

PropertyInvesting.com 'Insider'

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

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G'day,

Read this to find out when I think the next rise in interest rates will be, and what you can be doing right now to protect yourself

Breaking News

Last week the Sydney Morning Herald featured a bleak article about a property that had fallen 60% in value in three years. The house, located in St Clair – an outer suburb in western Sydney – was purchased for \$450,000 in 2003 only to be sold at mortgagee auction last week for \$260,000. The article mentions that the vendor owed \$405,000 on their loan.

While this is an extreme case, there are a couple of interesting points that I'd like to flesh out in an attempt to help you from suffering the same outcome.

1. Shift in Consumer Sentiment

While it's sad, a lender foreclosing on a property investor who hasn't met his debts isn't exactly late breaking news. Even a property selling for less than half of what someone else paid for it is uncommon, but not unheard of.

However, like a tinder-dry forest that only needs the smallest spark to ignite into a roaring bushfire, all the press needs is a sniff of real estate doom and out come the big headlines.

The existence of these headlines, and the ensuing discussion that follows, adversely affects the psychology of the property market and adds to consumer pessimism.

Last month I mentioned to you that as the prevailing trend builds momentum, factors come to light that support that trend. This article supports that claim as it is evidence that times have changed. The saying to remember is: 'Make the trend your friend'!

As investors, we can't influence the market – we can only operate within it and invest in a way that maximises opportunities and minimises losses.

2. Debt Management

At the R.E.S.U.L.T.S. (my mentoring program) Get Together on the weekend, I outlined how I thought that debt management was now the #1 determinant of your ability to survive and flourish in current the property market.

Managing debt was less important during boom times since everything went up in value. However, in a flat or down market, your ability to manage borrowings becomes critical because it impacts not only your profitability, but also your capacity to continue borrowing in order to continue purchasing the great deals you uncover.

I'm writing my third book at the moment, and in it I make the comment that property debt is like fire – you need a little to keep warm, but if you have too much then you can easily lose control and risk burning down the house.

As an investor you'll need a certain amount of debt to gain leverage in order to buy more property than your cash reserves allow, but not too much that you become a slave to your property portfolio.

In the case of the St Clair vendor, he bought the house for \$450,000 and then three years later is debt was \$405,000. I don't know what his original borrowings were, but I'd consider a 90% loan-to-valuation ratio quite high risk. Are your debt levels putting you in unnecessary risk?

3. Skill

Most investors have a strategy for buying property, however investing has three dimensions: buying, managing and selling. It makes sense that an investor who only sees in one dimension is unable to capitalise on the full investment picture.

Investing is all about control – control over when you buy, control over how you manage, and control over when you sell. If you lose control over any of these three areas then losses become more likely.

Attending an auction and paying more than you wanted is an example of losing control when you buy is.

Failing to properly monitor the financial progress of your property portfolio is an example of losing control over management is.

An example of losing control when you sell is when, like the St Clair vendor, you become desperate and have to sell at any price.

How is your management over these three areas going? If you need to finetune your approach then make an immediate start as I think the property market is going to become an increasingly competitive market. This is bad news for the speculators, but good news for skilled and astute investors who can spot a bargain and turn it into a profit.

As far as practical applications are concerned, here's what I recommend you do:

- A. Work out your current Loan to Current Market Value ratio across your portfolio. For example, if your portfolio is currently worth \$500,000 (in today's market) and you have \$400,000 in investment debt, then your loan-current market value ratio would be 80% ($400,000 \div \$500,000$).

My assessment would be:

- > 95%: Extreme risk
- 86 – 95%: High Risk
- 70 – 85%: Moderate Risk
- 50 – 69%: Slight Risk
- <50%: Low Risk

- B. Make sure you have a sales strategy for every property you own. This doesn't mean you have to sell, but I'd certainly have my nearest exit in mind should the real estate plane need to make an emergency landing. I'm making this suggestion so that you can build a strategy to ensure you avoid becoming a distressed seller.
- C. No doubt you had a plan for getting into debt, so therefore it makes sense that you also need to have a plan for getting out of debt too. The more wishy-washy your plan, the less successful it will be. Of course, having no plan is the worst outcome possible because that indicates a lack of control. An often looked debt reduction plan is selling less profitable assets and then using the equity to pay down other debt. While this may trigger a taxable profit, what's the point of saving tax if you end up broke? It's better to be proactive and remain in control then reactive and be forced into a compromising financial position.

If you'd like to discuss the St Clair house or this article in more detail then visit <http://www.propertyinvesting.com/forum/topic/25111.html>.

Renovators & Developers Take Note!

Martin Ayles is a fellow investor whom I have enormous respect for. He has renovated and developed millions of dollars of property following a simple yet powerful mantra:

- Have the right property product
- That's targeted to the right person, and

- Marketed at the right price.

Applying his mantra means that Martin is always listening to the market to ensure that the way he does his renovation and development projects are always in demand. In a market where properties are taking longer to sell, Martin is still finding strong demand and is selling fast – usually in a matter of days.

Just last week Martin was telling me how he thought that many investors were making colossal errors because the market had changed yet their investing hadn't. His specific comment was 'Steve, I see people doing the same renos and developments that they did six months ago without appreciating the market has changed. When it doesn't sell, they blame the agent rather than seeing that it's them who has failed to listen.'

I know that many people are keen to discover, apply and profit from Martin's proven approach – especially his comprehensive Development Checklist that he pioneered and is the cornerstone to his automated investing system. I can say this with confidence because when Martin ran his seminar earlier this year there was a significant number of people who missed out because the event sold out quickly.

The great news is that Martin has expressed an interest in running another event that's even more practical, relevant and hands on. We're still workshopping the idea, but at this stage we are planning to:

- Make it a two day event so we can go into a lot more depth and have plenty of time to look at new content, answer questions and also brainstorm solutions to problems you're currently facing
- Include a complete new session on how to renovate properties to unlock quick cash profits
- Include a complete new session on how to subdivide and sell without needing to build
- Hold the event in South Australia so that Martin can personally show you through a range of properties he has on the go at the moment, at the same time as revealing the practical tricks of the trade that's allowed him to stay relevant and profitable to the changing market. In fact, we're planning on hiring a bus and giving you the guided tour of what's working and also what's not!
- Workshop real life cash studies so you can get a handle on how to quickly and accurately crunch the numbers in a property reno or development

In our discussions, Martin has mentioned his desire to reduce the numbers so that those who come along benefit from a personalised and hands on experience. At this stage, there are only 60 spots available. The date is tentatively booked for the 28th and 29th of October (Saturday and Sunday).

Unfortunately, I can't outline the price just yet because Martin and I are waiting to receive the final quote for the venue and other costs. What I can do is promise you that it will be exceptional value for money and come with a full money back guarantee that will allow you to sit through the entire weekend, and, if you don't think the information has the power to make you ten times the price paid then we'll give you back what you paid PLUS a further \$250 for your time and effort of turning up!

With such a limited number, I'm certain that the seats will be snapped up in record time. Instead of selling spots now, I'm offering a pre-allocation system. Here's how it works:

- All you need to do to register your interest by going to <http://propertyinvesting.com/go/137>.
- This is NOT a commitment to come, only an expression of interest.
- Once the dates and cost is finalised (I expect next week), you'll receive an email that gives you 24 hours to decide whether or not you want to proceed.

Here's why I recommend you pre-register because:

- You will receive a 10% discount for doing so
- Seats will be offered on a first-register, first-serve basis
- What have you got to lose? You're only expressing an interest, not making a commitment.

If you are either a renovator or a developer then I strongly recommend you pre-register by visiting <http://propertyinvesting.com/go/137> right now.

Final Words

The property market is indeed changing, and changing fast. Strategically, what worked yesterday needs to be finetuned for current market conditions. In particular, I'd urge you to pay careful attention to how you manage debt. After all, how will you be able to capitalise on the great opportunities coming if you're already maxed out from deals previously acquired. If you had a plan for getting into debt then make sure you have a plan for getting out of debt too.

Until next time, remember that success comes from doing things differently.

Regards,

- Steve McKnight

P.S. I think the next interest rate rise will be in December. This way the RBA can send a warning to consumers not to over-spend at Christmas!

P.P.S. Don't forget to pre-register your interest in Martin's Renovation, Subdivision and Development 2-Day Workshop. Visit <http://propertyinvesting.com/go/137> now!

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.

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