# An Interview with Steve McKnight

> *Note: This transcript has been slightly edited from the actual recording so that it can be read as a separate resource.*

## Audio CD Track 1: Introduction

*Michael:* Welcome to this special bonus audio interview that accompanies Steve McKnight's latest book, *From 0 to 260+ Properties in 7 Years*. I'm Michael Shulberger.

The aim of this program is to provide you with detailed information about how you can finetune your investing strategies to ensure they remain relevant in a rapidly changing real estate market. I'm joined by best-selling author and professional investor, Steve McKnight. I'll be asking Steve to provide more information about several of the topics he's written about in his latest book *From 0 to 260+ Properties in 7 Years*. Steve welcome.

*Steve:* Thanks Michael. It's great to be here and thanks for the opportunity to have a chat about real estate and what's happening in the market at the moment.

*Michael:* And you approach it all quite differently from others, so we'll go into that.

## Audio CD Track 2: About Steve McKnight

*Michael:* Now assuming that the listeners don't know much about you or your background, what experience do you have and why are you considered an authority on property investing?

*Steve:* I'm probably a little bit different to what most people might come across because I have a blend of academic knowledge and also property investing experience of a magnitude that really not many people aspire to I guess. As far as the academic side of things goes, I'm a qualified chartered accountant. I've spent time in what I regard as 'the salt mine', which was working for one of the large international accounting practices. I was working in audit and was rapidly promoted on the basis of doing silly things like working 14 hours a day, seven days a week in addition to studying. So I guess I managed to get ahead in that regard.

I learnt a lot, worked in very many different theatres of business. One week I was watching cars whiz around the assembly line, the next I was out auditing duty-free stores and then another week again I was doing costing on jet fighter planes. So you just get amazing experience, but I soon realised that I didn't want to follow the general career progression that most accountants working in public practice do, which is to become a manager and then to become a partner. In my first book I think I described it this way — I looked up the corporate ladder and all I could see was the butt of the guy in front of me, and I didn't like the view!

I decided to hop off the ladder altogether. What I decided to do was really start up my own accounting practice, on the basis that I could work fewer hours and earn the same amount of pay that I was getting working as a chartered accountant. But even after just a few months of doing that I realised that there had to be another way of making money other than selling my time. So I started buying little cheap houses in the country. It was May 1999 and the first house I bought was about $44,000.

I had a business partner at the time — a gentleman by the name of David Bradley — and together we teamed up and bought well over 260, probably closer to 300, properties over the last seven or so years. If you average that out it's ridiculous — a new property every nine or so days. This isn't some extravagant over-inflated figure, and we did this is using our own money, not someone else's money, on the basis of doing an 80% lend. So we would use 20% of our own deposit money. Considering that we started with really not much in the bank and a new business that lenders didn't like lending to, it's really quite a phenomenal achievement. Not that I'm trying to pat myself on the back, but it just shows that when you have a big vision and you work really hard you can still actually get a good result.

## Audio CD Track 3: The Truth About Using Property to Make Money

*Michael:* So you bought cheap properties but how did you make money out of them?

*Steve:* Most people buy real estate and try to make money out of capital gains. It's tried and tested. They think, 'I'll just buy something and it'll go up in value'. A lot of people potentially never sell because then they would have to pay tax.


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The approach that I took to real estate investing was that if I could buy properties that made cashflow returns — even if they were only small amounts — then all I had to do was own a lot of these properties and it would then generate a lot of income. Hence the 260 plus properties.

We never actually owned 260 at one time — we might have owned 80 or 90 or 100 properties at one time — but 100 properties, say at $20 a week, times 52 weeks, all of a sudden becomes enough money to not have to do accounting any more. Again, I think I'm different to perhaps some people in the wealth-creation industry that talk about a nice home and a beautiful boat and a Ferrari. I'm not into that. I think the trappings of wealth are very over rated.

I like to have control of my time and what I value in my own moral world is being able to be there, take my daughter swimming and spend time with my wife. These are the things that I value. So rather than try to have $50 million in the bank and a $50 million lifestyle, all I wanted to have was, say, an income stream of around $200,000 per annum, from which I would pay tax but then have enough left over to buy my life back. So you don't actually need to own 260 properties to be a success as such, but what you need to have is some kind of system that generates an income stream that you can then use to fund your lifestyle so you don't need to work in a job.

*Michael:* But to be cashflow positive you have to have better rental returns than what you're paying in interest. Which means, presumably, that you have to put in a substantial deposit.

*Steve:* Yeah, normally. For perhaps the standard types of properties that people buy, but the ones that I was targeting — at $44,000 — the rental was $125 a week and when you took off the loan repayments and you took off all the expenses you were still left with a residual amount that you could bank and live off, which is what we did.

*Michael:* So how many properties, realistically, do you need, to then be able to make some money?

*Steve:* It sounds perhaps a bit clichéd but I say to people that you're only ever one deal away from actually achieving financial independence. If you can find a way to make that one deal work then you can just apply it over and over and over and over again.

I know people who have five properties but the way that they've structured their affairs, those five properties are debt free because they've been doing property transactions to make them debt-free. Five properties at $400 a week rent is $2,000 and $2,000 times 52 weeks is enough for them to live off. So you don't actually need a massive property portfolio but you need a system that works and that allows you to facilitate the outcome that you're after.

## Audio CD Track 4: Change or Lose — Your Choice

*Michael:* So you're not really looking at the capital gain benefit?

*Steve:* Not when I started, more so today. I've changed my thinking a little bit and differentiated between cash properties where you're trying to make a lump-sum cash gain and cashflow properties, which give you less profit but over a longer period of time.

The market has certainly gone up a lot since I started buying real estate. If you go to Ballarat now and try to find a $44,000 property you're going to have a hard task to do that. What I've done, and what everyone needs to do, is evolve a property investing strategy so that it remains relevant to the market.

For instance, there's no point going to Collingwood in Melbourne and trying to find a $40,000 property. That hasn't existed for 40 years. So the way that we evolve and the new approaches that we bring to the table is perhaps one of the things that we're going to have a chance to talk about today. In particular, what I'd say to investors is that if you're still doing today what has worked in past markets and still expecting to make the same amount of profit that was made yesterday, then you're probably on the fringe of becoming irrelevant. We continually need to update and change what we do because the nature of the opportunities in the market change as well.

***Michael:*** What do you say to people who only own one or two properties?

***Steve:*** Be careful because the risk is that you're probably a hobby investor, and a hobby investor is a bit like a hybrid pushbike. I actually ride around on a hybrid pushbike a fair bit, and a hybrid pushbike is one that's not a mountain bike and not a racer but a combination of the two. A hobby investor is someone who has a full-time job and is trying to get a full-time outcome out of their investing, but whilst only contributing a part-time effort.

They're probably wondering why things aren't clicking, and why they can't find these great deals that they read about in my book, or they hear of other people getting. It's because their focus isn't quite there — their focus is on their work and they're contributing second class time to their investing. So because they're contributing second class time but expecting a first class outcome, it's just not gelling.

If you only own one or two properties my strongest recommendation is to go back and figure out what you want, because the outcome you've achieved is no fluke. It's a result of what you've been contributing to your investing, and if you want to get a different outcome you're going to need to do something differently.

For those guys who have one or two properties, they're probably sitting on a fair bit of equity but the danger is that they've got lazy money because they're not using that equity effectively.

I would encourage people to really think about what they're doing and to try to find more time for investing because if you can't find the time to invest then you're never really going to get ahead.

***Michael:*** Which means it's really very critical as to which property you buy?

***Steve:*** Yeah. And I certainly don't go out into the market and buy just anything or whatever a real estate agent says is a good investment. No-one is going to have a more vested interest in your success than *you*, and that's why it's important to skill up and to know what makes a good property and what it is about a property that's going to drive the price higher.

The average person, Michael, goes and buys something and sits on it and waits for it to go up in value. Anecdotally, the property market only goings up for a third of the time — it's either


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flat or down for two thirds of the time. I can't for the life of me figure out why anyone would use a strategy that would only work for a third of the time and fail for two thirds of the time. Yet that explains why so many people own so few pieces of real estate.

The research I've done showed that 92% of real estate investors — this is Australian Bureau of Statistics information — 92% of real estate investors only own one or two properties. Why? If owning real estate makes money, surely you'd want to own more than one or two properties. But then when you look at the system behind the way that people have bought real estate — negative gearing and loading it up to the max as far as their debt goes — they can't actually afford to own any more.

Well, that must mean that the investing system is flawed because you want to own more, you don't want to own less. How can you ever own 260 properties with a system where most people only ever own one or two? You have to crack the model and start again, and that's what I did.

## Audio CD Track 5: Never Break This Equity Rule!

*Michael:* For you to try to make money out of the property that you bought, you want the rent to go up because that's the way you're going to make your money. What do you do to that property to make it more attractive?

*Steve:* The magic formula, if you like, is you always must add more perceived value than actual cost. It doesn't matter if you're doing a renovation or a development or even trying to increase your rental return. Provided you can give someone something they value and provide it in a cost-effective way, then you're going to make money. That's a standard business principle. Just as the local coffee shop tries to sell you a cake with your coffee because they know that the extra cost of the cake is incidental to the revenue they receive.

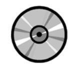
For instance, let's look at some practical examples. If investors were doing a development then they could look at offering some kind of furniture package or some kind of appliance package as well and then roll the cost of that appliance package into the overall cost of the development but earn a greater margin.

If investors are looking to increase their rent then they've really got to go and ask the tenant, 'What do you want?' Don't try to second guess the market — get in there and say, 'Well okay, the house is a bit cold, would you like some heating? Okay, I'll improve the heating — put in central heating or I'll put in a new gas heater, whatever you want. But the rent's going to go up as well because I have to cover the cost.'

Don't just try to get something for nothing. You've got to give someone the incentive to pay more, and that's really the secret in business as well. People have an expectation of how far their dollar will go but if you can encourage them to spend a little bit more but feel like they got far more value for that little bit more of a spend, then instead of having a happy customer you've got a *raving* customer. If you've got a raving customer in the form of a tenant, then you're not going to have vacancy problems and you're not going to have as much of a fight when it comes time to increase the rent either, because they'll be trained to accept a higher than market rent.

It's all about doing things differently and that's one of the things that I've learnt in audit and one of the things I've learnt in investing. If you do what everyone has else done, you get what everyone else has got and I didn't want that. I didn't want that career in accounting. I didn't want to own one or two pieces of real estate. What I wanted was a different way of doing things.

I used trial and error and made a lot of mistakes. It cost a lot of money but at the end of the day I feel like I ended up with a system that was so new and so different — and it's something that no-one else was talking about, so that really made it a great result.

##  Audio CD Track 6: Finally Understand Investing

*Michael:* Now that's all very well Steve, but how can someone make a start as a property investor in the first place?

*Steve:* This may sound a bit strange but what I'd say is this: Before anyone goes out to buy anything or listens to a real estate agent or jumps on <www.RealEstate.com.au> or any other website where they're trying to find a property ... look at those words, Michael — 'real estate investing'. A lot of people focus on the words 'real estate', but I focus on the word 'investing'.

I'm an investor trying to maximise my return on my investment, whether it's shares or property or businesses. That's the context, but in the real estate context, investing is all about money flow and money management. So before anyone invests I would encourage them to work on their money management. Let's say that you're in a situation where you want to go and buy 20 properties because you don't have a lot of money and you want to go and buy a new car or take your family on a holiday. Investing won't solve this problem. The real problem you've got is the situation you're in at the moment and that didn't happen by chance — that happened as a result of the way that you manage money at the moment.

For people who have money problems at the moment, throwing more money at the problems by 'investing' just makes their problems bigger, it doesn't make their problems go away. That's one of the fallacies of wealth creation — people put out these ads with boats and cars and promises of a better lifestyle but it never eventuates because someone who can't handle a little bit of money has no chance of handling a lot of money.

Well before anyone goes and buys any real estate, I'd say, take a look at the way you're managing your money at the moment. If you're proving trustworthy with what you've got and you're doing well, that's great. If not then go back and work on those habits.

I saw something on the TV the other night, which was quite funny. It was a guy in the UK who had won £10 million in the lottery. They had an image of this guy doing dodgem cars in limousines. He went and bought limousines and was out in his paddock — he had some mansion somewhere — and was driving them around and effectively totalling these brand new limousines because he had so much money he didn't know what to do with it. At the end what happened is, there was just a little grab at the end that said, 'Oh yeah, now he's just down to his last £500,000.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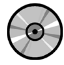
Here's a guy who had squandered so much. Well we might look at that and have a laugh and think we would never do it, but most people earn a literal fortune over their lives and squander most of it until they realise what they're doing and take a stand against that and say that's not what we're going to do. Until we spend less than we earn, we don't have much chance of being a success in real estate.

##  Audio CD Track 7: Say 'Y – E = S' and Build Wealth

*Michael:* Now this brings us to your 'YES' formula.

*Steve:* Yeah, that's right. I always like to try to teach. I've worked in universities doing lecturing and my grandmother was a teacher, my mother was a teacher, my sister is a teacher — I think there's teaching in the family.

I like to try to break down reasonably complicated concepts into nice easy formulas, so in this case when it comes to money management I've devised this thing called 'YES', which is Y – E = S, so 'YES' overall.

Let me just explain it a little bit. Y is actually the symbol or the letter that economists attribute to the word income. So you've got income minus expenses equals savings. Really, all wealth creation is as simple as knowing how to apply that formula. That is, spending less than you earn.

Most people don't think in that context. What they do is they think expense first, income second and any savings are a bonus. So what they do is they earn according to their expenses rather than spend according to their income. It's slightly skewed to start off with because we always spend more than we earn — statistics in Australia unfortunately say that at the moment Australians really have a negative savings rate. So really what they're doing is they're spending more than they earn and they can't catch up.

The difference, if you spend more than you earn, is usually made up from debt. Of course Australians are getting in more and more debt. Just look in the headlines each month in the paper. Some stats that I used in the book show that average credit card limits have gone up over 10 years from $2,950 to $7,889. Australians currently owe $155 in debt for each $100 they earn.

These are crazy, crazy statistics. We just can't handle money as a nation and we're becoming more and more in debt, and because we're becoming more and more in debt people are more and more interested in wealth creation as a magic way of getting out of it. But as I said, it doesn't work like that.

If you have more expenditure than income then you have to use debt. It's interesting. What do banks lend against when it comes to giving money? People say, 'Well, houses'. But they don't. They don't lend against the house. They take the house if you don't pay. They actually lend against your future ability to earn money, because that's what's going to repay them.

Every time you borrow $1,000, you're taking $1,000 of income you're going to earn in the future and spending it now. So you have to go and earn that $1,000 and unless you ever get on the right side of this Y – E = S equation, you're always going to be struggling to get ahead. That's why the very first thing that all investors need to do is to take a look at how their income

and expenditure patterns are meshing together. If these are not working then they need to stop and fix them before going and buying any property.

That's the 'YES' formula. Income minus expenses equals savings. If you have more income than expenses then you'll get savings. If you have more expenses than income then you'll use savings until the point where you have no more savings left, and you'll get into debt.

What I like to do in my investments and in my own personal money management is to always be in a situation where I have income greater than expenses, thereby building wealth. More income than expenses builds wealth, it's that simple. You can't work this equation any other way.

## Audio CD Track 8: Geese and Golden Eggs

*Michael:* What you've just said will ring a lot of bells with a lot of people. What should they do?

*Steve:* Generally speaking they should buy income producing assets. Now I don't have property to sell, that's not the game that I'm in. I try to educate people about properties that they should buy. I try to teach them how to fish rather than giving them a fish, if you like.

What I say to people is that we're all going to get to retirement sooner or later and be in a position where we'll no longer work for money. For some of us it might be later in life, for some of us it might be earlier in life. Some people have a choice, some people don't have a choice, but what we want is to end up in a situation in which we have a golden goose. We want to try to find a golden goose that's going to lay golden eggs that are going to feed us in retirement.

If we don't ever find that golden goose then unfortunately we're going to be stuck with whatever the government can afford to give us in the way of a pension. Now some people have no option but to go down that road and the government *should* provide for it's citizens. But what I'd be suggesting, and what I'm trying hard to do, is to get into a situation where I buy assets that throw off income over time, because then in retirement I've got all these assets generating all this income, which means that I don't have to rely on the government. Therefore I can plot my own future and my own course.

What can people do to get ahead? Well, first of all, start repaying debt, because if you're in debt don't try to make money to get out of debt — first learn to understand how debt works and understand your requirement to repay it and as you repay debt also get into a situation where you start acquiring income-producing assets.

Now that might be a two or a three step process because in order to end up with an income-producing asset, as I said before, you might have to pay down debt. So you might have to get into a couple of what I would regard as property trades where you get in, you renovate, you make $40,000 or $50,000 on the project and then the next time around you use that $40,000 or $50,000 to repay debt and thereby create a positive cashflow outcome.

An example, Michael, that I see a lot of people doing at the moment is that they buy a house on a plot of land or a section of land and they subdivide and they sell part of the block off for a profit. Then they take the profit and pay down the debt on the house at the front, which they keep and renovate and rent out and overall then the house at the front becomes positive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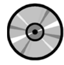
cashflow. So the deal they buy is not positive cashflow in it's own right, but after the investor does something — adds value, as I said before — they end up with a positive cashflow outcome. That's where the market is at the moment. Once upon a time you could get lucky and go and buy a positive cashflow property for $44,000 in Ballarat. Those days are over. Now we have to try to *make* that positive cashflow.

##  Audio CD Track 9: The Missing Link

*Michael:* But to buy more properties you need more debt.

*Steve:* Yeah, you do, until you get into a sustainable system, whereby what you start doing is selling — that's the missing link for a lot of people. I mean you do a lot of business interviews and you've interviewed a lot of talent over the years. Have you ever interviewed anyone in business that didn't sell?

Every business has to sell something, except in real estate, or so we're told. In real estate some people try to buy and never sell, but the way I've looked at real estate is, I'll own an asset until such a time as it makes sense to sell it. It might make sense to sell it, for instance, if my return is going down over time.

Consider this example. Let's say we buy a $100,000 property that has $10,000 a year in rent, and let's say that the property goes up from $100,000 to $200,000 in value but the rent stays the same. In reality we've halved our return, but people don't think like that, they think on cost.

*Michael:* At what point do you decide to sell though?

*Steve:* I think you decide to sell when your return can be best maximised using other investments. But again, look at why people don't sell. The number one reason why people don't sell a piece of real estate is because they don't want to pay tax. Yet, again, I don't know of any successful business that doesn't pay tax. It's a by-product of wealth creation.

People want to live in an unreal world where they have unrealised gains on their properties in the form of capital appreciation that they then try to draw down on to fund their retirements. As I've written in my book, that's really dangerous because if you've got an investment property and you redraw that equity to pay for lifestyle expenses, the debt is no longer deductible from a tax point of view. So you're faced with a situation in which you've got increasing non-deductible debts that you're borrowing against for your investment portfolio. How are you going to repay that debt?

You're eventually going to need to sell the property. You've probably reclaimed a lot of the equity but what are you going to pay the capital gains tax out of? It's a recipe for disaster. So all these guys out there that are touting wealth-creation schemes that say, buy a property and live off it in retirement, haven't actually thought through it. I don't think it's a good idea at all. As an accountant I can tell you that it really sucks. Yeah, it sounds good — live off your nest egg in retirement — but in practice it's fraught with huge dangers.

*Michael:* So you're selling what was a good property, and *is* a good property, in order to buy another one that you might believe is better?

*Steve:* Yeah. Look at it this way. We call it multiplication by division. We bought that $44,000 property in Ballarat back in 1999. It went up in value to, say, $80,000. We sold it at $80,000 and went to a different area and bought two more properties at $40,000 each. We turned one into two. Then those two properties went up in value and we turned two into four, and then they went up in value and we turned four into eight.

If we had have refinanced that original property rather than selling it then our debt would have increased, which would have placed us at greater risk. Also we would only have been able to borrow maybe up to 80% of the value of the equity — and really, that is the kicker. When it comes time to borrow more money, what do the lenders use (to evaluate your loan application)? They use your tax return. So if you've got your profits flushing through to your tax return then that allows you to go and to buy more real estate. But if your profit never touch your tax return, the banks won't consider it.

Selling was the missing piece of the jigsaw puzzle, if you like, that allowed us to go and to buy more and more and more real estate. We were still only borrowing 80% but because we had more and more and more income coming through to our tax returns in the form of capital gains, it allowed us to service that debt and to prove that we could handle it.

*Michael:* The $40,000 property you bought that's gone up to $80,000 — if you then wanted to get back into the market again, presumably that $40,000 had also gone up to $80,000 somewhere else.

*Steve:* Which is why we started in Ballarat, and then went to the La Trobe Valley. Then we went to Tassie, and then changed to commercial deals, then we went New Zealand and the States and then came back. It's about understanding the strategy.

Most people own one or two properties but I think that's a bit dangerous in its own right because you've got a lack of diversification across your portfolio. What I would rather do is, instead of owning, say, one Toorak property, I'd rather own 10 regional properties because it diversifies my risk, which is the way that I like to invest.

Really, I'm a big advocate of selling. I'm a big advocate because it realises that gain and a lot of people thought they made money when the values went up, but they don't think they've lost value when they go down again and it's flawed thinking. Yet you can realise that gain and lock yourself out of the market. I'm not talking about spending that money on lifestyle, I'm talking about using that investment profit you've made to go and to buy more real estate or to repay debt to improve your cashflow.

*Michael:* The way you were describing it you become a property trader.

*Steve:* Yeah. That's the risk isn't it, and certainly from a tax point of view. You get the capital gains tax discount of 50% if you're an 'investor' but you don't get that, if you're a 'property trader' because you've got trading stock rather than an investment, if you like. So what you've got to do is be very careful. What I'd say, generally speaking, is that people ought to go and get some professional accounting advice about the way that they do their investments.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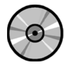
##  Audio CD Track 10: Bad Debt and Worse Debt

*Michael:* We've been talking a lot about debt. You say there's bad debts and worse debts.

*Steve:* Yeah. Michael, it's so common to hear in wealth-creation circles that there's a difference between good debt and bad debt. Good debt being something that someone else repays on your behalf. If you've got a tenant repaying the property all that's good debt — the tenant is paying the loan for you. Then there's bad debt, which is debt that you have to pay yourself — personal credit cards and that kind of thing.

Personally I think it's a pile of hogwash. I think there's only one kind of debt and that's bad debt. My grandfather used to say that the only people who ever went broke were those that owed money. So if we could engineer a situation in which we had a whole lot of wealth and not a whole lot of debt, then that's a pretty safe position, particularly in retirement.

The way that I view debt is really like a double-edged sword. It's necessary but it's something that we ought to try to manage carefully and eventually get out of to safeguard our own property portfolio and our own investment nest eggs. We talk about when interest rates are at 17% and people say, 'Oh Steve, interest rates would never return to 17% again would they?'

They forget that the overdraft rate at the same time was 25% and that interest rates have come off their lows of 5% and 6% and we have a generation of people that never really knew what it was like to try to invest in a high interest rate, high inflation environment. People think that we're dealing with a once in 100 year storm. But we have these once in 100 year storms because once in 100 years they come along. We have interest rate cycles where interest rates fluctuate from 5% to 17%, so it's reasonable to expect, one day, for them to go back to 17%.

If we live in ignorance then it's likely that we'll lose a lot of money. I always invest believing the worst-case scenario rather than the best-case scenario and I always invest with one eye assuming that interest rates are going to be 12% or 13% in two or three years time. I have to ask myself, 'What does that do to my investing position?'

When I talk about debt I don't talk about good debt and bad debt. I talk about bad debt, if you like, and worse debt. Bad debt is debt for investment purposes and worse debt is any personal debts. I'd certainly encourage all the listeners to have a good hard think about what's going on in their debt management and if they plan to go into debt they should have a plan for getting out of debt too. That's really critical.

*Michael:* So how do you determine how much debt you should put into the property that you're going to buy?

*Steve:* I think the two variables, Michael, are your skills as an investor and also what's happening in the current property market. If you don't know how to manage debt then you shouldn't get into a lot of debt because you're just going to get into trouble. New investors perhaps ought to sit around the 70% loan to valuation ratio. This means they don't borrow more than 70%, or perhaps 75%, and if the market is going down they should borrow less than that.

In my book there's a matrix that says in a flat market, if you're a new investor, you should try to stick to between 60% and 75%. If you're a more experienced investor then maybe go up to 70% to 85% in a flat market — that's debt relative to the value of the property. As the market increases or hots up maybe you want to increase those rates. Investors can really apply that matrix and try to figure out where they are at the moment relative to it. Certainly as your experience grows you can get into more debt, but as the market deteriorates you should get into less debt.

There's not one figure for every occasion. What we need to do is try to toggle or vary our positions according to the market conditions. I don't know very many people that walk around in board shorts in the middle of winter and I don't know many people that wear fur coats in the middle of summer. The same principles apply to investing. Most people try to put on the same investing pants and jacket every day, but as the situation changes we need to change our approach as well, or risk putting ourselves in appropriate situations.

## Audio CD Track 11: The Property Clock

***Michael:*** You say we need to change our approach according to the market but we don't know which way the market is going to go tomorrow.

***Steve:*** No, you don't but as an investor it's important that you form an opinion. A mistake that some people make is that they wait to see what the market does and then react to it. What I try to do is understand the market and what drives the market and to form a proactive position so that as the market unfolds to what I think is going to happen next, I'm already prepared and investing in that situation. That's really a description of using the property clock that I describe for the first time ever in this latest book.

***Michael:*** Well, now you've got to tell us about the property clock.

***Steve:*** There are four basic phases to a property market — prices in the property market go up, then they become flat, they go down and then they become flat again before going up. So up, flat, down, flat, up, flat, down, flat, and so it goes. Now for simplicity, the clock as I've drawn it in the book is probably a little misrepresentative because it shows each period as being roughly equal. As I've said earlier, the property market tends to go up for about a third of the time and it's flat or down for about two-thirds of the time. So while the clock looks pretty, it's not entirely correct in the way that it's drawn.

Really, what we need to do is make an opinion as to what the market is going to do next and change our investing strategy before it happens. Now that introduces the chance that we might be wrong, but there's certainly no guarantees in investing. One thing that's for sure is that if you don't change your investing strategy but the market changes, then there's an increased likelihood of you not being in the right position, and so losing money or not maximising your return.

Let's look at an example. We went through a boom period and we never knew when the boom was going to end. Now some people were second guessing when the boom was going to end so they were wondering, 'Well when do I sell? Do I try to sell now — is now the top of the market?' But of course, you'll never ever know the top of the market until the top of the market has come and gone because it takes months for statistics to be collated and then reported. So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when it comes time to sell, you don't sell your property trying to guess when the top of the market is. You wait for the next flat period after the top of the market to then judge that the time is right to sell.

*Michael:* And the alarm bell doesn't go off on your client does it?

*Steve:* No, unfortunately. I wish it did. It might be a wake up call but let's look at that. So we have an upturn — we have a boom generally and then we have a flat period. As this next flat period comes in — and we saw this in the eastern seaboard probably around the end of 2004 coming into 2005 — what we need to do is start reducing debt, and that's our signal to start selling some marginal deals.

A lot of people owned real estate in the boom that didn't perform particularly well. If it didn't perform particularly well during the boom how much worse is it going to perform during a flat time? So that's why, with the property clock, I start talking about needing to sell marginal deals, because these marginal deals are probably going to become a weight that's going to drag you down in a softer market. As the market comes off its peak, it's time to reduce debt, sell marginal deals and to get a handle on how you're managing your money. That's the message.

Sometimes a market that goes flat will drift downwards because there's panic that gets introduced. A couple of high profile people go under, get prosecuted through the courts, get sent to jail, banks starting collapsing. These kind of things all destabilise and cause the market to be uncertain.

During a downturn the name of the game is survival, and those people who aren't prepared in that survival phase tend to go under. I mean, I was working in my first job as an accountant in the early 1990s and I had clients receiving phone calls from banks saying, (ring, ring, ring) Good day, it's Bob from the ABC Bank. We need you to pay back $50,000 by the end of this week or we're foreclosing.' Well these people often didn't have $50,000 and the bank foreclosed.

It's about survival so you're going to need more cash in a downturn and that's why you should be reducing your debt so that you're:

(a) below the bank's risk radar screen, and

(b) you're going to need cash to buy great deals as, and when, they come up.

Of course a downturn doesn't last forever. Eventually people go, 'Well, now's a good time to buy', and so then you get another flat period. Then after that flat period speculators start coming back to the market and prices start going up. Property markets are a lot like the Titanic — not that it's eventually going to sink, but it just takes so long for it to change direction. It's not like the stock market that can go up and down 5% in a day. The property market doesn't do that. You need to understand the beast that you're investing in.

Here's an idea out of left field. Let's say that you're a long-term investor and you're thinking, 'Look, the property market is flat. I know my property is not going to do anything for five years.' Why would you hold the investment? You're going to be out of the money for five years.

*Michael:* So what do you do?

*Steve:* I reckon you sell. It's controversial again, because you've got to pay the tax but investors don't buy and hold forever, they always try to maximise their money. If there's a better opportunity elsewhere, you look at it. If there's not, then you hold but if there's a better opportunity elsewhere, or you want to reduce your risk, then you sell.

That's why, towards the end of 2004 and 2005, we sold 75% of our portfolio and just sat on a big pile of cash. Then once everyone else felt the pain and started to sell, we started to buy back in because, it's the old adage that you should buy your straw hats in the winter — when no-one wants straw hats and they're cheap. You want to sell prior to everyone else realising that they have to sell, and you want to buy when everyone else is selling. Again, it's business principles applied to a real estate context.

That's great but what about someone who now hasn't sold and is stuck in the mud effectively? Well, unfortunately I don't have a quick-fix for you other than saying that all my properties are for sale. They don't all have boards out the front of them saying they're for sale, but I say to the real estate agents that I deal with, 'If you can find a buyer for the property who's willing to pay a good price then I'll sell.'

You're never going to be able to sell something that's not for sale so you don't have to formally list it but you at least need to have that conversation with your agent.

### Audio CD Track 12: What to Do in a Weak Property Market

*Michael:* So what do you do broadly in a weak market?

*Steve:* First of all I'd sell. I know that sounds a little bit strange but I wouldn't sell everything. I'd just sell the deals on the fringe — the marginal ones, the ones that haven't been particularly profitable. Then what I would do, or what selling does, is it repays debt. It helps you from a risk point of view and allows you to then borrow more potentially later on.

I had a story that I discussed in the book about Vanessa. What happened with Vanessa, a Sydney investor, was she owned a lot of growth property and the Sydney market started to turn and I saw the writing on the wall. I said, 'Well, maybe you should be thinking about selling some of this marginal property, which she did, and she locked out the debt. She repaid the debt and it took her overall debt lower and took her cashflow up because she had less debt in her portfolio. Luckily, in that situation the market did come down and so she sold the property for about $50,000 more than it would be worth today.

Now sometimes a dollar saved is a dollar made, and although she hasn't made $50,000 in profit in her pocket, she's effectively saved $50,000, which is kind of the same thing.

The first thing I'd say is really consider and think hard about selling marginal deals. The second thing I'd say is reduce debt. One of the reasons why you want to reduce debt is because it affects your ability to then buy back later when a lot of people are maxed out. If you go to the bank the bank says, 'Look we're not going to lend you any more', well what good is that? If you find a great deal, you're not going to be able to capitalise on it. So you need to be a bit clever about the way you do things.


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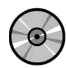
The next thing I'd say is you need to set benchmarks with your investments. A lot of people buy and hold, and hope for a profit. But just as any good business will have a budget, any good investor needs an investing budget as well that actually clarifies and quantifies the amount of the return they expect from their investments. If investments meet their targets, great. If they don't then maybe that's a red flag — either you need to be more proactive about the way that you manage your real estate or, alternatively, maybe it's time to sell.

Earlier you said to me, 'Steve how do you know when you should sell a piece of real estate? Well, a lot of people don't know because they never set that profit benchmark. On all my properties that I own, I have targets. So, say I own a property at 123 Smith Street. I'll decide that it needs to increase by, say, $30,000 this year. I'll then go and get a valuation at the end of the year and if it hasn't increased by $30,000 I'll look at it and either say, 'Well, what do I need to do to increase the value?' or alternatively, if it's come time, maybe the season's ended. The fruit has dropped off the tree so it's time to sell the tree, start again somewhere else — buy another tree.



### Audio CD Track 13: How to Profit from Problems

*Michael:* But you've got to find that other tree.

*Steve:* It's not that hard when you know what to look for. I know that sounds a bit flippant. Really a lot of people buy solutions. You walk into a real estate agent's office and they've got the feature property and they've got the glossy brochure. I don't buy any of that because, really, the money has already been made on those deals.

Consider it this way; let's say we're looking at an off-the-plan apartment — pretty topical, a lot of people bought off-the-plan apartments and a lot of people didn't make much money. Well, what really happened was that the developer made money because he or she took a problem block of land and turned it into a solution — an off-the-plan apartment. The investor won't make any money until that off-the-plan apartment goes up in value. I call that an 'automatic profit' — the whole market has to go up in order for that deal to be profitable.

I don't like those deals because there's not much I can do to add value to get an above-market return. I wouldn't buy that kind of deal because it's a solution. Similarly, I wouldn't buy a pre-renovated house. I would buy a house that needs renovating because that's the value-add opportunity.

The question about how do you go and find deals that are likely to make money — I say the bigger the problem, the more money you can make. Also the bigger chance for a loss. You need to know that you only want buy problems that you can solve and fix. But everyone gets paid to solve a problem. The guy working in the coffee shop gets paid to wait tables and to pour coffees. The newsagent gets paid to sell magazines to solve people's information problems. In real estate, investors get paid to solve investing problems.

If you want to be an investor but don't want to solve problems then the only way you're going to make money is if the whole market goes up and, as I said, that only happens about a third of the time. We need to change the whole way we think about investing to become far more proactive.

*Michael:* Do you renovate many of your properties?

***Steve:*** None. I know this is an audio recording but you can look at my hands and know that these hands tend to hold a pen rather than a hammer.

***Michael:*** What I'd say is that you maybe employ people to do it?

***Steve:*** Exactly. And that's what investing is. Investing isn't about you doing the work, investing is about applying a system and then out of the profit that you make on the deal, paying other people to do the work. A lot of do-it-yourself investors out there do home renovations. That's not investing, that's just getting paid money for labour. They do the work, they get paid the money. I don't have the time or the inclination to paint or pull up nails out of the floor or sand floors or anything else like that. I even hate gardening.

What I do like doing is thinking and being proactive about the way that I solve problems. That's my greatest skill. It's not choosing a colour. I'll pay an interior designer to do that. My skill is working out a way of buying 10 properties and getting a team of 10 people — the carpenter, a painter, a landscaper and whoever else, and do 10 at once. That way I'll get economies of scale, which allows me to then get wholesale rates rather than retail rates on the work that I do.

***Michael:*** You've sold the property that isn't doing all that well. You go into the marketplace to try to buy another one or two, but you've got to either go interstate or find a cheaper suburb, or do you go then looking for properties that you can do something with?

***Steve:*** That comes back to the whole idea of cash versus cashflow. If you want to make a quick $20,000 or $30,000 you don't need to look very far. The house next door, the house across the road — anywhere where there's a problem where you live. If you want a cashflow asset and you just want to go and buy it — remember problems and solutions. A lot of people want to go and buy a positive cashflow solution — a house that is already positive cashflow without them having to do anything. These days they only exist in outlying regional areas and even then they're a little bit hard to find.

The new way of thinking that we have to apply is to go and skill up to be able to solve problems and then perhaps get into a few cash deals to form a bank. Then you might go and buy another property and then pay down the debt in order for it to be cashflow positive. We have to start doing a two, a three or a four-step process to end up with a cashflow outcome, rather than just going out there and trying to buy a positive cashflow solution property. Things have changed.

***Michael:*** But you have to spend all your life doing that? Basically like you are?

***Steve:*** Well, you would think, so until again you have to start doing things a bit smarter than the average bear. The way that I did it was to train real estate agents with my system and to get them to look for the properties on my behalf. I don't spend my weekends out there looking for property. I work hard to have a network of real estate agents so that when they find a deal they ring me before it even hits the market.

A lot of people wonder what's the best day of the week to go and buy property. I think the worst day of the week is a Saturday, because that's when everyone else is out there buying a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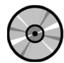
property. My preferred time of the week to go and buy real estate is 11 o'clock on a Monday morning, because everyone else is at work normally and all the properties that didn't sell on the weekend now have the vendor saying, 'I hope someone is going to come along.' Then I ring up and I say, 'Hi Mr real estate agent. Hey, what have you got for me?' This didn't move on the weekend, the vendor is a bit keener to sell so they're a bit more negotiable on price.

It's about thinking differently and thinking smarter and not doing what everyone else is doing, and that's what creates the opportunity.

I had a real estate agent ring me a while back with a billboard deal that I talk about in the book. The agent called me and said, 'Steve, there's a billboard going for sale and it's $117,500 and the rent on it is $11,500'. After doing some quick maths in my head I thought. 'Wow, that sounds like a pretty good return!' Particularly when you consider that the $11,500 is plus GST and the $117,500 is including GST. So if you buy it through a GST-registered entity you get an 11th of it back. It turns out to be about a 10.7% return.

Now this property didn't even hit the market. How come I got first dibs at it? Well, because I've got the relationship with the real estate agent. Now how do you go and find and buy a positive cash flow deal? They're out there every day of the week, but what people want to do is they want the deals to come to them on their terms, and it doesn't happen like that.

You need to work the market and you need to form a reputation as someone who does something then the deals will find you. They really do.

##  Audio CD Track 14: How to Accelerate Your Growth Returns

*Michael:* Now Steve, in chapter 12 of your book you mentioned 15 tips for achieving accelerated growth. Would you mind just picking out, say, four or so, to give us an idea of what you're talking about?

*Steve:* Well, let's look at a common one. Let's look at this thing I call the ripple effect. Everyone knows that certain suburbs boom and there's a tendency for people to flock to those areas then, and say, 'I want to get in on the trend. Smithfield is becoming popular — everyone wants to live in Smithfield. I'll go and buy a property in Smithfield as well.'

I wouldn't do that. I think if you go and do what everyone else is doing then you're just going to add to the mania. What I'd try to do is be a little bit smart about it. I'd go and buy in the suburb next out from Smithfield, because what I found from studying real estate trends is that eventually Smithfield will become too expensive for a demographic, usually first home buyers. What people do then is they make a concession. 'We won't live in Smithfield, we'll live on the other side of the street to Smithfield, in Waynesville.' They'll get perceived prestige by living nearby, and then gradually, over time, the adjacent area that hasn't moved in price because it's not yet trendy will present with a best buying opportunity.

*Michael:* That could take time though couldn't it?

*Steve:* That's where you want to be smart because what I would do is instead of going and buying a property and just paying interest and renting it out and facing a potentially negative cashflow, I'd go to someone who had a property for sale in Waynesville and I'd say, 'Look,

your property is currently for sale for $250,000', and they'd say, 'That's right'. Then I'd say, 'I want to pay $275,000!'

'What are you mad?! It's for sale at $250,000!'

'No, I want to give you more. I want to pay $275,000 but there's a couple of conditions. The first condition is I actually can't settle for 18 months, so you're going to continue to own the property, collect all the rent for 18 months, then in 18 months time I'll settle.'

What I'm doing is starting to become an investor and making the call that I'll pay you $25,000 more now, but try to leave as low a deposit as I possibly can, because that fits into my working capital. Then in 18 months time I'm make the call that the property is going to be worth more than $25,000 extra I'm paying for it right now.

I lock myself into the market and potentially benefit from any capital appreciation of more than $25,000. Then 18 months later, in an ideal situation, the property might be worth $50,000 more. Well I'll go and get a bank valuation for 80% of the higher value which allows me to borrow more or, alternatively, I'll just sell the property and just make a quick $15,000 or $20,000 in capital gain after costs.

***Michael:*** That's almost gambling though isn't it?

***Steve:*** Well, it may seem like gambling but there's a difference between gambling and investing and sometimes the line is a little blurred but it's the skill that you bring to the table. If you know and have researched areas and that you know and have researched opportunities then really what you're doing is you're backing your ability to find that investment.

Most people gamble when it comes to real estate investing, or what they think is real estate investing, because they buy, hold and hope. They might as well go to the local casino and buy, hold and hope playing roulette or blackjack. After starting in 1999 and buying so much real estate, I think I've got the system and the skill to be able to pull this off. That's why I've written this book — to share more insights with people about how to skill up so that they can achieve similar returns.

***Michael:*** More examples.

***Steve:*** Perhaps another one. Michael, make sure you stand in the shoes of the next person buying your property. A lot of people sell real estate and what they do is they go to a real estate agent and say, 'Please sell my property'. What they fail to do is really try to work out who's going to buy it.

If you have a business then what you want to try to do is identify your target market, and by identifying your target market you can look at ways to try to get them to pay more money for what you've got. For instance, in real estate, you might own a property that is suited to a family — it's got a cubbyhouse out the back and that kind of thing. You say, 'Well, the person that's likely to buy this house is a family — what can I do to this house to make it more appealing for that next family?'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You start to think in those terms instead of worrying about what you can get out of the property. Considering what you can contribute to someone else's enjoyment helps you to position the property so:

(a) it sells quicker, and

(b) it sells for more.

Some people I know own investment property that would only ever be purchased by another investor. It's not suitable for a home. It's a cheaper house, in a cheaper area, and it's what I call a 'transition property'. For those guys I'd say, 'Well, how can you sell the property and make it attractive for an investor?' Perhaps they can leave some money in the deal. Perhaps they can offer a low deposit. Perhaps they can offer a longer settlement but in return get a higher price.

It's the way that you vary your price or your terms to make it more attractive as a housing product for the next buyer. Again, most people only think about themselves — what's in it for me? How much money can I make? How can I sell it quickly? But if you change your focus from 'me, me, me' to 'How can I help the next purchaser make better use of the property?' then by solving that problem you'll create and make money. That's what I've done time and time again.

The third tip is to just look at housing shortages. Generally speaking, if you've got more demand than supply then prices are going to go up. In that case you'll usually find that properties that are for rent in areas where there aren't a lot of rentals available, will push rents up as well. What I try to do is to look for areas where there is just a shortage of housing. You can find out reasonably quickly how popular an area is by looking at auction clearance rates and median house price movements and that kind of thing.

I also like areas that have new infrastructure. In Melbourne, for instance, we've got that East Link project that's going to open up the south eastern corridor. There's going to be a tollway, but people have cars and they're going to want to save time so they're going to drive on it. This probably brings in the ripple effect. I wouldn't buy in the area where the freeway is going to go through because that's already moved in price. I'd buy the suburb or two suburbs away on a longer term settlement, and then what I'd also do is look for some kind of shortage of housing in that area.

Generally speaking I'd look for units. I'm not a big fan of units because there's lots of units. I like four-bedroom houses because they're slightly bigger than three-bedroom houses, therefore there is often a bit of a shortage. People pay for houses not based on the land size, or on the number of living rooms or dining rooms or kitchens or bathrooms, but on the number of bedrooms. If I can buy a four-bedroom house when most of the other houses have three bedrooms, then simply buying a house with that configuration will mean that my property will always outperform the market with those other three-bedroom houses.

Again, it's about being smart with the way you apply your strategy.

***Michael:*** But obviously you pay more in the first place for that?

*Steve:* You would think you would, but then it comes down to a matter of trying to find a four-bedroom house that might be a problem house. For instance, you might buy a three-bedroom house with two living areas and then convert one of those living areas into a fourth bedroom, and all of a sudden you've bought at a three bedroom price but you've turned it into a four bedroom. As a four-bedroom house you're competing in a completely different market.

Again, instead of trying to buy something and waiting for it to go up, what you tend to do is buy a piece of real estate and apply a strategy to it in terms of adding value to make a profit.

## Audio CD Track 15: Win-Win Ways to Increase Rents

*Michael:* You talked about trying to get the rent higher. How do you do that?

*Steve:* You ask. I know that sounds strange but a lot of people expect the tenant to come to them and say, 'Hello, I'm here to tell you that I'm ready to pay more rent'. I don't think that's ever happened to me, but I've certainly gone to a tenant many times and said, 'Look, how can I increase your enjoyment of this property? If you were the owner, what would you have done? What would you fix?'

They might say, 'Oh, it's a bit cold in the bathroom'. I'll say, 'Well, maybe what we could do is put in a heat lamp in the bathroom'. So I'll go and work out the cost of doing that. I don't actually do it myself of course — I'd kick myself if I even tried, I'm not interested in that. I'd go and get an electrician to give me a quote.

Let's say the quote comes back at $300. I'd give the tenants the quote and I'd say, 'Look, you know, it costs $300. What do you propose to do?' and they'd say, 'Oh well, I guess we could pay some more rent ... ' Then I'd say, 'Well, how much more rent are you thinking about paying?' And they might say, 'Well, we can only really afford $5 a week'. Then I'd think, well, $5 a week, that's $260 a year. The cost of it is $300.

You probably wouldn't do it because you don't get a pay back in the first year. Except what people don't understand is that the increased rent not only increases your cashflow but it also makes your property worth more.

If you've got identical houses side by side and one earns $200 extra rent, which one will the investor pay more money for? The one with the higher rent. So there's actually two factors involved in a rental increase. There's the extra cashflow you get, and then the increased value the property is worth. I call that the rental multiplier effect.

Ultimately what you've got is a situation where for $5 a week, $260 a year, it's only going to cost you $300. Then what happens the second year? Well, you've basically got profit. Who in their right mind wouldn't invest $300 to get a huge return? It's a good use of the money.

So the first thing, Michael, I'd say, is you have to ask, and then in asking listen. Ask them what they want and listen to them and then try to cost it and provide it.

Another way of doing it is to value add. A lot of tenants, for instance, in a student demographic will pay more for a furnished apartment. Does that mean you need to go to your local


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homemaker centre and buy expensive furniture? No, you'd be crazy to do that because the students are only going to trash it. What you do is you go to eBay and you try to find some cheap furniture made in China that is durable and say to them, 'Look, the cost to rent the unit or the house is $300 a week or, alternatively, I can give it to you furnished for $350 a week and you just do the sums and know that you're going to make more money.

Another strategy is to rent it by the room, rather than by the house. If you go to the coffee shop or cake shop and buy a piece of cake by the slice, you're always going to pay more than buying the whole cake yourself. Well, you can do the same in real estate.

If you've got a three bedroom house, instead of renting it once, you can rent it three times. One bedroom each to three people. Now that might mean more management. Do I do the management? No. I pay someone to do the management. So I might have to pay a percentage or two higher in terms of a rental management fee, but that's all covered out of the additional rent anyway.

Again, think differently. Reward your tenant and this is one of the ways that I avoid vacancies. When the tenant pays the rent on time I'll give them an incentive. I'll give them a thank you, here's a couple of movie tickets, or here's a dinner out. I'll reward the tenant for doing the right thing because most landlords hit them with the big stick when they do the wrong thing, they take them to the tribunal. We all know with kids, and I've got two small kids at home, if I tell them what not to do, they do it. If I reward them for doing the right thing then they're more inclined to do it. It's the same with tenants — you want to train your tenant to do the right thing by giving them rewards for doing the right thing, not penalties for doing the wrong thing.

***Michael:*** When you say you talk to the tenant, do you mean that literally, or do you get an agent to do that?

***Steve:*** Sometimes through an agent but more often I try to talk to them and form a relationship with them as well. I rented for a long time and I used to get so frustrated with real estate agents and real estate managers. Being a rental manager is the worst job in the world and there's a lot of turnover. So what I try to do is form the relationship with the tenant so that they know that if they've got a problem they go via the real estate agent but they know they'll always get to me. I always give them my mobile phone number so in the event of an emergency where they can't get the rental manager, they know they can get me, because it's about building a relationship.

Does that mean that if the toilet blocks in the middle of the night I get out there with a plunger? No, I call the plumber. But people feel like there's a relationship and therefore they'll stay longer.

***Michael:*** Do you call the plumber or an agent calls the plumber?

***Steve:*** Ordinarily the agent will call the plumber, but if the tenant can't get the agent then they call me on the mobile, 'Oh Steve, there's a tragedy! A toy got flushed down the toilet!' I'll call the plumber and get the plumber to call them and step in, so that they feel like they got good service.

***Michael:*** But you do get an agent to collect your rental money regularly?

*Steve:* Yeah. The less I do, the happier I am as a general rule. So I'm willing to pay someone else and outsource it for a share of the profit in the deal.

## Audio CD Track 16: Why I Wrote this Book

*Michael:* Steve, we've covered a lot of territory in the last little while. Why did you actually write the book?

*Steve:* Not for fun. I enjoyed writing the book but I'll share with the listeners a little bit about writing a book. I actually locked myself away for six weeks. Really, the first book was all about me and talking about myself is my least favourite topic. The second book was all about the people that I mentored and the third book is really all about trying to give the average reader far more information about how they can use strategy and investing skill to increase their market return or their real estate profits.

I've written it because I can see the real estate market changing and I had this fear that the way people have managed their debts and the way they've done their investing is going to come back and bite them badly.

There's still hope. We're not in a crisis just yet. We may end up in a crisis if interest rates keep going up, but we have a window of opportunity, if we're proactive, to do something about it.

From a financial point of view, I know this again may sound a bit clichéd, but money has not been my motive in writing the book. My motive in writing the book is really to try to give the reader far more information than they really think the book is even worth. My hope is to get emails, as I get from time to time from people who have read my other books, saying it's really had a positive impact on their lives. That makes me feel good about myself. That's part of the reason why I feel like I've got something to contribute back to society.

*Michael:* You have an organisation called PropertyInvesting.com but you don't actually ask for money from other people to invest.

*Steve:* No I don't. Again, I wince as I say this. All the royalties from the book actually go to a foundation that I set up. I actually run three businesses. I have the investing I do on my own behalf. I have PropertyInvesting.com and I have this charitable foundation that I set up. I have a vision for the foundation and I'm really the only one who contributes to the foundation, so in order to make that vision a reality, I need money because that's what you do with a foundation — you put money in it.

Writing this book is what I see, Michael, as a win–win outcome. I share information with people to help them with their investing, and they share money with me which I then share with other people. That's the way I like to do investing. I personally think I've probably got enough money. You buy 260 properties over a number of years and you make a lot of money. I do it because I just like to share the information and I see it as a win–win outcome.

*Michael:* Do you offer your services one to one?

*Steve:* No. I stopped selling my time when I was an accountant. I don't like doing that. I see that as a poor return on time invested and I'd never have to buy a lunch again ever if I went


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out to lunch with everyone who asked me to go out to lunch. I feel the best way to share my knowledge is by writing a book, because then 100,000 people can buy the book and benefit from it. There was 140,000 people who bought my first book, which is quite amazing. If you imagine that two people probably read each copy of the book, on average, you could fill the MCG a few times over, and that's a nice feeling — to know that you've had an impact on people's lives.

*Michael:* But if people have questions they can ask you or you conduct seminars for that purpose?

*Steve:* Yeah, I do run what I would regard as occasional seminars. Again, I'm pretty protective of my time because I've got two young kids and I'm at the other end of the extreme — I'm at the financial freedom end and I don't need to do this. I do it because I do it on my terms in a way that I'm happy to do it. I run seminars when I feel like I want to run seminars and I can help people.

If people have questions, really the best place to go is the free website <www.PropertyInvesting.com> where I run free forums and where people can post questions to other investors. If time permits I can jump on and help them answer curly questions.

People often ask me, 'Where's the angle? Steve, everyone's in it for an angle — where's your angle?' I say, 'Well, I don't know. I've got an office. It's got overheads. I need to cover those overheads, therefore I run occasional seminars to do it, but I also just love sharing information.' Again, it's a cliché and all the rest of it, but that's the truth.

## Audio CD Track 17: What's Next for Steve?

*Michael:* How old are you Steve?

*Steve:* Thirty-four.

*Michael:* And you're going to keep doing this?

*Steve:* No, is the answer. I reckon I'm going to keep going until the foundation meets it's income mark, and it's no secret, it's $5 million I'm trying to pour into the foundation. Once the foundation gets to $5 million I'll get on my horse and ride off into the sunset. One of the things that I really like the idea of, is in 10 years time for people to see the book on the shelf and think, 'Steve McKnight ... what ever happened to Steve McKnight?'

Well, Steve McKnight was a success like he said he was, and he's no longer doing what he did because he wanted to go and do other things. I think I'd like to learn to play guitar.

*Michael:* Well that's a pretty good note to finish on.

*Steve:* It is except that I'd just like to thank people again for buying the book, for trusting me enough to pick up a copy. If they like the book then I'd encourage them just to tell their friends what they go out of it, because that will share the information. Whatever they do, don't horde the knowledge.

I've written this book to educate people, I would invite the readers to then try to educate their friends and family about the principles in the book. I don't mind if they give them the book to read. Maybe, ideally, you'd buy them a copy as well as a present, but if not, if you're tight for money, then share the book around because the more people we help and the more people we can get this information out to, the more lives we can impact on and that's really what I'm all about.

***Michael:*** Thank you, Steve.

***Steve:*** Thanks Michael.

***Michael:*** And that brings us to the end of this interview. I trust you've benefited from the information that Steve McKnight has shared and I hope that you enjoy reading the book *From 0 to 260+ Properties in 7 Years*. The book, of course, is published by Wrightbooks, and this interview has been recorded by Business Essentials Pty Ltd.

I'm Michael Shulberger. Thanks for listening.



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