rather dull, I found it to be one of the most useful books I have ever read, and as such would highly recommend it.

As a sidenote, compared to Buffett's stockmarket returns (average of 17%), I would still rather place my cash in property as some of my returns on capital invested are well above that figure.

## Tax Allowances & Tables

Income Tax			Stamp Duty - payable upon purchase price of property		Capital Gains Tax (CGT)
Banding	Rates	2002/2003	Upto £60,000	nil	Annual Exemption 2002/2003
Starting	10%	Upto £1,920	£60,001 to £250,000	1%	£7,700
Basic	22%	£1,921 to £29,500	£250,001 to £500,000	2%	
Higher	40%	Above £29,500	Above £500,000	3%	



Calculate your CGT before you decide to sell, is remortgaging a better option ?

# Property Basics

## Calculating Cash Return on Investment (CROI)

I often get asked how to calculate whether the property is a good investment or a bad investment. Well, as anyone who reads the books I recommend knows, a good investment is one that puts money in your pocket from day one. Also, it is useful for us to be able to compare an investment in property, with investing in shares so that we can work out the sort of returns we can expect. There are two key ways of doing this, the first one is Cash Return on Investment (CROI), the second one is Yield. In this newsletter we are going to look at Cash Return on Investment.

For example if I had £15,000 is shares and they increased 10% to £16,500 – this would be a 10% return on investment. If I had a property worth £100,000 (using 15% deposit at £15,000) and the property increased 10% to £115,000, then I would have a 100% return on investment. (increase of £15,000 divided by the original investment of £15,000). This, by the way is called gearing, where you use a small amount of your own money to purchase something using other peoples money. This allows you to purchase property using little cash. Now, I said at the start that a good investment is an investment that puts money into your pocket from day one. The two examples above, shares and capital only increase in value on the property do not give you money from day 1 (A dividend at the end of the year, and possibly a remortgage might do eventually, but you have to wait for it).

However, if we now rent out that property and lets say that the mortgage of £85,000 at 6% interest works out at £425 per month (that is £85,000 multiplied by 6% and divided by 12 months), and that we earn £650 per month in rent. This gives us a profit of £225 per month, lets take off our insurance costs (£20 per month) and our management fees (10% of rental income, or £65 per month). This leaves a profit of £140 per month.

### Return On Investment

To calculate our return on investment, we can now multiply our profit each month by 12 to get a yearly profit, and divide that by the amount we have put down as a deposit (£15,000). We can then multiply that by 100 to get our Return on Investment as a percentage term - this gives us a ROI of 11.2%.

So, to sum up then, our original investment was £15,000, and our return on that original investment is £1680. Hence a ROI of 11.2%. Is this a good investment? I personally would say no – all of my returns are at least 20% ROI. (The capital increase on the property may be huge however, and this needs to be weighed up in making that decision) Generally, I would also say that generally you would get

better CROI on the lower end of the market.

Lets take a house worth say £37,000, which we can rent out at £300 per month (a low conservative figure). To purchase this property with 15% deposit costs £5,550. We have insurance (£15 per month = £180 per year) and management fees (10% of rental income or £30 per month = £300 per year) Lets take into account solicitors fees and valuations at say £800. Our total purchase price in the first year therefore is £6,840 against the property worth £37,000.

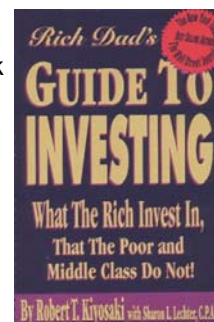
Our mortgage would be £37,000-£5,550 = £31,500 multiplied by our interest rate (6%) and divided by 12 months = £157.50 mortgage per month. Our profit each month (£300-£157.50) is £142.50 multiplied by 12 months which gives us £1,710. Divide this figure by our original investment (£6,840) and multiply by 100 for the percentage which gives us a CROI of 25%. This would be a much better property and one that I personally would buy. If we could obtain a higher rental income (maybe by increasing the value of the property to the prospective tenant, ie paint it, new carpets, etc ) then we may get as much as £350 rent each month. If this were the case (costs of £6,900, divided by profit of £2,310) our CROI would be 33.5%. An even greater opportunity to make money immediately. Remember that a good investment is one that puts money in your pocket straight away.

## Recommended Book List

### Robert Kyosaki - Rich dads Guide To Investing.

This book will not make you money to start with, but gives you the mindset that you need to live a different life than you live now and is useful as a “motivational tool”. Whether any of the events actually happened, or whether any of Roberts’ deals happened could be open to criticism. (have a look at <http://www.johntreed.com/Kiyosaki.html>). Depending on which view you take, this book could potentially change your life and make you view things a little differently (I know that my life has changed positively because of the Rich Dad Series and I have managed over the last 3 years to increase my property portfolio profitably). The book definitely promotes a mindset change - such as working for a living is maybe not the best way forward and that there are alternatives.

**Would I recommend this book :** Yes - the mindset change is important and the book has helped me personally move from working for somebody else to being self sufficient financially and could do the same for you too. **Buy**



## LATTO PROPERTY INVESTMENTS LTD

16 Keystone Avenue  
Glasshoughton  
Castleford  
West Yorkshire  
WF10 4TH

Phone: 0870 7458552  
Fax: 0870 1629367  
Email: [info@latto.co.uk](mailto:info@latto.co.uk)

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## **ARE YOU paying too much for Life Insurance ?**

Life Insurance. If you own property, then you will more than likely have it. But if you have not had a quotation for a while or its been some time since you last looked at this then now is the time to sit back and get a quote. Rates have dropped considerably, mainly due to the fact that AIDS didn't have the effect on the Insurance Industry as first expected. This means that the money that was reserved has now been poured back into the pot which means that life insurance quotes are much much cheaper. I recently doubled my cover for about the same price, but with increased cover.

**Contact us for a quotation on your life insurance!** Using one of our service partners, we can offer cheap quotations on Life Insurance and can probably save you money each month. Contact us on 0870 7458552 or email us on

[lifegquote@latto.co.uk](mailto:lifegquote@latto.co.uk)

## ***Background - Latto Property Investments Ltd., Daniel Latto.***



[www.latto.co.uk](http://www.latto.co.uk)

*Starting as an escape from the “Rat Race”; Latto Property Investments has enabled Daniel Latto to virtually “retire” at the age of 30 from the 9 to 5 working lifestyle. Starting with a small terraced house in Hyde*

*Park, Leeds, his portfolio has grown over the last 3 years from a small number of houses, to over 10 by the end of this financial year. Using a combination of buy-to-let and a technique known as “flipping properties” he was able to give up work in May 2002 to concentrate on building his property portfolio.*

*“Investing in Property is like peeling an onion - every layer you take off, there is a whole new layer below of both knowledge and understanding . I learn all the time, and the opportunities to concentrate on this full time (without getting bogged down with a career) enable me to profit from this unique market place even more.”*

*The purpose of this Newsletter is to keep friends, ex-colleagues and acquaintances who have expressed an interest in investing in the property market in touch with how I see the market changing. Many questions asked are the same time and time again, and this is a relevant forum to answer those questions.*

### ***Disclaimer***

*Feedback is always welcome, about what you like, what you don't like and what you disagree with. The terms and calculations I use in the Newsletter are used by myself and are presented to show a way in which I sort the good investments from the bad. I am not qualified in giving investment advice, nor do I wish to be. I would always recommend seeking professional financial advise before using any of the techniques described within this newsletter. I am not a “Property Guru” and occasionally make mistakes too in my investment decisions, as and when this happens I will document these too. I describe only techniques that I am using currently or have used in the past. If you are receiving this newsletter, it is because you have asked to be added to the email list. To be removed send an email to [remove@latto.co.uk](mailto:remove@latto.co.uk)*