HOME OF POSITIVE CA$HFLOW PROPERTY INVESTING

Property Investing.Com *'Insider'*

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

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Your Notes

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Hi and welcome to your May edition of *'Insider'* - the PropertyInvesting.Com e-bulletin that exists to assist real estate investors become more profitable.

This month's topics are:

1. Exciting new property investing resource is now live - find out more!
2. My 3rd Rule of Property Investing Success
3. Some insight on my first commercial property investment

There is quite a lot to cover so let's get started...

The Official Positive Cashflow Investor Forum Is Now Live!

After several months of development I'm please to announce that a new forum has been created for all members of the PropertyInvesting.Com community.

Already, in just two days of going live there has been some excellent discussion. I'm particularly interested to see where the discussion about a positive cashflow case study I placed in the 'General Discussion' forum will end up.

I have been very impressed by both the quality of the posts and also the willingness of community members to pitch in and offer their opinions and advice.

The forum is an excellent resource available to you to make posts and have your questions answered and also review what other like-minded property investors have to say. You'll be able to pick up many fantastic new ideas to help make more money in property.

Make use of the forum and check it out now by clicking here.

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The 3rd Rule Of Property Investing Success

The first two rules of Property Investing Success were:

- Law #1 Choose Your Investing Yardstick (see March 2002 edition)
- Law #2 What Has To Happen In Order For My Investment To Make Money?
  (see April 2002 edition)

As a quick summary, my advice is that before investing in property you must first choose how you are going to measure your progress.

At my seminars I say that there are only two reasons I can see to invest in property, which are:

1. Make money
2. Save tax

These reasons are mutually exclusive at the time of making your property purchase (that is, it is unlikely you will have both), because the goal of saving tax is usually achieved by making an accounting (and usually cashflow) loss.

On the other hand, it is very difficult to make money at the same time as saving tax.

Accordingly, you need to select your 'investing yardstick', which is going to be the gauge you use to determine your success. Personally, I use the positive cashflow my property investments spin-off, because I know that so long as I make money with each investment I undertake, then I'll be heading in the right direction in achieving my wealth creation goals.

A lot of money-making seminars suggest that real estate success is about buying the right property in the right location and waiting for property values to increase.

While this might be correct, it is important to first appreciate what is the likely chance of making any money at all.

In the April 2002 edition of 'Insider', I recommended that a key question you should consider is "How long will I have to wait before my investment is profitable?"

The longer the wait, and the list of contingencies that must be overcome before you make one dollar of profit, definitely means that not all property investments are equal.

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Remember that if you only invested in property that made money, then you'd **have** to make money. Buying property and hoping that it appreciates in price seems to be a very speculative way to invest potentially hundreds of thousands of dollars.

The Third Law of Property Investing success is...

Invest In Your Area of Expertise

Before David and I purchased out first property in Ballarat I went through the process of trying to find information about the area so that I had more than a casual understanding of what I was doing.

Surfing around the Internet I managed to get my hands on an economic profile prepared by the local shire council designed to attract outside investment. Outlined in this research paper were many important statistics, such as population information, house prices, number of people renting, unemployment rates, major industry etc.

Yet even armed with this valuable data I was unable to avoid a near fatal mistake as a new investor.

The first time David and I went to Ballarat we wore suits (remember, we are accountants and that's what accountants on business do, right?) and walked into the first real estate office in town saying that we were looking to buy up the town.

When the agent asked us what we did for a job, we replied that we were 'professional investors from Melbourne.'

That wasn't a wise move because the price of everything in the office went up at least 10% since the agent thought that he had a couple of investing bunnies in his reception area - and maybe he did!

Later when I was reviewing the days activities in my mind I realised that by appearing as someone from out of town I stood out as someone who lacked the knowledge to be able to pick a good deal from a bad one.

I went away and revisited my figures and also the layout of the town and sought to know the area like a local. This took time and effort, since it was a few more trips to the region before I became familiar with the area and the prices that houses sold for.

But this is something that I needed to do, otherwise I was in risk of being overcharged and not knowing it!

There are plenty of people who may seek to exploit you by

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coaxing you into investing in an area that you are unfamiliar with.

In doing seminars around Australia recently I saw Brisbane property in Sydney and Melbourne papers, and Sydney and Melbourne property in Brisbane papers!

What seems to be happening is investor's everywhere are invited to purchase property in locations where they don't understand the market forces and are potentially liable to make expensive mistakes.

For example, I also spoke with many people who had been flown up and given the VIP treatment by promoters and marketeers. At the end of the day they were asked to sign contracts for real estate in areas they couldn't possibly have found the time to research properly.

So how do you become like a local?

I think the essential ingredient is that you have to gain an appreciation of a property's value, independent of what real estate agents have to say.

The only way to do this is by conducting research and looking through several properties to gain a feeling for what adds value in the eyes of the homebuyer (as opposed to the investor) where you are planning to buy.

For example, can you reliably estimate what the property you are currently living in is worth to the nearest $10,000? Consider the factors that either enable you or prevent you from doing this and then seek to replicate the reasons for your expert knowledge in the areas where you plan to invest.

Further to the story about David and I wearing suits, several months later we were in the office of another real estate agent wearing more inconspicuous clothing - tracksuit pants and beanies, when the agent rang his vendor to put in an offer with us in the room. The first question the vendor asked was 'Are they wearing suits?'

Remember to know the area like a local or else risk paying too much.

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Our First Commercial Deal

Earlier this month David and I signed the contract to purchase our first commercial property.

The property was originally listed at $250,000 but had stood offer-

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less since. As the vendor wanted to sell, the price dropped consistently until I came across the deal with offers wanted at $160,000+.

This seemed like a cheap commercial property to me, so I went inside and spoke to the agent in more detail about it. It turns out that the property is leased to a construction company under a lease beginning in 1998 and continuing until April 2004. The current rent was $425 per week.

For those who don't know, with commercial property it is usual for the tenants to pay all outgoings, so in this deal the numbers look something like:

Cash In:

Deposit (20%): $31,000
Closing costs: $4,000
Cash needed $35,000

Annual Cashflow:

Annual rent: $22,100
Loan repayment:11,458
(Based on 25 years, P&I @ 8% fixed with weekly repayments)
Cashflow: $10,642
Cash On Cash Return: 30.4%

In this deal our exit strategies could be:

1. Rent it out as per the numbers outlined above.

2. Lease-option it back to the current tenant if they are interested.

3. Vendor finance it (ie. wrap) back to the current tenants.

In any event, this is a good positive cashflow deal that I came across by 'window shopping' at various real estate agents.

I always ponder where the next deal is going to come from... sometimes it's a referral, sometimes the Internet and sometimes I need to get proactive and search for diamonds in the rough by pounding the streets.

One thing I do know though... unless you are in the game and looking for deals it will be difficult to ever find one.

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Summary

This month I have outlined exciting news about the recently released forum. You are invited to participate by going to www.propertyinvesting.com/forum In particular, I invite you to look at the case study I have outlined in the post 'A good deal... too good to be true?' which can be found in the general discussion area.

It is an excellent resource available to you to tap into the minds and experience of a range of property investors who utilise many different real estate techniques to make ongoing positive cashflow.

You now know my third property investing rule that exists to ensure that your acquisitions are a success. By knowing an area like a local you ensure that you obtain information that will prevent you from making an expensive mistake based on greed and ignorance.

Finally, I briefly outlined our first commercial property deal and how the figures are likely to stack up from a very basic deal evaluation perspective. This will be a big learning curve for us and I'll be sure to update our progress with more information about this deal on the forums in the near future.

Have a great month and remember to only invest in things that make money.

May God bless you with good health and happiness.

Regards,

Steve McKnight

P.S. Don't forget to tell your friends about PropertyInvesting.Com and this great newsletter!.