

BELOW MARKET VALUE INVESTORS - DO MORE DEALS USING A BUY NOW PAY MORE LATER STRATEGY

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Like many BMV investors the credit crunch had a significant impact on our business not least because the low LTV offered by mortgage lenders simply meant that we couldn't find solutions for the many motivated sellers that were contacting us.

After scratching our heads for a while like many things the answer became obvious - why couldn't we agree to buy the property now at an agreed price with an contract to pay the vendor a second payment at a later date? We figured this would potentially help us offer a greater overall value for the property and that vendors would like this. But how could we commit to making the second payment? It's always been critical to our business to have an exit strategy in place for any property we bought so the "staged payment" approach seemed to fit exactly our ethos.

We then needed to find a process that protected both parties' interests during the period, which also assured the vendor that we were not going to disappear without making their second payment! Most importantly the solution needed to be easy to explain as from our experience, complicated processes only serve to confuse the vendor and scare them off.

Having successfully used "staged payments" now on a number of deals, we are pleased to be able to share our strategy with other YPN readers as it has enabled us to help more vendors and improve our business.

As we all know, the trick is to have as many tools in your kitbag as possible, in order to have the best possible chance of finding a solution to a vendor's problem.

With the current restraints on lending, discounts today need to be **at least 28%** in order for the deal to be "no money left in".



The staged payment 3 bed semi in Barking, Essex

Naturally most vendors want to achieve the highest price for their property, so in many cases this means that they are either unable, or unwilling to take such a large discount

Staged Payment deals have really been maximising our cash-flow over 2009 and will be much used by us through 2010.

Staged payment or Deferred Consideration or Instalment Contracts are not new concepts.

Basically, when you break it down, it is simply **one payment on completion** and **another in a few years** (usually 3-5). It's a bit of a hybrid between BMV and a Lease Option, with the key difference that you actually own the property from day one.

Here's an example of a staged payment deal in Barking Essex - which we completed June 2009.

It was a lovely 3 bed semi with a garage, good sized rooms and fantastic rail, tube and road links - perfect! It cashflows us a nice £150 per month and is no hassle at all.

The agreement with the vendor was as follows:

- OMV £230,000
- Part 1 payment £147,000 -cashed c£12k out even after cost of the Cenoption*
- Part 2 - £28,000 due to vendor after 39 months.
- Total £175,000 / 76% of OMV
- Mortgage obtained £172,500
- THIS DEAL STILL HAD A DISCOUNT OF 24%!

But more about this deal later. First we would like to show you

- the situations or circumstances which really suit this approach.
- the benefits to the vendor and the buyer
- how we position it to vendors

So, let's talk about the situations or circumstances that this approach best suits

Vendor situations

- where the vendor has **a lot of equity** - eg: inheritance properties, or where they have lived in the property for a long time, paid off their mortgage and wish to downsize.
- to **save down-valuations on BMV deals**. We have saved deals after receiving unexpected valuations, being able to give the vendor the same amount - albeit in two payments.
- Where the rental achievable on the property limits the finance obtainable This is usually on larger properties where **rentals values don't stack** as nicely as on the "bread and butter" 3 bed terraced. You know the expensive 2 bed bungalow or the larger detached properties? If there is enough equity to play with these now work too by making a lower first payment with the greater balance to follow!

Going back to the Barking deal, downsizing was exactly the position these vendors were in. They were looking to move into their dream "park" home and had been trying to sell their 3 bed semi which had for over a year. Whilst they had no mortgage on the property, they still needed to raise a certain amount in order to purchase the Park Home outright.

The property was in a nice state - slightly dated but clean and well maintained, and in a great location close to the town and an underground station. We know this would rent well so we didn't want to lose it.

The vendors were interested in Staged Payment as they only needed £147,000 in the first instance to move.

Our thoughts

What a great deal. We cashed out over £12k



after the Cenoption for our Exit Strategy. The vendor left most of their furniture & white goods and we rented it within 2 weeks without needing to visit or buy any more furniture.

Currently this cashflows over £150 pcm - (nearly 7% yield).

If we sell to make 2nd payment, worst case by exercising the option we get another £25k (ie: after all costs have been paid all costs). Clearly if prices pickup and we sell on the open market we could potentially get more.

However if prices fall we know we can meet our second commitment as we have our exit strategy in place already

Benefits to the vendor?

Here's some of the key benefits of this approach for Vendors:

- We can potentially pay up to 85% of value very few offer anything like that today this really **gets a motivated seller's attention**.
 - you could even structure the deal a bit more like a lease option and pay more BUT remember a longer term for the second payment will give a better chance of being able to refinance.

We have found that most vendors are more comfortable with a shorter time frame, but it's your deal - negotiate the terms!

- This is a great way to help vendors that otherwise we couldn't help
- Plan B if their property doesn't value as expected - you can still offer a deal that may work (depending on their circumstances)
- Vendor only has to wait 39 months (or sooner if conditions allow) for their Second Payment - other schemes in the past have relied on a 10 year interval
- vendor has confidence the Stage 2 payment will be made - they have a contract for this payment that will stand up in court in the event of a problem We also register a Notice against the property so it cannot be sold without their consent.

- Robust Legal process to protect both sides - If the 2nd payment is not met,

vendors can place a Charge on the property for the full amount

- This Staged Payment method is extremely simple & easy for them to understand

What are the benefits to you, the buyer?

- Get more vendors to say yes Potential to "Cash out" at the time of purchase (depending on how you structure your finance)
- Save BMV deals where the valuations don't come in
- Make deals work on larger properties where rental doesn't stack
- Maximise cashflow in the short-medium term
- The Contract is already drawn up with ample protection for both sides. You can take your copy, amend for your individual agreed terms and get started right away
- We structure our payments over 39 months (to tie in with our preferred Exit Strategy) - you can change this to suit your terms or whatever fits with your model. We strongly recommend you have something in place upon completion
- We now buy properties in locations that we may not previously have considered, as we only look at these purchases on a 3 year plan - ie: buy now and sell with exit strategy. We feel the location becomes less relevant as long as the property will make good cash-flow during the term. Clearly the it needs to be managed but we are not seeking to hold forever - simply until the point where we exercise our exit strategy to make a pre-determined profit.

How to position the Staged Payment Offer

As with any sales activity, the trick is to understand a vendor's needs & wants, and offer a solution that addresses them satisfactorily.

From then on, it is purely down to making sure the Vendor wants to work with you and they feel can trust you.

Here are some tips and pointers to help you position a Staged Payment deal: to a vendor.

1. In simple terms, the Stage 2 Payment can be viewed as a loan from the Vendor to the Buyer. We do not pay any interest on this amount, but should you choose to, this can easily be recorded within the Side Agreement.
2. **Understand the Vendor's equity position on the property and do they need to release all of this now?** Typically these deals work best where the Vendor has a lot of equity and doesn't require it all upon completion. As with any deal, you will need to find out as much as possible about the Vendor's situation, but at the very least - the following:
 - a. Do they need all of the money now?
 - b. What are they going to do with it?
 - c. Where are they going?

In our experience, most Vendors understand that they wouldn't get a great return if their money was in the bank and therefore don't mind that we don't pay them any interest on the amount they lend us

3. **Emphasise the total value of your offer** focus on the big picture rather than the initial Stage 1 payment. This will no doubt be much more attractive than any other "quick buying company", and probably won't be that much less than they would accept on the open market
4. **Remind the Vendor that the Legal process has been designed specifically to protect both theirs and your interests during this time**
5. You can back this up with a robust Exit Strategy - eg: Cenoption 1 or Rent to Buy tenant - to ensure you can meet the Stage 2 Payment

6. As with all BMV solutions, you may offer to cover some or all of the Vendor's legal costs (subject to your own business model)
7. Ultimately you need to help the Vendor see what your offer means - ie: focus on helping them move on

We hope you have found this article useful and thought-provoking.

How do I find out more?

You can download our free report which provides more information on Staged Payment deals from <http://www.everycloud.org/wordpress/stagedpayment/>

We are also pleased to offer the full Staged Payment pack containing a Master Side Agreement to be reused as often as you like, all of the Land Registry forms and positioning guides (total value of nearly £700) for a promotional price of just £97 for YPN readers. This can be purchased securely from our web site.

Please note that currently this Staged Payment Process is only suitable for the purchase of properties in England and Wales.

Contact Katie or Martin on info@everycloud.org / 0800 158 3775 if you have any questions.

