Home >> Insider Newsletter >>

PropertyInvesting.com 'Insider'

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

Issue 6, Volume 3 - June 2004

By Steve McKnight

29 June 2004

Hi and welcome to your June 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 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 community 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*:

- Myth or Magic: Thoughts on New Zealand Property
- Forum Post of the Month - Confused and need some help please
- Property Masterclass Update

Myth or Magic: Thoughts on New Zealand Property

In mid 2003 and after hearing rumours about investing in the land of make-believe where there was no stamp duty or capital gains tax, Dave and I decided to see this mythical place for ourselves by venturing across the Tasman to New Zealand.

Our visit was to be a reconnaissance mission to gain 'on the ground' experience with the kiwi real estate market rather than relying on snippets of information or gossip filtering through places like the PropertyInvesting.com forum.

We flew out on a Friday, attended an all-day seminar on Saturday and then spent the next three days driving around to various areas and inspecting properties.

On the plane trip back we tallied up our efforts and, although we went there to look rather than buy, we couldn't help ourselves and acquired 35 houses - most on 15%+ yields.

For example, one of the properties we bought was a house for the bargain price of just $23,500 (unbelievable, right?). Today that property is rented at $95 per week and delivers a gross 21% return.

Now, to be fair I need to confess that the market has somewhat changed since then, and these types of deals are becoming harder and harder to find, but I can tell you on good authority that they still exist.

It's no wonder that Australian investors are becoming increasingly aware of Kiwi opportunities, especially given the favourable foreign investment laws and seemingly impressive returns. Nevertheless, I wouldn't want to be unfairly accused of over-hyping an opportunity so I have taken the liberty of providing you with a quick overview of the pros and cons of investing in New Zealand real estate.

The Pros:

The New Zealand and Australian property markets are very similar, although sometimes the terminology is quite different. For example, houses in New Zealand are held up by 'piles' whereas houses here are supported by 'stumps' (I use that illustration as I was a little incredulous when the agent started talking about piles!)

Despite an occasional hiccup, the differences in language aren't vast enough to be overly concerning and I found that more often than not the conditions in Australian are more onerous.

Property across the Tasman is certainly cheap by Australian standards. For example, Auckland prices are amongst the highest in the country but they're still very favourable when compared to Sydney or Melbourne values.

Lower prices make the rental returns more attractive too and it's reasonably easy (or perhaps I should say 'not altogether difficult') to source deals that meet The 11 Second Solution. Like Australia though, the majority of these locations are in traditionally poorly regarded regional areas that have a history of underperforming in terms of capital gains.

In a nutshell the biggest benefit about New Zealand property is that there are plenty of deals that lend themselves to providing positive cashflow outcomes without needing vast amounts of investing skill.

The Cons:

While we share some flexible Visa arrangements, it shouldn't be forgotten that New Zealand is a separate developed country with its own currency, banking system and legal structure.

Bearing this in mind I'm quite concerned by the casual approach some investors seem to have in respect to buying offshore property when in fact it's a strategy that comes with many additional risks.

For example, on top of the normal issues of buying property and dealing with tenants (such as vacancies, structural stability, securing finance etc.), Aussie investors buying Kiwi real estate need to manage currency fluctuations together with the tyranny of distance (i.e. time zone differences, expense to get over there etc.)

So, while houses may seem cheap and offer good returns, you may discover that beauty is only skin deep. When you scratch through the surface you'll find a plethora of issues, risks and problems that need solving before you make a dollar of profit.

Yes - there is the opportunity to make money but if you have to risk your neck for the sake of $10 then it may be better to pass up the opportunity.

One point that I would like to bring up is the perception that New Zealand property is capital gains tax free. This may be the case for residents of that country, but Aussie investors need to be very careful as Australian tax laws are carefully worded so that Australian residents need to include both foreign and domestic sourced income in their tax returns.

That's to say that Australian investors may avoid paying tax in New Zealand on their New Zealand capital gains only to find that it must be declared and included in their Aussie income tax returns. It's a very complex area of law though, which if nothing else highlights the additional complexity of buying overseas.

Additional information

I accept that New Zealand property is a hot topic at the moment and I urge you to source more information prior to buying anything. If you've booked a seat at the upcoming Property Masterclass then you'll gain a lot of benefit from hearing Dave Bradley outline the practicalities of buying and managing Kiwi property.

In addition I'm pleased to announce a new resource that will shortly be available from Propertyinvesting.com. It's a recording of an interview I recently did with Kiwi investor and legal expert Mike Ward. Over an hour or so we share our various insights and tips for investors seeking to make money via New Zealand real estate.

Best of all it won't break the bank... but I'll save the exact details for an e-mail I'll send you once the product is ready for shipping (expected to be later next week).

The final word about New Zealand for the time being is that there's much more to foreign investing than first meets the eye. You need to carefully weigh up the risk vs. the return and avoid blindly throwing money into a venture without a good knowledge of the area.

Forum Post of the Month - Confused and need some help please

This month's forum post comes from Natalie:

> Hi, I'm a first-time forumer...and an about-to-be investor.
>
> The question that has been playing on my mind lately as I read all sorts of information about property investing is... Why is it suggested by many investors to purchase properties in an area of high growth? Has it not seen much of its growth already? Or if the area has experienced a lot of growth is it likely that it will continue to do so? Is it not better to find an area that hasn't experienced growth yet - or is this too high risk? Apart from obvious criteria like good employment, coastal etc what should I be looking for? It has been suggested in some books to follow the population growth as a good indicator of areas that will go ahead, but in NZ some of the top areas of growth actually have a declining population!? Hmmmmm...
>
> Confused...

This is an excellent question. Investors are creatures of habit and usually follow predictable behaviour (which is why there are booms and busts). The general logic is that locations that have performed well in the past will be poised to continue to do well into the future too.

I believe this is too general a statement and instead we should focus on the concept of scarcity (in the form of limited supply and constant demand) as the cause of steady rises in price.

An example that comes to mind is absolute beachfront. As there isn't much new beach being made, undeveloped land near built up foreshore areas is highly sought after because there is constantly more demand than supply. The variable is price, which continues to rise until people value their money more than the thought of water views.

A strategy that I've seen work really well is to identify suburbs that have been traditionally well regarded and then look for neighbouring areas that aren't held in such high esteem. Often all that separates them is a road, river or park, yet the difference in price can be substantial.

There are two areas in Melbourne that, prior to the boom, typified this approach. The next suburb out from well-regarded Surrey Hills is Box Hill South. All that separates them is Elgar Road, yet the price difference was about $60,000+.

When values started to skyrocket, Surrey Hills moved first, and then gradually people were priced out of that market and they spilled over the road and began to push prices higher in Box Hill South. I call this the 'overflow effect' and it's common in every area in response to price increases.

Overall, I'd encourage you to think through this strategy to invest in the next suburb across where houses are more affordable, as eventually these suburbs catch up to more well regarded locations where values already reflect a desire to live in that postcode.

Finally, just to touch on something I said earlier, when selecting an area, focus on scarcity rather than specific factors like population growth since, as you have noted, not every house will rise in price as more people move there. Think 'what is it about this property that will make people want to pay more for it in the future'?

either help maximise your returns and/or protect yourself from financial disaster.

If you missed the email make sure you check out this page. If you haven't already booked your seat then I urge you to do so as seats are selling quickly and I'd hate for you to miss out.

Summary

On the face of it, investing in a foreign country where there is no stamp duty or capital gains tax seems very attractive. However as you complete more research you start to see that there are some quite substantial risks which demand that you earn a higher return in order to justify the additional work and possibility of financial loss.

Positive cashflow deals do exist in New Zealand, but there is much more needed to access profits than jumping on a plane, hiring a car and buying anything that seems to meet The 11 Second Solution.

Bring every investment decision back to a question of how much risk for how much return?

Growth areas are only perceived that way because there's more demand than supply. At a micro level the cause of this is scarcity. If you want to outperform the market, focus on property that has limited supply but constant demand.

Finally, don't forget about the Property Masterclass - 70% of seats sold in the first 24 hours and as such this event will be sold out very soon. Don't be the one who misses out. Find out more today!

OK! That's it for this June 2004 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!*

Sincerely,

Steve McKnight

P.S. Be sure to keep a look out for the email I'll send next week outlining your special offer to acquire Kiwi Property Insight - the resource where New Zealand investor and legal expert Mike Ward and I outline more about securing profits across the Tasman.