PropertyInvesting.com 'Insider'

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

Issue 7, Volume 3 - July 2004

By Steve McKnight

30 July 2004

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

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

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

- Price Takers, Price Makers and the Property Market
- Forum Post of the Month - Creative Finance Through Vendor Carry Backs
- In the Wild - Kiwi Property Insight Now Available *(and at a discount!)*

As usual there's lots to discuss so let's get going!

Price Takers, Price Makers and the Property Market

From my experience there are the following two broad types of property investor:

1. **Price Takers:** Those who react to what's happening in the market. That is, their investing position moves after the market has changed direction; and
2. **Price Makers:** Investors who form 'a position' and then take appropriate investing action according to their calling of the market. That is, they act first in expectation of what is most likely to happen.

I make this distinction for one important reason - as the property market softens it's reasonable to expect that the price-makers will increase their wealth while the price-takers will be forced to do what they can to minimise losses.

A money-making rule I live by is: 'don't bet against the house' which in practical property investing terms means 'don't invest against the long-term direction of market sentiment'.

Despite what you want or hope to believe, the boom in property is well and truly over because the mood of the market has changed and the naysayers now hold the balance of power and are striking the fear of possible financial loss into the hearts of speculators.

Price-takers only make profits when the general market increases, such as during the recent real estate mania. Yet the reverse is also true - the value of their portfolio will also fall when sentiment comes off the boil and as such the phrase 'passive on the way up and passive on the way down' summarises how reactive investors rationalise losses as either 'making less profit' or else accepting it by saying 'things will come good as values will eventually return to what they were yesteryear, won't they?'

Indeed they might, but if your investment earns the equivalent of a 0% return (after allowing for costs and inflation) for eight or so years then that's anything but maximising your profits.

The message I'm trying to get across is this: Price takers have no choice but to get what the market gives them, irrespective of whether it is feast or famine. This lack of control places them in a precarious position when sentiment deteriorates and prices will most likely fall or at best trend sideways for a considerable period of time.

On the other hand price makers are in control of their destiny as they pay careful attention to what's likely to happen in the market and then react accordingly before it occues. If it's a good time to buy then they buy, if it's a good time to sell then they sell. The difference though is that through this attitude they remain in control of their investing decision which goes a great way to helping them acquire the financial results they desire through skill rather than luck.

I'm writing this as a warning for price takers (the price makers can look after themselves). While the market may have softened it's not too late to take steps to regain control of your investments. You can do this by:

1. **Making a profitability plan:**

   This is simply a list of your investments and your minimum return that you require from them (expressed as per cent per annum both in terms of cashflow and capital gains). You can then compare actual to budget and any shortfall should be treated as a red flag that you may need to take appropriate action to either improve or else lock in profits.

2. **Pay attention to the market:**

   How many of us drive a car by looking solely in the rear-view mirror? Well, the investing equivalent is making our decisions based on historical market data. Don't get me wrong though, past information is very important (especially for establishing a long-term trend), but we invest for today, not yesterday.

   The market is constantly giving signals about what's likely to happen next. Are you paying attention or are you hoping that the boom will soon return and with it your opportunity to profit?

3. **Increase your education:**

   A defence I hear for remaining passive is 'I don't know what to do.' If you feel this way, then, in the strongest possible terms, I suggest you find out!

   Whether you read a book, listen or watch TV, scour the forums, attend a seminar or look through the resources... there is plenty of help available once you put your hand up and ask for it.

4. **Take action:**

   Knowledge without action is of very little benefit. Please, I urge you, take action - even if it's commissioning a realistic appraisal of what your investments are currently worth to provide a basis for comparison when next you check.

The winds of change are upon us. I urge you to avoid being passive and having to put up with what you're given. Instead sculpt your investing future by being proactive rather than reactive.

Have a comment, thought or question about price makers and price takers? Please make it known here.

Forum Post of the Month - Creative Finance Through Vendor Carry Back

This month's forum post comes from Diane:

```
Could someone please explain how to approach
the idea of the vendor leaving some finance
in a property if you can afford the
repayments but don't have enough equity/cash
for the deposit on an investment property?

Thanks in anticipation.
```

In a boom it was a case of pay top dollar or you miss out. Yet, as sentiment changes the balance of power shifts and vendors with a keen desire (or need) to sell will be forced to entertain the idea of more creative financing if a traditional cash purchaser cannot be found at the required price.

Another name for seller's leaving money in the deal is 'vendor carry-backs'. Here are two examples:

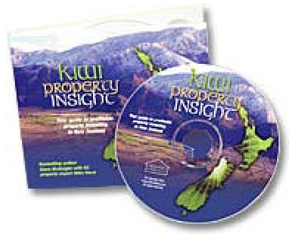
*** Taking back a second (or third, fourth etc.) mortgage.**

> A seller may decide to accept a cash and finance offer whereby money left in the deal is repaid on agreed terms. Note, title to the property passes and the vendor's interest is protected by way of a second (or later) mortgage.
>
> Let's imagine a vendor is asking $200,000 for her property and that she receives the following two offers:
>
> #1: $175,000 cash, or #2: $160,000 cash plus a $40,000 second mortgage at 7% interest-only for five years.
>
> As you can see, the cash offer is lower and the vendor may go with that option if is she wants a 'hassle free' sale. However, she stands to receive more money if she chooses to carry back some of the finance by accepting a second mortgage.
>
> Note: the amount, interest rate and term of the loan are all open for negotiation.

*** Vendor finance.**

> The common perception is the vendor financing (or wraps) is for homebuyers, however there is also an opportunity for investors looking for creative terms too. For example, they may put down a low deposit (say 5%) to secure the deal and then make payments while they accumulate a larger deposit (possibly as a property sells) in order to qualify for higher first mortgage finance. At the moment this is certainly not the norm, but things may change as the market softens.
>
> Again, the terms of the deal are open to negotiation.
>
> As for brokering a vendor carry back, the secret is to ask in a way that ensures the transaction remains a win-win. A resource I created that discusses the offer process is BuyerBeware where I've written that the way to write winning offers is to be flexible on price or terms, but not both. Practically this means that you may need to offer a higher price to secure your creative terms, but provided you can still make a profit then I wouldn't be afraid of paying a little more.
>
> Submitting a multiple choice offer is sometimes a good idea - one price for cash and the other (sightly higher) for terms.
>
> A final point to remember though is that increased debt means higher risk in the event of a rise in interest rates.

In the Wild - Kiwi Property Insight Now Available (and at a discount!)



New Zealand property seems to be the buzz word at the moment and certainly, from my experience, there's a lot of opportunity for positive cashflow investors who know what they're doing. Similarly, there are also many pitfalls that can become very expensive mistakes.

We're always looking for ways to assist investors achieve fantastic results and I thought you'd be interested in a current promotion we're running on a new product called 'Kiwi Property Insight'.

This product is the audio recording of an interview I completed recently with Kiwi investor and legal expert Mike Ward. On it we broadly discuss how you can maximise your returns and minimise losses in respect to NZ property, and in particular outline the intricacies of positive cashflow property.

We also talk about structuring (companies, trusts etc.) and Mike shares his extensive property experience including tips for Aussie investors looking to buy a slice of the land of the long white cloud!

Best of all, this resource won't break the bank and is an excellent way for you to build your investing knowledge and skill irrespective of whether or not you plan to actually ever buy NZ property. **Kiwi Property Insight** currently retails for $29.95 however we have set aside 100 which we're pleased to offer at just $21.95 (plus postage and handling)!

Additionally, to help you get on your way as quickly as possible, we'll also supply the names of our NZ solicitor and accountant who do an excellent job in looking after our affairs.

To order **Kiwi Property Insight** please click here and purchase using the online shopping cart. When it comes time to checkout, the price will reduce to **$21.95** when you insert the following discount code: **WEPFJQ**.

Alternatively, if you are experiencing problems or have a question please call the office on **1800 660 630**.

Summary

There's no doubting the market has changed which means that we need to vary our investing approach too. It's always much better to be in command of your destiny, which from a financial perspective means retaining control of your property portfolio by taking a proactive market position.

The less money you leave in the deal the higher the potential cash-on-cash return will be. So, provided the deal is still positive cashflow, it may be advantageous to ask the vendor to carry back some of the sale price to protect your investing capital. If this is the case then the best way to present your offer is: *"here's my cash price and here's something a little higher if the vendor can help me out."*

Kiwi Property Insight isn't just a great resource for investors interested in buying in NZ- there are some exceptional tips for everyone interested in real estate and at just $21.95 (plus P&H) - it's more than amazing value (be sure to send through an email saying how much you liked it!).

OK! That's it for this July 2004 edition of *Insider*. I sincerely hope that you've been able to benefit from the information outlined in this resource. Until next month remember... *success comes from doing things differently!*

Sincerely,

Steve McKnight

P.S. Remember that this newsletter goes to over 37,000 people - be sure to snap up your copy of **Kiwi Property Insight** at the reduced price before the offer lapses. Order online here.