Home >> Insider Newsletter >>

# PropertyInvesting.com 'Insider'

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

*Issue 2, Volume 4 - January 2005*

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28 February 2005

Greetings from Hamilton in New Zealand where I'm writing this month's information-packed Insider!

I'm currently checking over our Kiwi property portfolio, and, as you'll read about in a few minutes, I'm also on deck to help a small group of investors break into the NZ real estate market.

This month we'll cover:

- Market Reality: Change is upon us. Are you ready?
- 'Problem + Solution = Profit' Kiwi Style
- Discover how you can find out whether or not you're paying too much income tax
- Be quick: Only 18 spots left for the May Brisbane MasterClass

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

### Market Reality: Change is upon us. Are you ready?

Each month, the Board of the Reserve Bank of Australia (RBA) meets to discuss the current status of the Australian economy. In particular, it reviews its benchmark 'cash interest rate', which in turn forms the basis for home loan repayments.

Earlier this month I was asked for my opinion about when did the property start to lose its positive momentum. In my mind, while the broader real estate market had already begun to run out of steam, the incident that marked the turning point occurred in December 2003 when the RBA last increased its cash rate by 0.25%.

Interesting though, while it was the trigger, I doubt the interest rate rise was the actual direct cause of death of investor enthusiasm. No, of much more influence was the change in newspaper headlines - instead of reporting opportunities, they began to focus on the potential for doom and gloom.

While any investor market is buoyed by positive sentiment (which is usually news of great profits), it is also quickly quashed or spooked by the fear of potential losses as it is much easier to be pessimistic and negative than it is to be optimistic and positive. Let's look at this last comment in more detail.

Specifically, most of the residential property market is made up of mum and dad investors. This is interesting as on my drive out to the airport I heard on the radio that a study had been released that revealed the vast majority of mum and dad investors relied mainly on gut-feeling when it come to making their investment choices. How is gut feeling determined, well, it is very much influenced by what's written in the general press!

For well over a year now I have been warning the attendees of my Property MasterClasses that the serious and professional investors had already seen the signs coming and had altered their market positions in expectation that the prices would be coming off their highs. Indeed, one of my key messages was the need to think about selling while there was still enough demand to secure a good price, and that the worst thing to do was to be ignorant and ignore the market; that's a recipe for losing large amounts of money!

Well, tomorrow the RBA Board is scheduled to meet again, and again the topic of a possible interest rate increase dominates the press. It seems the RBA has been softly educating the market to expect a rate rise for many months now. For example, in its Statement on Monetary Policy (released 7th Feb) it said:

"On balance, the Board decided at its February meeting to leave interest rates unchanged, while noting that the likelihood of further monetary tightening being required in the months ahead had increased."

While the RBA may take a softly-softly approach, here's my take on interest rate reality. Like an all-night party that disperses when the sun comes up and people need to sleep off their hangovers, the 30 year low interest rate environment in Australia is now facing the dawn of a new trend. You just cannot ignore that US interest rates have bounced and are now heading higher. Just as New Zealand has a premium on interest rates above Australia, so too does Australia have a premium above US rates. Sooner rather than later (maybe even tomorrow!), our interest rates WILL and MUST go up. Ignore this reality at your own peril.

Now, getting back to my original observation about the property market... if the bulk of the demand during the boom was mum and dad investors who bought on emotion and drove prices higher, what do you think will happen when the same mum and dad investor's sell on emotion as they read about the nasty impact of a few interest rate increases?

Change isn't a possibility - it's inevitable. Individual investors cannot influence the market - that's like trying to herd cats. Instead, all you can do is use the prevailing momentum (positive or negative) to form an appropriate market position. If you don't know how to do that then seek help fast! The alternative is to risk being trampled by the herd as it runs for the gate to greener and safer pastures when the interest rate wolf appears again.

If you would like to make a comment about this article then please do so at http://www.propertyinvesting.com/forum/topic/16042.html.

## 'Problem + Solution = Profit' Kiwi Style

As I mentioned in my greeting, I'm writing this month's newsletter from Hamilton, which is a major city in the North Island of New Zealand just under two hour's drive south of Auckland.

I'm here for a couple of reasons: first, to look for investment opportunities and second, to be part of an interesting experiment that is unfolding as I type.

In terms of investment opportunities, the general rule is that the Kiwi property market is about 18 months behind the Aussie market, meaning that prices are just starting to soften. However, because interest rates are higher, you can also gain a forward-glimpse of what might happen in Australia once rates rise there too.

When Dave and I first came to NZ we were able to buy properties for around $40,000 that rented for $100+ per week. That was 2003 though. Today, prices have risen substantially and the same $40,000 house is now worth around $60,000, while comparable rents have only risen to about $110 per week.

However, despite the general price increase, great deals continue to exist. For example, I looked at one property under the 'Problem + Solution = Profit' model where we could spend $85,000 to develop the block to create a profit of about $70,000 in just over a year (i.e. a cash-on-cash return of about 82.35%).

Specifically, there were currently two dwellings on the block with room for a third at the back. We could sell off the front on a separate title, then, once completed, sell off the back two dwellings or else rent them out for positive cashflow under the old '11 Second Solution' formula. Note - you generally can't find residential properties that provide a 10% return in Hamilton, but by adopting this two-step approach, you can certainly make the profit by thinking laterally.

A quick budget of the numbers revealed:

Purchase price (after costs): $288,000
Development costs: $85,000
Total cost: $373,000
Sale price of dwellings on a 7% yield: $453,000
Other expected costs: $10,000
Expected profit: $70,000

Sadly though, while negotiating a fair value, another buyer came along and offered the vendor's asking price. Never mind - there's always another bus around the corner, but what this does reveal is how, when thinking differently, profits can be made rather than bought.

In terms of the Kiwi experiment - for the first time ever we have run a small seminar for investors who want to learn in the field. Yesterday was a day of intensive training where financial, legal, accounting and investing experts briefed participants about the practicalities of setting up their NZ property empires. I was also able to physically show them the deal I mentioned above which provided them with on-the-ground instruction about what I look for when doing a property inspection and also in the detailed numbers behind the deal.

Judging by the comments at dinner last night, many saw yesterday as one of the most important days in their investing life to date.

Today, the participants have jumped into their cars and headed off to their chosen area in order to look for deals forearmed with Dave's and my mobile phone and fax numbers so they can seek our help as needs be. We'll meet up again on Friday for a debriefing and to share the highs and lows of the experiences to date. As you probably realise, what's unfolding is a tremendous opportunity for those who want to challenge their comfort zones and get some on the ground practical training!

Are you wondering why I didn't mention this opportunity in my newsletters? Well, it wasn't available to the general public as all the places were snapped up by MasterClass attendees. Now - while I can't guarantee anything we *may* run another Kiwi Adventure at a later date. If you would like to be amongst the first to have an opportunity to book then all you need to pre-register (without a commitment by either party) by sending an email (which includes your name and preferred contact phone number) to bernadette@propertyinvesting.com

Stay tuned for more information in next month's Insider about how the participants went. In the meantime, for those who want more information about property investing in New Zealand, I can highly recommend one of our resources called 'Kiwi Property Insight'. It's a CD of an interview I did with Mike Ward - an ex-solicitor turned professional NZ investor. You really can't go wrong as, until Saturday 5th March, the price has been reduced to just $24.95. You can find out more by going to http://www.propertyinvesting.com/sima/click.php?id=55.

## Discover how you can find out whether or not you're paying too much income tax!

We regularly receive emails asking us when 'WealthGuardian' - one of our flagship products that reveals how to successfully protect your assets and also legally minimise your income tax - is due to be re-released.

Well, for the past two months I have been tapping away on my computer keyboard to completely re-write the resource and I'm pleased to announce that it should be ready for sale within the next eight weeks.

I don't want to say too much more, except to let you know that it is extremely comprehensive (currently 30,000 words and growing) and that there will be a strictly limited special announced in the April newsletter so be on the lookout! If you want to be one of the people who is guaranteed to take advantage of the special (again without obligation), then we are happy to keep your details on hand to ensure you don't inadvertently miss out. Please send an email registering your interest to Brent@propertyinvesting.com

## Be quick: Only 18 spots left for the Brisbane MasterClass in May.

The final point I want to make is to give you a heads-up that, as at the time of writing, there are just 18 spots left to the only 2005 MasterClass that will be held in Brisbane on May 7.

Also, the Melbourne and Sydney MasterClasses scheduled for March and April have now been completely sold out - apologies to those who missed out.

In summary then, the remaining 2005 MasterClasses where seats are still available are:

- Brisbane 7 May 2005 (18 spots only)
- Perth 12 June 2005
- Melbourne 13 August 2005
- Sydney 23 October 2005

If you want the latest information about how to profit from the property market then I encourage you to book your seat quickly. You can do this at http://www.propertyinvesting.com/sima/click.php?id=56.

## Summary

One of the differences between professional and naive investors is that the former are pro-active whereas the latter are re-active. Given that interest rates have been likely to increase for some months now, have you been preparing for the dawn of a new investing climate, or have you been snoozing during the final days of the glory days?

If interest rates rise then it would be wise to act quickly to reassess your portfolio as there will only be a small window of opportunity before the general market realises the reality of what is unfolding around them and potentially panics.

Should interest rates stay the same then understand that it is nothing more than a stay of execution. Perhaps next month, perhaps the month after... a rise in interest rates is coming.

New Zealand has experienced several interest rate rises, yet only now is the property market starting to soften. This is more evidence that opinion and speculation is stronger then facts and fundamentals. Nevertheless, there is opportunity in each and every market when you apply the 'Problem + Solution = Profit' mantra as first espoused in my recently released second book.

In fact, there are more problems in a down market than a booming market, which is why it's important to be cashed up and ready to profit from opportunities that may come your way.

Finally, I invite you to pre-register your interest in attending a further Kiwi Adventure event (should we run one) by sending an email to bernadette@propertyinvesting.com. Also, don't forget to send Brent an email at brent@propertyinvesting.com if you would like to be guaranteed the April special on Wealth Guardian.

Well - that's it for the February 2005 edition of Insider. As always, remember that success comes from doing things differently!

Sincerely,

Steve McKnight

P.S. Remember that the special on Kiwi Property Insight is only available until Saturday 5th March. Find out more at: http://www.propertyinvesting.com/sima/click.php?id=55.

P.P.S. You can book your MasterClass seats at: http://www.propertyinvesting.com/sima/click.php?id=56

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