Pocketbook To Investing

For many of us, retirement can be a scary thought. Will the pension be around for much longer? Will you have to work longer in order to retire? If you're smart, you know you need to invest in some assets, not only so you can live a comfortable retirement but so you also have the option to retire earlier. Who wouldn't like that? Property is just one way you can start building wealth and ideally replace your income, giving you more choices in life. Not only this but investing in property can help you pay your home off faster and reduce your tax.

Property can bring in a 6-digit passive income, freeing you financially to quit your dreaded 9 to 5 job, spend more time with your family and doing the things you love.

THE QUESTION IS HOW IS IT DONE?

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positive real estate

1. Why Invest In Property

Obviously investing in property is very complex! There isn't "one way to do it" but there are various strategies you can employ throughout your journey.

There are a lot of different goals people have when investing property, the obvious one is financial freedom. But as you'll read in the coming pages, you can also significantly reduce your tax (and get more back) as well pay your own home off faster. Some people also make great gains by renovating, subdividing and investing in small developments. The world is your oyster when it comes to property.

LET'S HEAR FROM POSITIVE REAL ESTATE'S FOUNDER, JASON WHITTON, ON THE FOUR BENEFITS OF INVESTING IN PROPERTY.

Achieving Financial Freedom

Think about the people you know who are retired. Are they living comfortably? Most people would answer yes. Do they travel once a year, have holidays or get to do what they would LIKE to do? Probably the answer is no, most people who are retired are on a small pension, maybe some savings and their super probably didn't help much after a while. What will their lives look like in another 10 years? Will they need to pay for more care or hospital bills or downsize or move closer to family? Will they be able to do that comfortably without putting their families under financial strain?

Australians and New Zealanders need to seriously consider if they are working towards setting themselves up for a good retirement, one that doesn't place undue stress on themselves or their families because of money. Most people don't have enough to holiday, pay for high care if needed or live how they would like. Property can be a way of accumulating some assets, which can be sold if needed, but also a way to create a passive income. The goal is to replace the income you earn at work so you can retire if you choose... or maybe you want to replace your partner's income, so they can stop work to look after kids, or start their own business or work without pay. The choice is yours, but the goal is the same; to achieve a sustainable level of financial freedom.

Minimise Your Tax

DEPRECIATION

There are many items that can be depreciated such as carpet, blinds, heaters, hot water cylinders and fences.

USING AN ACCOUNTANT

To make sure you are being as efficient with your tax as possible, use an accountant (preferably an accountant who is an investor themselves).

A good accountant will...

- Give you advice on buying structures
- Strategically keep you ready to buy
- Create a tax-effective vision for the future
- Manage your tax losses and gains
- Assist with distributions and family asset planning

Pay off your home faster

The only way you can pay your home off faster is to make more repayments but how do we find that extra money to put down? **Here are some simple ideas:**

1. Pay your mortgage fortnightly, not monthly, so you make an extra payment every year
2. Have an offset account
3. Extra payments

WATCH THE VIDEO FOR MORE DETAILS

2. What To Consider When Investing

There are some **key philosophies** that you must apply in almost all portfolio construction strategies, which are important to understand before we move forward:

1. **Property investing is a business and needs to be treated that way.** This means that it needs to be separate from your personal life and should not absorb all your cash flow. Your portfolio is supposed to enhance your life, not take away from it.

2. **Get caught up in the outcome, not in the property itself.** Focus on the fundamentals of the deal itself and make strategic investment decisions based on facts, not on personal emotional decisions.

3. **There are stages in your portfolio to focus on. When investing, the three main stages are:**

   Acquisition: The main priority is creating leverage in the market and expanding your portfolio.

   Consolidation: This is when you begin consolidating your portfolio and your debt.

   Lifestyle: This is when you create strategic results in your portfolio based on your outcomes. It is important to focus on just one stage at a time.

4. **It is not about the number of properties you have.** Don't get caught up in the number of properties you own; instead focus on how they are helping you achieve results.

5. **Buy every property and make every finance decision with the next three moves in mind.** Always ask the question: "How is this property going to get me closer towards my million-dollar portfolio?"

CHOOSING THE RIGHT PROPERTY

A house and land strategy, when done correctly, is a great way to make fast equity.

We often source house and land packages in brand new subdivisions within target areas that show a strong capital growth prospect and places that valuers are confident about.

RIGHT NOW, THE MARKET IS WELL SUITED FOR A HOUSE AND LAND STRATEGY FOR A NUMBER OF REASONS:

- The current lending regime is quite prohibitive for many investors, but the LVR restrictions on house and land packages are a bit softer - opening up an opportunity for investors to leverage into the market.

- The time delay between entering into contract and completion offers investors the opportunity to gain about 18 months worth of equity which they can then use - if they should choose - to grow their portfolio.

- As of now, Queenstown and Tauranga offer investors a great opportunity to position themselves to benefit from growth in these two regions in the coming months. In Australia, we have seen some great opportunities in Fitzgibbon, Brisbane and Kellyville in Sydney. If you were to enter into contract now you'd enjoy the difference between the build cost and the final retail value as time in the market grows your property's value.

- In most places in Australia you will also only pay stamp duty on the land (not the building) so this can be a great way for investors to save some money upfront. Check with your local council for the rules.

Greenvale, Melbourne VIC (AUS)

PRICE RANGE: $545,695 – $ 547,761

APPRAISED RENTAL YIELD: 4.1%

KEY FEATURES:

- 20 kms from Melbourne CBD
- High owner occupier ratio
- Low land supply locally
- New infrastructure development nearby
- Registration due in Oct 2017
- Low vacancy rate (1.5%)

CHOOSING THE RIGHT PROPERTY

EXISTING OR COMPLETE PROPERTY INVESTMENTS REFER TO THE ACQUISITION OF PROPERTIES THAT ARE FULLY CONSTRUCTED, TANGIBLE AND READY TO LEASE IMMEDIATELY. THEY'RE BENEFICIAL FOR INVESTORS AS THEY CAN BE SEEN AND TOUCHED. THEY ALSO ALLOW FOR A QUICKER RENTAL RETURN TO BE ACHIEVED, WHICH CAN ASSIST IN YOUR SERVICEABILITY.

EXISTING

Existing properties can be a gold mine. You can get into affluent suburbs that may not allow unit blocks or have tight development laws. You also know what you are getting! There are some horror stories out there about buying off the plan where the building doesn't even get off the ground (which is why you need to be very careful)!

Buying existing properties normally works well if you can do a rejuvenation or a renovation and/or plan to hold the property for a number of years. [Corelogic reports]() that for the majority of property purchasers who sell before they have owned the property 7 years, lose money. The data also highlights the fact that ownership of property, whether for investment or owner occupier purposes, should be seen as a long-term investment. Across the country... homes that resold at a loss had an average length of ownership of 6.7 years. Across all sales recording a gross profit the average length of ownership was recorded at 10.1 years, while homes which sold for more than double their previous purchase price were owned for an average of 17.7 years.

Off-the-plan can make you quick money, but generally existing properties need to be held for a long time to see some capital growth. **Remember, property is not a get rich quick strategy.**

CHOOSING THE RIGHT PROPERTY

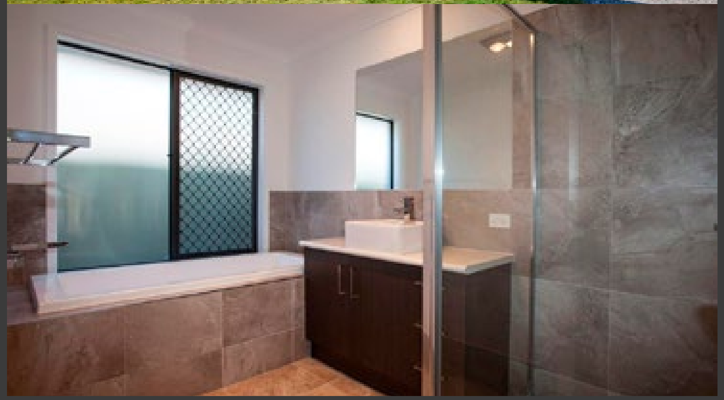
Ripley, Ipswich QLD (AUS)

PURCHASE PRICE: $339,000

RENTAL RETURN: 4.5%

KEY FEATURES:

- New build to maximise depreciation
- Location, close to excellent infrastructure
- Queensland's fastest growing city
- Up and coming suburb
- Good rental return
- Planned estate



Mt.Cook, WLG (NZ)

PURCHASE PRICE: $480,000

GROSS YIELD: 7.6%

KEY FEATURES:

- Dual income investment
- Instant equity of up to $41,000
- After tax cash Flow: $3332p.a.
- Near new, low maintenance property
- Sought after, city fringe location

CHOOSING THE RIGHT PROPERTY

PURCHASING AN INVESTMENT PROPERTY USING AN OFF-THE-PLAN STRATEGY IS A GREAT WAY TO GAIN LEVERAGE WITH A SMALL AMOUNT OF MONEY. HERE'S HOW IT WORKS:

In order to receive funding to build their development, a builder or developer must show their bank a percentage of pre-sales. This reduces the risk to the lender - essentially showing them a "guarantee" that the market will absorb their risk.

How does this help a property investor? An investment property purchased through an off-the-plan strategy allows the purchaser to gain the advantage of growth in a marketplace.

Normally a deposit of 10% is required to hold the property. These funds are held in trust until construction has been completed and settlement occurs. Let's suppose you've paid a deposit of $35,000 for an investment property priced at $350,000 dollars. If you have sourced your purchase well, the market has grown and by the time the project is complete, your investment has grown in value by 10%. This will allow you to leverage not only the deposit you made (giving you a 100% cash-on-cash return), but perhaps leave you with enough equity to move on to another investment property purchase!

Now remember, with this particular strategy you need to **buy while the market is on the rise** (to take advantage of as much gain in the market as possible) and you'll want to buy an off-the-plan investment property that will give you a 100% cash-on-cash return within 18 months.

CONSIDER THE FOLLOWING CHECKLIST FOR YOUR OFF-THE-PLAN PURCHASE:

- Is the market entering its growth cycle?
- Have you considered all six market drivers in this region?

Find low density, boutique properties, as it may be more difficult to obtain financing for a high-density building. Your profits will typically be greater on structures with less than 40 units as well. Only purchase during the first phase of a development as this is where your best price will be. Developers will hold back subsequent stage releases to make a profit by selling at a higher rate of return. Only buy a property that will settle in about 18 months time. Given that you've only put down a

CHOOSING THE RIGHT PROPERTY

deposit, you should obtain a 100% cash-on-cash return within this period of time. Always obtain a "valuation summation" at the start of the contract process. You want to purchase at the beginning price rather than the price at settlement.

Purchase properties below $600,000 - more individuals are in this price range, which will make it easier to sell should you need or wish to. Never enter into an off-the-plan with the idea that you'll sell before the project has been completed. Confirm that you have the ability to secure financing before entering into contract on an off-the-plan purchase.

OUR NEW ZEALAND DIRECTOR, SUE IRONS, TALKS FURTHER ABOUT OFF-THE-PLAN INVESTMENT:

CHOOSING THE RIGHT PROPERTY

Ascot, Perth WA (AUS)

PRICE RANGE: $440,000 - $1,400,000

APPRAISED RENTAL YIELD: 4.0% - 4.3%

KEY FEATURES:

- Leading property developer
- Amazing amenity nearby
- Oversized floor plans
- Long term growth strategy
- 6kms from CBD
- Built on a marina!

Auckland Central (NZ)

PRICE RANGE: $530,000 - $2,300,000

GROSS YIELD: 5.0%

KEY FEATURES:

- Award winning developer
- Inner-city location
- Prestigious elegant design
- Residents' rooftop retreat and secret garden
- City and harbour views
- Long-term capital growth

3. Strategy

Your property investment strategy should be founded on **a set of criteria that are based on your personal circumstances.** If you don't have a well-considered strategy, you will be speculating at best, not investing.

In this section, we talk about some key things to consider when building your strategy. Once these areas are clearly identified, it becomes a process of reviewing your position and creating a road map for your investment journey that is both workable and achievable.

Goals

What do you want from investing? This is possibly the most important question of all. You need to be very clear on your short-, mid- and long-term goals. Be as specific as you can!

Once you know your goals, you can attribute a 'cost' to them and forecast the total 'cost' of the lifestyle you desire. Then you can reverse-engineer your goals to work out exactly how you can get there (in other words, you can start to build the investing strategy.

WATCH THE VIDEO TO FIGURE OUT WHAT'S YOUR NUMBER

How Many Properties Do I Need?

A lot of would-be investors get caught up in the romantic idea of owning 10 or 20 properties. Why own lots of properties if they aren't giving you the results you want? Owning 10 or more properties is a lot of work!

Most people are better off owning 4-5 good quality, debt-free properties that are diversified across 5 major metro areas in great locations that will provide $100,000 passive income without all the stress.

Instead of how many properties do you need, ask, "What value of net assets do I need to create this income?"

Know Your Risk Appetite

To find out if your capacity for risk is a limitation for your success, you need to conduct a risk profile assessment. Risk profiling is an integral part of an investor's strategy; in fact, without assessing your risk, your strategy is almost useless.

Most risk profiling systems will assess three key components:

- The risk required to achieve your goals;
- The level of financial risk you can afford to take; and
- How much risk you are comfortable with.

It is incredibly important to assess each of these as accurately as possible, and to identify any mismatch between them. If your goals are too optimistic for the desired timeframe, you'll need to work towards a compromise.

Timing

There are two concepts that investors are faced with when it comes to timing, 'timing the market' and 'time in the market'. **We can look at the property market as a cycle, where property takes around 10 years to double in value.** During these 10 years, the value of property doesn't grow at the same rate each year. For example, we could have 6 or so years where the market is almost flat and all the growth could happen in the last 4 years. A lot of investors try to time the market, but what often happens is that people end up buying nothing because they're too busy trying to figure out when is the best time to invest.

We still want to buy at the right time, but time IN the market is a huge healer. So even if the timing was a bit off, perhaps it took a while longer for the market to grow, you didn't get quite as much growth this time round, the longer time you own it, the less relevant that will become. Remember that the best time to buy was 20 years ago, and the next best time is right now.

SUE IRON TALKS ABOUT PROPERTY CIRCLE VS PROPERTY SQUIGGLE

Diversification

BY DIVERSIFYING OUR PORTFOLIO, WE SPREAD OUR RISK AND HAVE A MUCH BETTER CHANCE OF MAINTAINING SERVICEABILITY.

Balance your portfolio with a mix of property types, strategies, locations etc. You might aim to buy a mix of strong cash flow properties and negatively-geared properties in high growth locations. You might choose properties in different areas – maybe even different countries – at different stages of the property cycle.

If you're already investing, take stock of your current portfolio and see if there are any trends. Do you usually tend to buy properties based on their yields? This is common with many investors. They buy based on cash flow, and are simply hoping for capital growth as a bonus. Do you tend to only buy properties that are close to where you live? This another common trend with investors. "Backyard" investors usually buy properties close by because they want to be able to manage them themselves. Remember: you are not a property manager, you are a property investor.

If you sit down and work out your decision-making process, you will start noticing these patterns. Once you're aware of them, you can start breaking away from them and diversifying your portfolio.

Negative vs Positive Gearing

IT'S IMPORTANT TO CONSIDER THE PROS AND CONS OF BOTH NEGATIVE AND POSITIVE GEARING.

Ultimately, the goal is to have a positively-geared portfolio with income that replaces your earned income. But in the meantime, you need to be strategic about how you build your portfolio.

For example, the loss associated with a negatively-geared property can be offset against other income earned, reducing your assessable tax income, thereby reducing your tax payable. A negatively-geared property can be great for your portfolio if it is in a high growth location.

On the other hand, a positively-geared property will boost your serviceability allowing you to buy more property (though you'll be paying tax on the rental income).

Finance Strategy

NOT HAVING A STRONG FINANCE STRATEGY IS ONE OF THE BIGGEST MISTAKES INVESTORS MAKE WHEN THEY FIRST GET STARTED.

What's interesting is that you don't notice it till you're a couple properties down and then you begin to struggle... But why is that? It all started with letting bank take equity from your home to cross securitise against your rental asset, so if something ever goes wrong, which properties can they sell? Both.

One finance strategy we always teach our investors is to protect their assets by spreading them across different lenders. For example, you have your own home with bank 1 and your rental property with bank 2.

Now if something goes wrong, what property can bank 2 sell? Only your rental property. This way you get the same ability to buy, but without risking your own home.

Setting this strategy up on day one, means that property three, four and five become much easier, not harder. You can go to bank 2, 3 or, 4 and you're not stuck with one lender. The key thing is to start with a good finance strategy, separate your lenders, protect your home and set yourself up for success in the future.

Accountability

Keeping yourself accountable over a long period of time is absolutely essential to building a successful property portfolio. But it's also possibly one of the most difficult things to do.

To help you, consider finding a property investment coach. This will be someone who is an experienced investor themselves who can provide regular guidance and support. Think of your coach like a personal trainer or a nutritionist – but for your financial health and long-term financial security.

Property investment is "not one size fits all". A property investment coach knows this, and can help you tailor your property investment plan to meet your own personal goals and needs.

HERE ARE TWO COMMON STRATEGIES WE SEE:

4. Common Investor Errors

1. BEING EMOTIONAL ABOUT THE PROPERTIES YOU BUY.

Property investment is a business and it needs to be treated that way. Many investors make the mistake of having an emotional, owner-occupier mindset which can lead them to miss some valuable investment opportunities.

2. BECOMING A PROPERTY MANAGER RATHER THAN A PROPERTY INVESTOR

These are two very different roles, property investors need to focus on growing the asset base, understanding finance, making sure you are maximising tax, following market trends and keeping an eye on the end goal. Acting as a property manager and focusing on the nitty-gritty will severely reduce the time available for investing, and for many investors, this proves a very costly mistake.

3. THINKING CASH FLOW IS THE ULTIMATE GOAL

Many investors have a love affair with cash flow and miss the point of why we invest. So let's be really clear, cash flow keeps us solvent, we want cash flow in our portfolio, but capital growth is what creates wealth and that is the real reason why we invest.