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PropertyInvesting.com 'Insider'

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

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Hi,

Welcome to your May edition of 'Insider' - the PropertyInvesting.com newsletter.

This month's edition is packed full of tips, insights, and techniques to help you to prepare and profit from the changing property market - so I know you'll want to get started straight away!

In this edition, you will discover:

Let's get straight into it!

6 Things You Can Do To Profit From The Changing Property Market

In last month's newsletter, I spoke about the changing face of the property market - with world oil prices and interest rates affecting affordability, and how expected Tax Cuts in the May budget may affect the market.

I want to continue the theme of being proactive towards preparing and profiting from property market changes this month, and identify 6 action-steps you can use right now in this "buyers market".

So let's begin!

1) Re-assess your current portfolio

Re-assessing your portfolio is something which you should be doing regularly - particularly in changing investment times.

You should be looking for underperforming assets (to either sell or improve financially), or assets which have matured and are ripe to sell.

A simple way to do this (which is how Dave and I analyse our properties) is to go through the numbers as they stand at that point in time. Then ask ourselves "Based on the current numbers - would we buy this deal again today?"

If not, it might be a good time for us to take our profits, sell the deal and re-invest the funds elsewhere.

Over time, this principle has allowed us to achieve multiplication by division, growing one deal into two, two into four - and so on.

But you might decide it's better for you to place the funds elsewhere (as I'll mention below).

2) Have a debt management plan

My Grandfather lived through the Great Depression - a time when bankruptcy rates were at their extreme - and I can remember a saying he used to have:

"Nobody ever went bankrupt owing nothing."

For our Grandparents' generation, debt always meant risk - it was something that was only to be used only when absolutely necessary - and even then be repaid as quickly as possible.

But debt is an important leverage tool for property investors.

After all, how much real estate could you realistically afford to buy if you couldn't get finance?

A softening property market is usually characterised by an increase in loan defaults, which only serves to make lenders nervous about writing new business.

It doesn't take much to recognise that investors who have high levels of debt will struggle to gain ongoing loan approval.

That's why it's important for investors who are planning to grow their portfolios to also have a plan to reduce their debt.

Again, this may mean selling underperforming assets and putting the proceeds of sale against existing loans to improve your asset position, giving you greater asset stability should the property market become more turbulent, and making you a better lending risk to the banks.

Remember also that property investors are adversely affected by interest rate rises - with every rate rise, the cost of borrowing eats into our profits a little bit more. And if you're investing for positive cashflow, interest rate rises will quickly diminish your rental income surplus.

So paying down your debts faster is a simple way to minimise the impact of rate rises.

Don't forget the mantra - *"If you have a plan for getting in debt, you should also have a plan to get out of debt!"*

3) Cash up to take advantage of deals

As bargain deals come onto the market, those who are able to act quickly will benefit the most.

If a motivated vendor came to you offering the deal of a lifetime at a "fire-sale" price - but they needed a quick settlement in order to pay off some of their debts immediately - how long would it take you to come up with the cash necessary to buy?

Would you need to refinance existing loans? Would you be waiting for bank approval? Or are you ready to go now?

There are a four main ways you can increase your Investing War-Chest:

1. By reassessing your portfolio, and selling non-performing deals - or deals with a lot of equity which provide only a small return;
2. By allocating more of your wage towards your investing fund;
3. By making savings on unnecessary personal or investing costs, or;
4. By choosing to sacrifice luxury items (new car, holiday, boat etc) in favour of "delayed gratification".

But be smart about where you store your Investing War-Chest!

There's no point leaving the funds you've set aside for investing in the bank (earning 0%) when you have existing loans out there!

You may be better off placing these funds against your investment loans in Mortgage Offset Accounts. This could stand to save you interest costs on your loans, while the funds can be quickly drawn down when needed.

4) Look for deals which are Problem + Solution = Profit

If you've read my book "$1,000,000 in Property in One Year" you'll no doubt be familiar with my *"Problem + Solution = Profit"* model for investing.

This is the approach that Dave and I take in our property investing - and there are two types of problems which we solve.

One is "Property Problems" - usually cosmetic, occasionally structural, and sometimes to do with making better use of available space.

The other type of problem we solve are "People Problems" - helping to provide solutions to everyday housing and real estate problems of average people.

The beauty of the *"Problem + Solution = Profit"* model is that there are always problems in the property market to solve - which means it doesn't matter what the property market is doing, there's always the potential to profit from it.

As a result, I'd encourage you to look for ways to create your profits by solving problems.

When it comes to "People Problems", one potential strategy could be targeting niche tenancy markets where rental properties are in short supply, and in return receiving a premium rent. For example, renting out a house by-the-room to university students, or on short-term leases to vacationers or business executives in town for short stays.

As for "Property Problems", 3 strategies which Dave and I are becoming increasingly involved with are Renovations, Subdivisions and Developments.

- **Renovations** - The key when it comes to renovations is every $1 you spend on improving a property must give you $1+ in return. That's why "ugly duckling" properties can be a smart renovators dream.
- **Subdivisions** - Splitting off and selling unused land can be a reasonably easy way to turn a quick profit - if you know what you're doing.
- **Developments** - This can be the ultimate value-adding strategy for an investor... but many shy away from developments out of fear or a feeling that they are too complicated.

I'll no doubt talk more about these strategies in the coming months as I have some great new investor resources in the pipeline which go into detail about these topics.

5) Do your Due Diligence!

Although good opportunities more abundant in a buyers market, it's important not to let the greed of taking full advantage of the buyers market get to you - and cause you to end up buying a lemon.

Especially now that the boom has slowed - investors will no longer be able to rely on across-the-board market increases covering their investing mistakes.

This is why it's so important you do your due diligence over every property you plan to purchase.

Due diligence is like a background check into a property which looks at your risk, and your expected return.

Your due diligence is a critical tool to make sure you're not basing your investing decision on flawed assumptions, and to check for problems which might not be obvious about the property (because these tend to be the most expensive problems to fix).

For example, when it comes to the physical building itself, an aging or rusting hot water service might be a sign that you'll be up for a big plumbing bill soon - so factor this cost into your purchase price.

Also check the floors near fireplaces - fireplaces tend to be built on very solid footings, and a sure sign that the house is sinking is when the height of the floor around the fireplace changes.

If you're unsure what you're looking for, it's worth investing in some expert assistance - hire a qualified builder to perform a building inspection on the property.

When it comes to the numbers, given that interest rates have increased six consecutive times, it's also important to consider whether a deal will still be profitable in the long term (assuming interest rates continue to rise).

So it's useful to play with some "What If" scenarios (either in a spreadsheet or in the Investment Detective software) to determine the impact of increasing interest rates on your cashflow, and developing strategies to manage it.

If you'd like to find out more about Investment Detective, visit:
http://propertyinvesting.com/resources/24

6) Plan Ahead to Mitigate Your Risk!

A long, long time ago (back in my younger years) I was a Boy Scout - woggle, scarf and all.

I can hear you asking *"What does this have to do with property investing, Steve?"*

Well, it's nothing to do with woggles or scarves, camping or tying knots.

The motto of the scouting movement is *"Be Prepared"* - which is a good motto for being a property investor too!

In property investing, sometimes even the best laid plans go wrong.

That's why you should always carry a back-up "Plan B", a "Plan C" and sometimes even a "Plan D, E and F" - just in case a deal goes against you.

Let's say that your plan for profiting from property investing involves finding run-down houses, fixing them up and selling them back to the market.

What happens if you complete the renovation, and the property sits on the market for weeks and weeks, and no buyers come along?

- Is there an alternative method of selling the property?
- Will you keep the property? Will you need to refinance loans in order to keep it?
- Can you lower the price to meet the market? How low can you lower the price?
- Will you make additional improvements to the property to meet the market's need? How much can you afford to spend on these?
- How long will you let the property sit on the market without being sold until you take action?
- Are there some creative ways you can use to increase the rental returns on your properties? (In my MasterClass Pack I talk about 7 specific strategies to increase your cashflow returns).

These are all questions you should be asking ***before*** you buy, rather than after - because it's more difficult to manage these factors after you are already committed to the deal.

When Dave and I invest, we have Plan B's ready for almost every eventuality - because we've experienced enough "Worst Case Scenarios" to know how hard it is to sleep at night when things go wrong.

So we've always got back-up plans for finance being rejected at the last minute, for not being able to find a tenant, for renovation problems, and so on - and as a result we tend to keep momentum in our investing.

Action Time

Hopefully this article has changed the way you look at property investing in the current market, as well as giving you some valuable information which you can use to your own benefit right now.

Take a moment to write down four things you've received from reading this article which you can use to improve your real estate investing results:

1.

2.

3.

4.

How I stand to make $200,000 in the current DOWN market...

If you've been watching the news lately, it can be quite sobering as a property investor to see the market softening.

What amazes me is how when consumer goods (clothes, electrical goods, even rugs!) are on sale, people get excited and buy, buy, buy -- but when there are bargains to be had in the property market, people give in to fear and run!

Certainly (as I mentioned above), if you have an existing portfolio, now is the time to sit down and evaluate the "fitness" of your portfolio.

But for investors who have sandbagged their positions and are looking to continue to grow and improve their portfolio, then they should be excited, because it's a buyer's market out there - particularly for investors in the eastern states!

If you've been receiving my newsletter for some time, then you will have read the words "Success comes from doing things differently" at the end of almost every one of my newsletters.

I sign my newsletters off with this phrase because I think it's an important message for investors.

First of all, it's because I believe investors who do the same thing as the average investor will invariably get the same results as the average investor - an average result.

But also I write this phrase because some of my greatest property successes have come from doing the opposite thing the market is doing.

Like when the market was buying negative geared property, I bought positive cashflow property. When the market was buying city property, I bought in regional towns.

And I continue to believe that there are large profits to be made for savvy investors who are willing to invest contrary to the herd.

For example, one of my latest deals is showing an expected profit of around $204,000 in less than 5 months - and apart from visiting the property once, I've hardly had to lift a finger on the deal.

The deal is in Melbourne's eastern suburbs, and is a block of 8 units which Dave found while browsing an online real estate listings web-site.

Although the units were each on separate titles, the owner of the property was an elderly man who didn't want the hassle of selling them off individually - he wasn't worried that this meant he was decreasing his target market and potentially lowering his sale price.

As a result, we were able to get a wholesale price for the units by essentially "buying in bulk".

Our plan for the deal was to renovate the tired units, and sell them off individually.

However, I'm much more handy with a financial calculator than I am with a hammer and nails - and Dave's much the same way - so we had a handyman friend of Dave's come in to manage the renovation for us.

This meant we could leverage our time, find more deals, and spend time managing the profits.

Our purchase costs were:

Purchase Price: $1,300,000

Purchase Costs: $65,000 (5%)

Renovation budget:

Renovation Costs: $50,000

Bringing our total costs to $1,415,000.

Our expected Sale (based on similar units in the area) was:

Sale Price: $1,619,600
Agents Fees: $50,400 (3%)
Other sale costs: $10,000

Meaning our net sale price was going to be $1,619,600

That leaves our expected profit at...

Net Sale Price: $1,619,600
- Total Costs: -$1,300,000

...$204,600 - before borrowing costs are calculated.

Not a bad profit based on the figures - but my favourite part of this deal is the amount of time it's required Dave and I to invest into the deal.

Even though the deal has taken about 5 months to complete, the renovation has been managed by someone else - which as I said earlier frees up Dave's and my time to look for more deals, and focus on managing the profits in our investing business.

If you read above, and would like to learn more about strategies I'm using to profit from the current property market - unfortunately, I'm no longer planning on running any seminars this year.

Instead, I plan on spending more time with my family and helping people in the R.E.S.U.L.T.S. Mentoring Program - and less time on the road.

However - I still want to be able to share with investors (like yourself) the same tools and techniques I use to profit from the market.

And that's why I've created the MasterClass Pack.

The MasterClass Pack includes 216 pages of detailed course notes, 6 DVD's and 6 audio CD's full of information on property investing, and covers topics such as:

- 4 Factors affecting your success, and how to use them to your financial advantage;
- Bartering with your tenants for above market rents - simple win-win strategies which make higher rents achievable;
- Smart tax deductions for savvy property investors - getting the most out of your dollar;
- How much down, how much back, how much time, how much risk - the four considerations to work through when evaluating the numbers on a deal;
- Creating equity profits from property, and a smart strategy for building equity by increasing rents;
- ***And Much Much More!!***

Based on the MasterClass seminar, the MasterClass pack is valued at $499 (RRP).

Which is a bargain price - not just because of the large amount of information contained in the pack - but also because the MasterClass seminar used to sell for just under $700.

However as a special introductory offer, I'm making the MasterClass Pack available for 3 payments of $98 (plus P&H)

This is a total of $294 - over $200 off the normal price, or a 40% discount!

But this special is only available until 5pm on the 9th of June - 9 days away. At 5:01pm AEST, the price will rise.

If you'd like to find out more about the MasterClass Pack, or secure these insights into how I'm profiting from the current property market for yourself, then click here:

http://propertyinvesting.com/go/129

Final Words

PHEW! This month's edition of "Insider" has been packed full of information, so I hope you've received some tips and insights which stand to help you on your property investing journey.

And don't forget! - Success comes from doing things differently! ;-)

Warm regards

Steve McKnight

P.S. - Remember, if you plan on securing your copy of the MasterClass pack, the "$200-off" discount price of $295 expires on the 9th of June at 5pm - so be sure to secure your copy before then!

Click here for more information, or to secure your copy now:
http://propertyinvesting.com/go/129

Disclaimer: This newsletter is not intended to be a substitute for investment or accounting advice. It is a broad discussion to provide a general understanding. Before acting, you should seek specific advice for your unique situation.