# PropertyInvesting.com 'Insider'

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

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By Steve McKnight

Hi and welcome to your February 2003 edition of *'Insider'* - the PropertyInvesting.com e-bulletin for positive cashflow investors seeking a lifetime of passive income through real estate.

Are you receiving this newsletter for the first time? If so then I'd like to extend you a warm welcome on behalf of the entire PropertyInvesting.com community.

This month's topics are:



There's a lot to get through this month so let's get started.

### Capital Gains... Trick, Trap or Treasure? (Part One)

One of the age-old disputes in property investing is which type of return is better - capital gains or positive cashflow?

There doesn't seem to be a definitive answer, with experts on both sides of the fence.

My thoughts are I don't necessarily believe one is better or worse than the other, provided that you are moving forwards to achieve your overall investment goal.

Sadly, many investors don't have a goal and as such become quite lost on the path to real estate investing success.

Over the next few months we're going to take a closer look at capital gains returns and in doing so point out a few little-known truths that are often glossed over.

In Part One we'll look at a definition of capital gains and ideas for how you can secure a return rather than leaving it to chance.

## What are capital gains?

Capital gains are a form of real estate profit and occur as your property appreciates in value. For example, if you purchased a property for $150,000 and two years later it was valued at $200,000 then on the face of it you have made a capital gain of $50,000.

**How to earn capital gains**

For a property to increase in value the number of buyers must be greater than the number of sellers. Should the reverse (more sellers than buyers) occur then property prices will fall.

It makes sense therefore that when buying property for capital gains returns you should focus on securing real estate that is by its nature in short supply.

A large part of my success has been my different perspective to real estate and when it comes to earning capital gains, I continue to strongly believe that great results are achieved by focusing on people rather than bricks and sticks.

This is directly opposite to the view of many others who advocate that the property is the real asset.

To me this doesn't make a lot of sense because demand is driven by real life, breathing and decision-making human beings. Not by inanimate sheets of plaster, nails, electrical wire and roofing tiles.

That's why I believe that for sustained capital gains to be achieved, your property must have appeal - either to a home buyer or another investor.

1. **Appeal to the homebuyer**

   When it comes to capital gains the mantra that's immediately ushered in, is "location, location, location". But why is location so important?

   The answer is that the unique nature of a location offers appeal to certain home buyers.

   There's a saying in the stockmarket that all ships float on a rising tide. Applying this to property it means that when property is booming, then just about *all* property will rise in value.

   But it is possible to outperform in a booming market as well as securing modest gains in a flat or down market by purchasing a property that offers above average appeal to your target market.

   The way to do this is to focus on a target area and enhance or improve the appeal to the home buyer.

   Here's an example. Having a large amount of land is generally seen as a big plus for a potential home purchaser if s/he had a family.

   I've seen astute investors deliberately target properties that have overgrown or inefficient use of space. These investors then clean up the house with landscaping or renovations and immediately add appeal to a target market.

   What I'm saying is the way to earn capital gains is to have the new buyer in mind when originally purchasing the property and then adding extra appeal to the property that doesn't already exist.

   If you are renovating a property then be sure to remember this point well. Unless you plan to live in the property it doesn't matter what you like. All that matters is what the potential buyer wants - so before lifting a hammer or heading down to the hardware store - spend some time in your target market's shoes.

   Location is only important if the person that you plan selling to sees value in living in the area. As such it's critical to focus on an expanding rather than a contracting growth area and buy properties that have limited supply.

   The glut of inner city properties hitting the market is a great illustration of limited demand but a seemingly unlimited supply. It's reasonable to expect a huge retraction of prices once interest rates rise and the number of sellers (in addition to the ongoing new supply of units from developers) far exceeds demand.

   I was at a barbeque on the weekend and ran into someone who had recently sought to rent an inner city Melbourne apartment. The asking rental was $280 per week and when my friend indicated he wasn't interested the agent said "How much rent would you pay?"

   When my friend replied that he would pay $200 per week, the agent said "Well, I know the place has been vacant for a while now so the owner may be interested in taking this."

   The owner had paid $400,000+ for the apartment.

2. **Appeal to the investor**

   A property that has appeal to a potential investor can also earn great capital gains. For example, large land allotments generally sell at far above median house prices as developers seek to secure an ever shrinking supply of land that local councils will allow to be subdivided.

However, there can be other appealing features than land.

For example, a block of 27 units Dave and I purchased could not be built again today because planning laws in the region now require each dwelling to have a separate laundry.

The uniqueness of this investment is that we could not rebuild the property for anywhere near what we paid for it. This means that it has appeal to us as an investor.

### Conclusion

In a property market like we have experienced recently it's not hard to make money in property since all ships have floated on a rising tide.

The real expertise has been in achieving above market gains.

A recent post on the forum was *Property Investment Companies... any experiences?*

While you can read my reply at your leisure, what I didn't say was companies selling property lead you to believe that the real investment is the bricks and sticks of the dwelling.

I disagree. The way to secure long-term above average capital gains is to implement two rules:

1. **Rule One - Focus on the person**

   Before you buy, focus on who might buy the property off you when you decide to sell. Be sure to spend some brainstorming time standing in the new buyer's shoes and map out what makes the property appealing to them.

   Ask "How can I add more perceived value without necessary paying a fortune in real dollars"

2. **Rule Two - Buying in a market that has reducing supply**

   For property to increase in value there must continue to be more buyers than sellers. Not all markets can claim this. People continue to buy inner city apartments after being persuaded by investment companies to focus on the tax write offs and quality of the building.

   This won't amount to much if there is an oversupply and prices begin to fall.

   Aim for a market that will have steady demand whatever the property investing season.

### The Story Continues...

Next month we'll continue with our analysis of capital gains as I reveal how you can turn capital gains into cashflow and also outline how you can save 50% on your capital gains tax.

### I Really Need Your Help!

OK. It's time to let the cat out of the bag. I am currently about one-third through writing my first book. Already a publisher has come on board and I hope to have it all completed by the end of July.

The book is a combination of my thoughts on property investing, together with a collection of interesting true stories that have happened on the way to buying so much real estate.

Here's where I need your help. What I'm after is about four or five 'tenant from hell' horror stories. If you can help me out then please drop me an e-mail at admin@propertyinvetsing.com

## Summary

This month we've begun a review of capital gains returns and found that they occur as property appreciates in value.

We also considered that because it is people that end up buying a property, it makes sense to focus of the potential appeal to either the home buyer or investor, rather than sheets of plaster and nails.

The art to being a successful investor is to outperform the market. You can do this with capital gains by seeking to add appeal value, which can either be perceived (ie. by creating more visual space) or actual (by commissioning renovations).

Irrespective of your strategy, remember to focus on an expanding demand, rather than expanding supply, in the market.

I also requested some help with my upcoming book. If you have a tenant from hell story then I'd love to hear from you. Drop me a line at admin@propertyinvesting.com

OK. That's enough for now. Best of luck with your property investing and remember that success comes from doing things differently.

Regards,

*Steve McKnight*