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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Hi and welcome to your January 2004 edition of *Insider* - the e-zine outlining how to successfully invest in real estate - especially if you have a positive cashflow focus.

If you're receiving this newsletter for the first time then I'd like to warmly welcome you to the PropertyInvesting.com community! Remember that in addition to this free newsletter we also run a community forum board so you can share your knowledge or leverage off other people's ideas.

Here's what's on offer in this month's *Insider*:

Let's get straight into it…

Community Announcement

Over the Christmas holiday period we reached the 30,000 member mark!

That's a really amazing achievement considering I can vividly recall, just a few years ago, being thrilled that sixteen people had subscribed to my newsletter.

We have a big year ahead of us here at PropertyInvesting.com as we build and integrate more features to help the community with their investing. There are more informative products planned, a top-secret seminar series and also a number of website enhancements to help you to maximise your investments.

One of those enhancements has already partly unfolded. Earlier this month you would have received an e-mail alerting you to several major upgrades done to the forum area. There's now a lot more functionality, including the ability to send private messages and subscribe to topics so you'll receive an e-mail when a reply has been posted.

Best of all, the site now runs a lot faster, after a serious overhaul of the database engine.

A change that may catch you out is the new procedure to logon to the forums. You no longer use your e-mail address. Instead, you now use your username (formerly called your *forum alias*).

If you want to change your username... login to the site and look carefully at the page that greets you for a link to the "Edit My Profile" page.

In upcoming months, I'll be taking a different feature of the forums and explaining it here in the newsletter with the hope of enhancing your contribution to the community.

Thanks for your membership here. Through your support we're building an invaluable resource which, judging by the e-mails of support we receive, is reaching out and helping investors all around the world.

The Secret to How to Eat an Elephant

It takes vision to set big goals and courage to try and achieve them. Over the last few years I've been able to accomplish some rather significant achievements, like building a massive property portfolio and even writing a best-selling book when I barely passed English in my final year of High School.

This isn't a chance for me to pat myself on the back, just to recognise that if I hadn't taken some massive action then I'd probably still be unhappily working as an auditor.

All too often we stick to what we know and don't venture out into the unknown. Uncertainty is a big killer of our dreams and self-doubts about our ability make it easy and comfortable for us to stick to what we know, yet doing this doesn't allow for growth.

Although there's always a lot of hard work, faith and discipline required, once you've attained your goal, in hindsight it never seems nearly as challenging as it was when you began.

I'd like to ask you a question and invite you to spend some 'honest time' contemplating your answer. It's this:

> *Thinking about a big goal you want to achieve this year, do you really believe you have what it takes to get the job done?*

If the answer's **YES** then you owe it to yourself to give it a red hot go - not tomorrow or next week, but starting right now!

This is a point that I make time and time again in the mentoring meetings I'm holding for a select group of investors. It's a message that I tell these guys over and over again, and I think that now for some, seven months in, it's finally getting through.

Take for example Rachelle, a 23 year old - just starting out in investing - went and bought a 23 bedroom + communal lounge + kitchen + laundry and 3 bathrooms boarding house with a cash-on-cash return of 35% as her first deal!

At the time she didn't have the necessary money to close the deal, and this was just one of the many challenges she faced along the way. Her comment on reflection was, "There were plenty of times when I thought the deal wouldn't go ahead. Yet my doubts were just obstacles, and so long as I kept taking action (and seeking advice), I made gradual yet ever increasing progress."

Another participant, Robbo, has just quit his safe financial planning job and relocated overseas as step one in his effort to build an investing business. It's a massive step of faith - a full-immersion property investing experience, but something which he said, "If I didn't do it now then I may never do it at all." He correctly noted that he can always go back to his financial planning position with another employer if things don't turn out as planned.

We might be one month into 2004, but we're still in the dawn of a new year. What will be your big achievement this year? This time next year will we look back and conclude it was more of the same, or will we be able to transpose some experiences ahead to the *"highlights reel"* of your life?

I encourage you to think big and to map out the next few steps to further your success. The way to achieving massive goals is the same as the secret to eating an elephant - *take one bite at a time.*

An Observation about Wraps

I'm coming to the end of my rewrite of the '2004 Wrap Kit' - a product outlining my approach to wrapping. Wrapping is a strategy where the investor sells a property by instalments of an agreement amount over an agreed timeframe, rather than receiving a lump sum cash settlement. For more about this technique see our page on wraps.

Wapping, better known in Australia as vendor financing, received a substantial amount of bad press in the latter part of 2003 after reports came to light of investors seemingly taking advantage of people by charging excessive interest terms.

A wrap investor makes his/her profit in two ways. First, s/he charges a margin as a sales price over and above what the investor paid for the property. Second, there's also an interest rate margin charged on the investors cost of borrowing.

The investor achieves a positive cashflow return via the surplus of the instalments received (as a result of the higher sales price and interest margin) over the required mortgage payments.

In summary, wrapping is a form of private finance: the loan is unsecured, a low deposit is given and there's no guarantee needed. In short, it's like a private personal loan provided by the investor for a wrap purchaser to buy a house.

Recently I've been having some mixed feelings about wraps and have been struggling over whether or not it might be an immoral way of making money - something akin to *usury* using older style language, or being a *loan-shark* using today's terminology.

I don't think that the way I advocate completing a wrap amounts to being a loan shark. The rate at which I can currently borrow for wrap finance is at 7.25% variable. The rate I charge my wrap purchaser is a margin of +2% on top of this figure, resulting in an interest rate of 9.25% variable. There are no ongoing fees, including a saving of several thousand dollars by avoiding having to pay mortgage insurance.

Indeed, last week I was able to do some interest rate comparisons, and in doing so found that the interest rate we currently charge is lower than some standard home loan rates that require a 20% deposit, a first mortgage and mortgage insurance. Comparing it to personal loans (unsecured finance), the wrap interest rate is substantially cheaper.

There is a problem with wraps as they stand at the moment though. The technique relies on the honesty and integrity of the individual investor and this is something that can't be relied upon when there's money involved.

That's not to say that the wrap technique should be banned. Doing that would be an injustice to the majority of wrap purchasers who now have a home (having paid out the wrap investor) and the majority of investors who aim to do the right thing.

However, what's required is an obligation on investors to fully disclose their profit and in so doing create a level playing field. Also required is a tightening of the credit laws so that vendor finance sales must comply with the Consumer Credit Code, and an obligation for the investor to adopt a duty of care to ensure that the wrap purchaser has a reasonable ability to afford the repayments.

Changes are in the wind and I'll let you know what's happening as more information comes to hand.

Forum Post of the Month

January 2004's Forum Post of the Month is from mike04:

> *What is the best way to go about looking for properties that will be cashflow positive? They seem to be very rare. Can anyone give me any tips on strategies and also some areas in Melbourne and Victoria that are worth investigating?*
>
> *Thanks.*
>
> *Mike*

I've chosen this post as it's a question that is cropping up a lot lately and requires an answer.

Knowing what I knew back in May 1999, my basis for finding positive cashflow properties was to apply the *Eleven Second Solution* on residential homes. When doing this I couldn't find one property that met the required criteria in all of greater Melbourne, so instead I headed out into regional Victoria.

There weren't a lot of deals there either, yet I found an area where ex-commission houses (little three-bedroom homes on quarter acre blocks) were still quite cheap, relative to the rental return. Today, with a few years of capital appreciation, if bought now on an 80% loan those same little houses would no longer provide a positive cashflow result.

Some investors are going to even greater extremes by visiting small towns, possibly with a mining community, and buying there. There's some merit in this approach, yet the risks are much higher buying in transitional towns that boom when times are good but fold when the jobs dry up. These risks can be mitigated, but I wouldn't be comfortable buying without some local knowledge gained by living in the area.

I can't tell you of a magical area that I know about where positive cashflow properties are listed for sale in all the real estate agent's windows. What I can say though, is that positive cashflow is derived from solving problems rather than buying solutions.

For example, when you buy a property off the plan you're buying a solution. The problem was solved by the developer who turned a vacant plot of land into a series of townhouses.

Again, you'll buy a solution if you purchase a pre-renovated property. The money was made in the resale of a transformed home.

It seems that some wally (wink wink) wrote a book and now everyone is buying property on little else than whether or not it meets a basic formula. Don't do this - it's crazy and the lack of sophistication of that investing approach means your success has more to do with luck (and someone else paying more for the property than you did if you have to sell) than replicable skill.

By all means buy regional property, but first identify the risks and understand the market. *Johnny Come Latelys* of the investing world are in danger of being sold sub-standard property (and shares) at inflated prices by the crafty investors who know the boom market doesn't last forever.

I recommend that you take a different approach, which means hunting out opportunity in areas other than the obvious places like real estate agent's windows. Keep an eye out for problems and then manufacture a solution by thinking - if you pull it off you'll be handsomely paid for your ingenuity.

In summary then… a positive cashflow result is obtained by matching the right property, with the right person, bought at the right price, and used pursuant to the appropriate investing procedure (or strategy).

I'd love to read your thoughts on this matter. Why not post a reply on the forums now?

Summary

It seems we've covered a lot of ground in this newsletter. First we noted the significant milestone of 30,000 members and I promised that new products and website upgrades are in the pipeline.

Then we talked about the secret of eating an elephant in the context of achieving some rather large goals. The answer was one bite at a time, symbolising that huge goals are attainable if we make consistent effort.

I made an editorial comment about wraps, recognising that there is a problem with the way some investors are implementing the technique, but that the issues can be overcome with some regulatory tightening making full disclosure mandatory.

Finally I gave an update to the eternal question of where to find positive cashflow properties. I believe they're everywhere when you know what to look for - matching the right person with the right property etc…

Well, that's it for this edition of *Insider*. I sincerely hope that you've been able to profit from the insights outlined in this resource. Until next month remember - *success comes from doing things differently!*

Warm regards,

Steve McKnight

P.S. Just a heads up that our Christmas special (a free 'Tales from the Trenches' - value $95) when you buy WealthGuardian for just $220 ends at 9am Monday morning. To find out more have a look at WealthGuardian.