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## PropertyInvesting.com 'Insider'

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

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By Steve McKnight

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I hope you enjoyed a relaxing and peaceful Christmas.

Welcome to your December 2004 edition of Insider - Australia's #1 e-zine outlining tips and strategies for successful real estate investing, especially for those looking for positive cashflow returns.

Here's what's on offer in this month's information-packed Insider:

- Part One: No and Low Down Deals - are they really possible?
- Happy New Year! Bargain Offer... but only for the first 50!

Don't forget that, in addition to this newsletter, there's plenty of great information available on the PropertyInvesting.com forum boards; see: <http://www.propertyinvesting.com/forum>

As always, there's plenty to discuss - so let's get straight into it!

### Part One: Nothing Down Deals - Are They Really Possible?

This month is Part One of a two-part special feature on low and no money down deals. Throughout the discussion we'll use Tristan as an example to illustrate how the concept works.

Tristan is interested in real estate investing but lacks the necessary cash to pay for the deposit and closing costs based on a standard first mortgage for 80% of the purchase price. As such, Tristan can:

1. Defer his investing decision and keep saving until he accumulates enough capital, or
2. Look to buy a property and supplement the capital needed by using other people's money (OPM), or
3. Abandon his property investing ideas and look to other possibilities.

Assuming Tristan explores option two, he may consider trying to orchestrate either a low down deal (LDD) or a nothing down deal (NDD), meaning he seeks to acquire a property using little or none of his own cash. The question is - can it be done, and if so, how?

The good news is that it's definitely possible to put together a LDD or NDD, even here in Australia where we have significant property taxes (i.e. stamp duty). The bad news is that putting together this kind of deal is not always as straightforward as it may first seem.

Understanding how such a deal can be put together starts with the very nature of a real estate transaction, which is nothing more than a vendor swapping his or her property for money.

As such, as the buyer, if you don't have any money, or aren't willing to use your own funds, then it will be essential that you find a useable source of OPM (Other People's Money).

This brings about the first NDD observation - the technique is dependent on your ability to source external funds. I make this point because many people I meet seem to think that it is solely the property that provides the opportunity for a NDD. This is incorrect. A NDD demands, at least initially, a stronger focus on the financing of the transaction rather than the quality of the bricks and sticks that make up the dwelling.

There are two forms of OPM that can be used to fund a low or no down deal - either the vendor's and/or an external financier/money partner's money.

### **OPM Option 1 - Vendor Carry Back**

Asking the seller to leave some money in the deal (known within the industry as vendor carry back) is one way you can bridge the shortfall between your purchase price and your first mortgage funds.

Practically, vendor carry back can be done in one of three ways:

#### *1. Vendor finance (Wrap):*

Most property is sold on the basis of a 10% deposit left upon signing the contract and a cash settlement usually 30, 60 or 90 days later.

However, in all States except South Australia, vendors may elect not to receive a cash settlement and instead carry back the balance as vendor finance. In this case, the purchaser makes repayments to the vendor and is not the owner until the final payment is made.

To date, much of the discussion about vendor finance has been based on the purchaser being a homebuyer, but there is nothing to stop a vendor selling to an investor on the same basis.

For example, if Tristan wanted to buy a property for \$100,000, he might offer the vendor a \$10,000 deposit and ask the vendor to carry back the balance on the basis of weekly repayments of \$180.38 for three years and a balloon payout at the end of the third year of \$91,376.25

The vendor finance option works as a good option for an investor who, for whatever reason, is unable to secure a first mortgage but who stills want to lock in a purchase and start benefiting from any capital appreciation.

(Visit <http://www.propertyinvesting.com/sima/click.php?id=38> for more information on vendor finance)

#### *2. Lease-Option:*

Lease-options are another form of vendor carry back.

Unlike a wrap, there is no contract for sale - instead there is a normal tenancy lease with an option (but not an obligation) to purchase for a set price on or before a set date. In lieu of a contract, the person taking up this offer pays a once-off option fee which is offset against the purchase price should the option be exercised.

Furthermore, a portion of each rent payment is usually amortised against the purchase price, thereby lowering the amount needed to pay out the option as time goes on.

For example, instead of seeking vendor finance, Tristan could seek to lease-option the same property on the basis of paying a \$5,000 option fee and then make weekly repayments of \$216.47 for three years. At the end of the third year his payout figure would be \$109,651.55

A lease-option is a good way for Tristan to lock in a property at today's price without needing a lot of capital or access to first mortgage funds. In the meantime, as he pays the rent on the property (which he can sub-let to another tenant), he benefits from any capital appreciation.

NOTE: The pay out figure above was supplied by Lease-Option expert Tony Barton.

#### *3. Second Mortgage:*

The final option is for the vendor to sell the property on a cash settlement basis and then carry back a portion of the purchase price in the form of a second mortgage.

Unlike options 1 and 2 above, where the title stays in the name of the vendor until the wrap contract is paid out or the lease-option is exercised, under this option the title transfers into the name of the purchaser. The vendor's interest is protected by deed of mortgage, albeit it will stand behind the entitlement of the entity providing the first mortgage.

For example, Tristan may secure first mortgage funds for 80% of the purchase price and seek the vendor to carry back the remaining 20% as a second mortgage. If this was the case then all he'd need was the cash to pay for the closing costs (stamp duty, legals etc.)

Although the second mortgage market is alive and well in Australia, it is quite an expensive source of finance and the legal costs to establish and register the second mortgage can be quite hefty. Still, for an investor with low or no funds, it remains an attractive option.

The key to securing a form of vendor carry back is to match the right offer to the right seller. For example, it's no use asking a vendor to keep some money in the deal if he or she needs a full cash settlement. When buying

a property I work the following two questions into the conversation I have with the agent:

- May I ask why the vendor is selling?; and
- If I paid a little extra, would the vendor be interested in keeping some money in the deal?

I ask the first question to determine whether or not it's likely a full cash settlement will be required. If this seems to be the case then I won't press the point and will instead seek to frame another offer that works for all involved.

If there seems to be an opening, or if the agent is evasive about the reason why the vendor is selling, then I will ask the second question. Should I receive a flat 'no' I certainly won't push the issue, however experience shows that most agents will at least say that they'll ask.

Finally, as a rule of thumb, the hotter the market, the less chance a vendor will accept a more creative offer (why would they when a cash offer may not be far away). However, as the market flattens and buyers become scarce, "out of the box" offers are more warmly received.

This draws to a close our discussion on Part One of Low and No Money Down Deals. Next month we'll continue by looking at the second type of OPM - external financiers / money partners.

You are invited to post any questions or comments about this discussion topic at <http://www.propertyinvesting.com/forum/topic/14645.html>. Also outlined on that post is how I calculated the wrap payout figure.

### Happy New Year! Bargain Offer... but only until 5 January 2005!

Quite often I'm asked "What resources are available for someone who doesn't necessarily want to attend a seminar and would instead like to learn at their own pace and from the comfort of their own home?" Well, the great news is that a new product now available is the excellent PropertyInvesting.com Home Study Pack.

Based around one of my information-packed seminars, this resource contains over 4 hours of professionally edited audio (on CD) PLUS 80 pages of practical notes outlining how to maximise your property returns.

The PropertyInvesting.com Home Study Pack is a practical, no-nonsense resource that's ideal for investors looking to master the ins and outs of positive cashflow property investing. You're sure to glean many profitable ideas and practical money-making strategies, including:

- **How to find Positive Cashflow Properties and negotiate thousands off the purchase price.**
- Simple tools you can use to calculate the figures on your next deal, ensuring you don't end up with a lemon.
- **Find out how to bring together a team of expert accountants, lawyers and financiers who will do all the hack work while you relax and do what's really important... control your time.**
- How to spot opportunities and make money where other investors only see problems.
- **How to map out your investing journey by building a long-term achievable step-by-step plan for success.**
- And much more...

People who were at the initial seminar gave this feedback:

"I was just about to get into property investing for the wrong reason - GREED. Steve has made me realise that I was about to dig my grave as I had no plan, strategy nor goal. My next step is to stop, set my goals and then proceed with an 'informed' state of mind."

- Tony J.

"I asked the same question as everyone does... 'How do you find positive cashflow properties in today's market?' The seminar showed me that it is possible through creativity and finding solutions to problems."

- Lil T.

"Steve's presentation energy and ability to teach technical matters in a simple, fun way makes his seminars valuable for newbie and experienced property investors."

- John R.

Considering that people paid up to \$990 to attend the seminar, I'm sure you'll agree that it would be an absolute bargain to receive the professionally edited audio and the revised notes for just \$495 (i.e. half price!).

However, as a New Year Special, until 5 January 2005 the price has been slashed further... to just \$399 PLUS you'll also receive, at no extra charge, 'Tales from the Trenches' - four cassette tapes where I interview other successful investors to unearth many fantastic insights. Valued at \$99.95 - it's yours free!

That's \$1089.95 worth of value for just \$399 (incl. GST but plus P&H)! Be sure to act quickly to secure this New Year special offer and remember that your purchase is protected by the PropertyInvesting.com 14 day money-back guarantee. If for any reason you decide to return the product within 14 days of ordering, simply ship it back to us and we'll happily refund your 100% of your purchase price (ex-postage and handling)... no questions asked.

**NOTE: There are only 93 Home Study Packs left in stock. With this newsletter going to over 43,000 people, be very quick to order or risk missing out.**

The best and quickest way to order is online at <http://www.propertyinvesting.com/sima/click.php?id=39> . Alternatively, you can order toll-free on 1800 660 630 (note a \$10 manual fee applies for phone orders).

Don't wait until next month, next week, or even tomorrow to get started. Secure your Property Investing.com Home Study Pack now and, from the comfort of your own home, discover how to build a property empire today. Order now at <http://www.propertyinvesting.com/sima/click.php?id=39>.

One of the popular topics I presented at the recent Property Masterclass was how I use cash to act as a buffer to market uncertainty.

In my opinion, cash is a very poor way to hold long-term wealth because you can only earn an income return (i.e. no capital gains), and because inflation erodes the true return on your investment. For example, Reserve Bank of Australia data has inflation in Australia running at about 2% per annum, so anyone holding cash and earning less than 2% (after tax) is actually experiencing a decline in their wealth.

Having said that, holding cash for the short-term in uncertain times is a great way of leaving your options open, as you have liquid funds at your disposal. For example, you could pay off debt as needed, or you could fund a purchase without relying as much on lenders.

As I've mentioned, strategies for using cash to protect and even expand your current wealth position was one of the many topics discussed at my recent Property Masterclass. These events offer intensive training for investors seeking to gain the edge on the market through comprehensive and structured learning. It's a no-hype approach; just the facts presented in a practical and informative way so as to provide participants with exceptional value for money.

## Summary

If you plan to purchase property but aren't blessed with tons of capital, or should you want to preserve what funds you do have, then buying real estate on a no or low down basis will be of much interest to you.

In order for this technique to work you'll need to access other people's money (OPM), which you can do it two

ways - either ask the vendor to carry back or else seek an external financier/money partner.

This month's discussion centred on vendor carry back strategies, and included vendor finance (wrap), lease-options and second mortgages. All work in slightly different ways, and the art of brokering this deal is to match the right vendor with the right option to keep some money in the deal. Next month we'll consider the external financier / money partner option.

Also mentioned was the PropertyInvesting.com Home Study Pack - a fantastic resource for those who want to learn at their own pace and from the comfort of their own home. Best of all, **if you're quick and order before 5 January 2005**, you can secure this comprehensive guide to successful investing for just \$399 (plus P&H). There's not a lot to risk, because, if you're not completely happy, you can return the product within 14 days of ordering and receive a full refund (excl. P&H charges). All in all, the PropertyInvesting.com Home Study Pack is a great value-for-money tool that can benefit every investor.

Well - that's it for the December 2004 edition of Insider. I hope you've had a fantastic Christmas and that the new year brings much happiness. Until next month remember... success comes from doing things differently!

Sincerely,

Steve McKnight

**P.S.** If one of your new year resolutions is to be more serious with your investing then taking advantage of the special offer for the PropertyInvesting.com Home Study Pack would be an excellent step in the right direction. Order now while stock remain at <http://www.propertyinvesting.com/sima/click.php?id=39>

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