



## PropertyInvesting.com 'Insider'

Discover proven tips, strategies and techniques to dramatically increase your property investing profits

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Hi,

Welcome to your April edition of 'Insider' - the PropertyInvesting.com newsletter.

First of all, I hope this newsletter finds you well rested having taken a few days off - and hopefully not \*too\* full of chocolate Easter eggs ;-)

Easter is a time to celebrate new beginnings - and there are a lot of new and different things happening which I want to share with you - about both the property market and the newsletter.

(And it's also a time for something special too, so I'll also be sharing with you a bonus treat - a 'mini seminar' on creating equity for profit!)

In this edition you will find:

- ["All's Quiet On The Western Front... But Trouble Is Brewing, Captain!"](#)
- [A Special "Easter Egg" Free Mini Seminar on Creating Equity Profits, and:](#)
- [A MasterClass Update](#)

Let's get straight into the information now!

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### "All's Quiet On The Western Front... But Trouble Is Brewing, Captain!"

Unless you live in Western Australia, where booming prices continue to defy gravity, there's a sense of general calm about the property market at the moment... or so it seems at first glance.

Scratch a little deeper though and you'll soon identify two presently unfolding issues - one good and one bad - that have the potential to quickly impact on market sentiment.

Before we launch into an analysis of these factors though, let's first take a look at the theory about what drives property prices, as having an understanding about this will help later in our discussion.

Economists will tell you that (real estate) prices are established by the interaction between (buyer) demand and (seller) supply.

I totally agree, but also take the discussion a little further by making the following four key observations:

1. Buyers and sellers are influenced by their psychology, and the two powerful drives of psychology are: Greed (of making a profit), and Fear (of missing out, or making a loss).
2. People's feelings of greed and fear are based on two factors - economic fundamentals (employment outlook, interest rates, incomes, etc.), and speculation (how can I make a quick profit?). Speculation is the turbo that really drives prices up, which is why the W.A. market is kicking ahead, whereas the eastern states are now struggling.
3. It is really the buyers who have the most power, because their behaviour sets the tempo for what sellers can realistically expect.

A great way of putting all this theory into practice is to look at what happened during the recent boom where we found that improving fundamentals, through government grants and capital gains tax concession, triggered a positive price movement, and then as this gained

momentum, speculators entered the market which had the effect of more and more stimulation.

This went on and on until there was a change in fundamentals, through an interest rate rise, which when combined with other factors (such as media publicity of high profile property and business failures) caused speculation to taper off.

Then there was a resources boom, and we've seen that property in areas affected by it have continued to increase on the back of speculators, who now have more money, are looking for somewhere, and something, to invest in.

4. All in all then, factors that stimulate buyer demand will stimulate prices, whereas factors that stifle buyer demand will stifle prices.

Right then, with this in mind, let's now look at the two unfolding issues and try to understand how they will impact on the property market.

#### **A. Substantial increases in the price of oil**

I don't need to tell you that it's becoming more expensive to fill up the car. Yesterday, when driving to the airport, the price per litre of petrol was 123.9 cents, four hours later, it had jumped to 139.9 cents.

Putting this in a different context, based on a sixty litre tank which is used over a week's driving, that petrol price increase equates to \$9.60 more to fill up (per week), or just shy of \$500 extra per annum. Further assuming an average 30% tax rate, that \$500 equates to around \$710 of pre-tax earnings.

So, piecing this together, unless fuel prices go back down, in this case you've suffered a pay cut of \$710. Ouch.

And translating this to a real estate context, this is about the same as a quarter of a percent increase in interest rates on a \$275,000 mortgage (from 6.25% to 6.5%).

The point to note then is that even though interest rates are not going up at the moment, the loss of earnings as a result of the higher cost of oil is having an equivalent effect for many people.

Practically, I believe this squeeze will impact the property market in the following way:

- Fundamentals: Decreased affordability, meaning that people will not be able to borrow as much money, which in turn will limit growth in property prices.
- Speculation: As people become fearful about the future, they are less reluctant to spend, so speculation is subdued.

The continued rise of the world oil price is therefore not a factor that assists in driving property values higher. In some ways, it's a bit like the story of the cooked frog... I'm told that if you put a frog in cold water then it lives, and if you slowly heat up the water, the frog won't notice, until you reach a critical point when all of a sudden it becomes cooked and dies.

In the same way, the property market is slowly cooking away.

#### **B. Peter Costello To Play Santa Claus**

It's not all doom and gloom though - far from it. Boosted by huge company earnings and GST coffers made fat from Australian's love of spending, our Federal Treasurer has a huge purse to fund tax cuts in the upcoming May budget.

Word has it that tax cuts for the rich and famous, well, the rich at least, are unlikely because they will be seen as unfair. Another option is to slash the company tax rate, and yet another possibility is a further tinkering with the capital gains tax laws.

Don't forget that last time Costello played with the tax rules - in the form of the First Home Owners Grant and also the Capital Gains Tax discount - property boomed. It will be very interesting to see, and I'm sure the RBA is carefully watching, which direction he'll head in this time around.

As you would expect, tax cuts improve the economic fundamentals as people have more money, and more money is usually a hit with the speculators too as they like to spend rather than save.

In conclusion then, I urge you to pay careful attention to what happens between now and my

next newsletter. The market has been drifting for a while, but the stars are starting to align meaning there is something brewing on the horizon. Time will tell whether it is something to celebrate, or something to be concerned about.

#### Call To Action!!!

- Keep personal borrowing to a minimum, and build cash reserves. As opportunities unfold, those who are cashed up will be able to act the fastest.
- As the AWB scandal heats up, watch for 'leaks' from the Federal Government about possible tax cuts. You may be able to act ahead of the market if you can read between the lines.
- Having read this article, write down two points you have learned or now better understand about how the property market works:

- 1.
- 2.

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## Free Mini Seminar on Creating Equity Profits

I wanted to do something different (again) for you this month.

I've created a special multi-media 'mini seminar' for you on growing your real estate equity for profit, and I want to invite you to share in the information.

The 'mini seminar' is available to view online in a streaming video format, but I've also included a downloadable MP3 version and downloadable written notes.

In the free 'mini seminar' I'll walk you through a recent commercial property transaction we bought where we made \$76,385 in 4.5 months. It runs for about 25 minutes and comes complete with notes that you can download too.

In all, the 'mini-seminar' is a no-nonsense presentation which looks at the brass tacks of creating equity profits from a practical standpoint - not just the theory.

While this is a free service, it nevertheless costs us as a result of having you download it. As such, it will only be available for a very limited time, so be sure you don't wait too long or else risk missing out.

To access the mini seminar, all you need to do is click the link:

<http://propertyinvesting.com/go/126>

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## MasterClass Update: How to Profit in Changing Times - A Hands-On Approach...

If you're wondering why I'm providing you with the mini seminar for free, it's because it seems there's a lot of confusion in the market place right now about investing in real estate.

One of the reasons was that I wanted to encourage you that real estate profits can still be made in the current market when you know what you're doing.

(In fact, we've already purchased over \$3million worth of property so far this calendar year - and our latest purchase hasn't even settled and we've already been offered about \$65,000 more than what we agreed to buy it for!)

So my reason for sharing this deal with you is to show you how to make a profit in the current market.

It is also the reason why I've decided to do things a little differently with my MasterClass seminars and take a more hands-on practical approach.

This means the upcoming two MasterClasses will be centred around the real-life examples and case studies of deals that Dave and I have done in the past 12-18 months - the 'doom and

gloom' times as far as property commentators would have you believe.

If you are struggling to find positive cashflow deals in the current market, or are confused about where property investors stand in this economic climate, then the MasterClass is your opportunity to see the real-life deals Dave and I are profiting from right now.

(That's warts and all - the things that worked well, and the things which didn't - we won't be holding anything back.)

Unfortunately, the upcoming MasterClass events in Melbourne and Sydney are the last 2 MasterClasses I'll be holding in Australia in 2006, and there are only 19 and 13 seats remaining at these events respectively.

So if you intend on booking your place, be quick - there are only 19 places left for the Melbourne event on May 7th, and only 13 places left for the Sydney event on May 21st. Using the payment plan, you can attend for just five monthly payments of \$140.

For more information on the MasterClass, or to secure your place, visit:

<http://propertyinvesting.com/go/127>

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## Final Words

It's a pleasure to bring you these newsletters, and I hope that you enjoy receiving and reading them. I'm off to gym to burn off some of the Easter Bunny that seems to have stuck to my thighs. Until next time, remember: Success comes from doing things differently!

Warm regards

Steve McKnight

P.S. - Don't forget - if you're planning on coming to a MasterClass this year there are only 19 places left for the Sydney event on May 21st and 13 places left for the Melbourne event on May 7th. Make sure you book your place while spots remain.

For more details about the MasterClass, visit: <http://propertyinvesting.com/go/128>

**Disclaimer: This newsletter is not intended to be a substitute for investment or accounting advice. It is a broad discussion to provide a general understanding. Before acting, you should seek specific advice for your unique situation.**