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

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Hi,

I hope you've enjoyed a peaceful and safe Christmas and New Year!

Although the investment climate remains uncertain, 2006 seems to have a prosperous ring to it.

This newsletter is something of a special edition as it outlines the property investing strategy that Dave and I are currently using. This isn't designed to brag or boast, but rather to share with you what's going through our minds at the dawn of a new year.

In fact, this theme arose in response to this forum post.

The topics on offer this month are:

- Watch Out For "Clayton's Losses
- It's A Buyer's Market
- What's Our Buying Strategy?
- What's Our Selling Strategy?
- Three New Years Tips For You
- Final Words

Right... let's begin though with a quick review of current property market conditions.

Watch Out For "Clayton's Losses"

There are three general phases to a property market - values go up, they go down, and they go sideways. I think we're in a sideways patch (with negative tendencies) given prices are churning and lack direction.

In these times it can be very hard to make substantial growth based profits (i.e. capital gains). This is because there are not enough buyers to create enough demand to entice the speculators, and it's the speculators that cause rapid price growth.

In fact, many investors are experiencing what I call a "Clayton's Loss" in their wealth position. A Clayton's Loss is a loss you have when you don't have a loss.

Huh? Well, many investors are suffering a fall in their net worth caused by a drop in the value of their property portfolios (i.e. unrealised losses).

For example, if you owned a property that was worth $300,000 six months ago, but it's only worth $260,000 today, then I'd say you've experienced a "Clayton's loss" of $40,000.

Watch out for Clayton's Losses! A profit erosion of any sort is hardly something to aim for. Be even more alert to the dangerous psychobabble you might be telling yourself to justify an unrealised loss - comments like "It's okay - the market will come good again soon", or "it's okay as I now won't have as much tax to pay when I sell", or "I'm still sitting on a nice profit".

If you think you made a profit as the value of your property went up, then you also have to think that you made a loss as the value falls. Strangely, people seem to perceive the loss as just less profit! Surely that's nonsense!

It's A Buyer's Market

Lucky for us, there are many more ways to make a profit in real estate than simply waiting and hoping that prices rise. If you can adopt a pro-active mindset to making (rather than buying) money, then there's a world of opportunity currently on offer.

If the boom times represented a seller's market, we are now in a strategic buyer's market, so if you're a discerning buyer then good deals are selectively available.

Be careful not to buy just anything though - there needs to be science behind your decision as many deals hold the promise of a high returns, but the story behind the opportunity is more of a fairytale than a fact.

Put another way, you could buy just about anything in a boom and make money, but the boom is over and now you'll need to be more specific in your buying decisions.

What's Our Buying Strategy?

In a nutshell, our current property investing strategy is "Buy, Fix and Sell".

Reading that phrase you may think that we have become renovators, but that's not the case.

We actively look for problems and then create solutions to both unlock and then bank the profit.

For example, Dave and I are currently looking at a block of 8 two-bedroom flats in metro-Melbourne. They are all on one title and we think we can pick them up for $1.6m.

The strategy would be to strata title them and then sell them off individually. We would also look to tidy them up, if necessary. If you were buying a similar unit on its own title then you'd be hard pressed to find anything for less than $265,000

As far numbers go, here are some really rough guesstimates:

Purchase price: $1,600,000

Our Deposit: $320,000
Closing costs: $80,000
Interest (6 months) while we complete works: $45,000
Subdivision Fees & Minor Reno: $55,000
Total Cash Needed: $500,000

Our Net Cost per Unit: $222,500
(Current indicative market price: $265,000)

Sales Price: $2,000,000 (i.e. @$250,000 a door)
Sales costs: $60,000
Net Sales Proceeds: $1,940,000
Net Cost: $1,780,000

Potential Profit: $160,000

Cash-on-Cash Return For Project: 32% (64% annualised)

This deal may look good on paper, however three key questions that need to be worked through prior to purchase are:

1. Can the problem be fixed for the price we think?
2. Can we sell the property for the price we want in the time frame identified?
3. If they can't be sold, what is the cashflow impact if they need to be rented?

If you don't have a spare $500,000 lying around, I have previously outlined to very helpful strategies in my second book, $1,000,000 in Property In One Year'. Make sure you read Chapter 16 (pages 186 - 192) for more information.

(Note: If you'd like to pick up a copy of this book then they can be purchased for from http://www.propertyinvesting.com/sima/click.php?id=91. They are just $21.95 each (+ P&H) until the end of January.)

Aside from looking at deals like the ones outlined above and in my second book, we are also:

- Completing several quick turn renovations on targeted properties where we can add more perceived value than actual cost.
- Looking to develop sites by constructing new dwellings that will be appealing to our target market.
- Continuing to hold a portfolio of profitable buy and hold and vendor finance properties that deliver cashflow profits. We currently own around 100 such properties.
- Looking to sell properties for reasons outlined below

What's Our Selling Strategy?

If you don't have an investing strategy then it's unlikely that you'll fully appreciate the benefit of selling.

If you'd like to implement a very simple strategy, take the one I use - profit maximisation. That is, always take the best return on your money. In know it sounds simple, but surprisingly few people adopt this approach.

I'm a property investor, not a property collector or accumulator. Accordingly, every property I own is potentially for sale, but only if the price is right.

Coming up with the right price isn't always easy, but a rule of thumb to apply is: "If you wouldn't buy the property back for its current price then it's time to think about selling."

Astute investors not only want to make a profit, they want to maximise it too. This is the concept of 'velocity of money', which really means making sure that your money is working as hard as it possibly can for you.

'Velocity of money' is all about increasing compounding returns. If there is a secret to wealth creation, it would have to be the power of compounding. Let's look at it from a property perspective and in doing so you'll see why Dave and I see selling as a vital step in the investing process.

Let's say that you buy a property for $100,000, and that one year later it increases in value to $150,000. The following year it increases by a further $30,000, meaning that the property is now worth $180,000. The rent during the two years was $10,000 per annum.

There are several ways to analyse your return. Accountants would probably say that you made a 50% ($50,000 / $100,000) in year one and a 30% ($30,000 / $100,000) in year two.

Alternatively, an accountant may say that you made a gross rental return of 10% in years one and two ($10,000 / $100,000).

While this is technically correct, because it is based on historical cost (i.e. your purchase price), it fails to price in the equity you have earned.

For example, if we used current market value as basis, the returns each year would be:

Year One:

Capital Gains: 50% ($50,000 / $100,000)
Rental: 10% ($10,000 / $100,000)

Year Two:

Capital Gains: 20% ($30,000 / $150,000)
Rental: 6.7% ($10,000 / $150,000)

Why have the returns fallen? Because the equity in year one is effectively earning a 0% return and as such is dragging the total return lower.

Practically then, my recommendation for you is to evaluate your properties based on growth and income returns delivered compared to current market value rather than historical cost.

Then, when you think you can get a better return elsewhere then that's your trigger to sell.

Applying this strategy, we've been recently selling properties in our portfolio, particularly in New Zealand where growth in the value of our assets means that our returns (on the basis outlined above) have pretty much halved.

For example, cheap houses we bought a couple of years ago for $40,000 are now worth $70,000. If the gross rental income was $4,000 on these deals then our gross return has gone from 10% to 5.7%. Prospects for future growth are not as generous either.

Given that we can earn returns of 20%+ using the strategies outlined earlier, if we want to maximise our money then it is time to sell and reinvest elsewhere.

(By the way, see pages 113 to 120 of my second book for an outline of why we sell rather than refinance. If you don't have it, it's on special at: http://www.propertyinvesting.com/sima/click.php?id=91)

Three New Years Tips For You

Summarising my discussion so far, here are my top four suggestions for you to work through right now:

1: Develop or refine your investment plan.

Making money may be the motive behind your investing, but how you think you'll make that money represents the plan.

The weakest plan in the current environment is to rely on general market gains. A more robust plan would be to look to maximise your profits.

You can get the brain thinking about this by asking "What can I do to this property to increase its profitability?"

Your plan should also identify the type and amount of profit desired, as well as the timeframe in which it should be earned.

2: Reassess Your Portfolio Based on Current Market Value

Leave historical cost calculations to your accountant. It doesn't cost anything to call a local agent and obtain an appraisal of your property's value. I recommend you do this over the quiet January period and then use the value as the basis for working out future returns.

3: Reassess Debt Levels

Dave and I are currently carrying very low debt levels (well under 50% LVR) on the basis that cash is king. If 2006 does present opportunities, it will be those with significant cash resources who will be in the best position to capitalise on discounts that can be negotiated for quick settlements.

4: Capitalise On A Huge Ground Floor Opportunity

In case you missed last month's newsletter, there's a very limited and unique opportunity available to you right now.

As I hinted earlier, Dave and I have started doing targeted developments where we seek to turn over our money quickly without tremendous risk.

One of my rules of time leverage is to learn from the experience of others, and when it comes to developing the first person I turn to is Martin Ayles. Martin's a professional investor from South Australia who has bought and developed over 130 homes in the past few years.

In short, since 1999, Martin has achieved the same sorts of investing results as I have but has used developing as his niche.

He uses a self-pioneered comprehensive system as the cornerstone to his success. For the first time ever, Martin is willing to provide you with a copy of his system (as a series of checklist templates) and also provide comprehensive instructions on how to use it too.

All this will happen at his 1-day intensive workshop to be held on Sunday March 5th (in Melbourne).

It's only a month since the seminar was released and already over 50% of the tickets have been sold. In fact, the first four were snapped up by Dave, myself, and also Brendan and Reiner who work as the RESULTS coaches. We wouldn't miss this for the world as we see it as a tremendous opportunity - even far better than the seminar we attended in May 1999 that kickstarted our property portfolio.

We plan to use Martin's system to make a lot of money, and I invite you to do the same by joining us at this pioneering event.

In fact, we'll be setting up an informal 'pioneer networking development group' with those who attend the seminar whereby we'll all track our progress and help each other out by brainstorming and problem solving. This really is a unique opportunity not just to come to a seminar, but to plug into a valuable and ongoing informal self-support team too!

You might think that paying for the success system that Martin's has pioneered would cost a small fortune. It doesn't. It's just $139 today, and then four further monthly payments of $139 (credit card payments only). Being part of the ongoing self-support group costs nothing.

Even if you have to travel, getting in on the ground floor and being part of the support group will be worth many times the cost.

If you agree and correctly perceive this as a fantastic opportunity then you can book your place and / or find out more information at:
http://www.propertyinvesting.com/sima/click.php?id=92

Final Words

I trust that you've enjoyed this special newsletter.

At this time of year I'm reminded of the words of Ray Kroc, founder of McDonalds, when he said "Be daring, be different, be first!"

I wish you every success during 2006 and look forward to seeing you on the forums or in person at a seminar. All the best,

- Steve McKnight

P.S. Success still comes from doing things differently!

P.P.S. Don't forget to secure your place at Martin's development workshop. It's just $139 down today and then a further $139 over four more months. Order now at:
http://www.propertyinvesting.com/sima/click.php?id=92

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