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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,

Well, we've lost the Ashes, Sydney won the AFL grand final, and the two teams playing for the NFL crown were both considered very long shots at the start of the season. All in all, I wouldn't be surprised to see a pink moon out tonight!

As far as property investing is concerned... it looks like another month of uncertainty I'm afraid. While the RBA hasn't touched interest rates for some time now, high petrol prices are placing a squeeze on discretionary spending, and this will, sooner or later, start to impact businesses with a flow on effect to prices and jobs.

This doesn't mean that it's time to board up the empire and wait for the turmoil to pass. Now more than ever, I'm bringing my investing back to basics: buying assets that make money, reducing unnecessary personal debt, and carefully watching over the deals in my portfolio. I'd be encouraging you to think about following suit.

Once again, this month's newsletter is chockers full of information, including:

- [What Caused PropertyInvesting.com To Melt Down?](#)
- [Fantastic House Inspection Plumbing Tips](#)
- [Forum Post Of The Month: Steve Crunches A Property Deal](#)

Let's go!

What Caused PropertyInvesting.com To Melt Down?

It's an exciting time at the moment as Monday marks the beginning of the R.E.S.U.L.T.S. mentoring program.

Demand for spots was huge, so much so that the website buckled under the strain! Sadly, with very limited numbers, it appears that quite a number of interested participants missed out, so I apologise for any disappointment this may have caused.

Depending on how things go, we may be able to include more people in early 2006. As such, if you haven't already done so, it would be wise to pre-register your interest for the program by sending an email to [<mentorwaitinglist@propertyinvesting.com>](mailto:mentorwaitinglist@propertyinvesting.com).

Thanks to all those who applied, and I look forward to working with those who were successful in securing a position.

Call to Action

- If you're only just finding out about the mentoring program, or if you want to ensure that you're on the hot list for any future intakes then email your name and daytime contact phone number to: [<mentorwaitinglist@propertyinvesting.com>](mailto:mentorwaitinglist@propertyinvesting.com)
- If you're part of the R.E.S.U.L.T.S. program then congratulations on securing your spot. Be on the look out for emails from me, and phone calls from your mentor coach, in the coming days and weeks.

Fantastic House Inspection Plumbing Tips

If you lack confidence or are unsure of what you're doing, completing a building inspection may seem like a daunting experience. I remember my early attempts, which were more like acting auditions so I didn't look stupid rather than structured deal evaluations.

To help you to overcome any potential fears, and to also provide some practical guidance, in coming months I'll continue to outline useful tips that I've come to rely on when completing my pre-purchase checks.

In the past I've talked about hot water services, carpet and cladding. This month let's look at plumbing, and, in the interests of total honesty, let me first say that I'm not even so much as a plumber's elbow! In fact, my wife caught me quizzically looking at a shovel recently as I pondered which end to hold (grin).

In any event, one of the truisms of property investing is: "it's what you can't see that often ends up costing you the most amount of money". Now, as water and gas pipes are usually under the ground, in the roof or behind the walls, it can be difficult to gauge any impending plumbing catastrophe, prior to them occurring.

Yes - it's common sense, but I find it wise to remember that there can only be two types of plumbing issues: those resulting from getting water to (or in) the house, and those resulting from removing water (and waste) from of the house.

Getting Water To (And In) The House

Most Australian homes have access to mains water, as water companies are nice enough to provide a connection into their system - for a fee. This connection will be underground and near where the water meter is located to ensure that you can't siphon off any freebies.

While unusual, fixing a leak or blockage in a mains pipe can be expensive as it requires digging up the front yard. About all you can do is check that the pressure of water coming into the house, which is done by turning on a few taps at the same time - perhaps a tap in the kitchen and a tap in the bathroom while also flushing the toilet.

If water trickles out rather than appearing as a steady flow, then you either have a mains pressure issue (the water authority's problem) or else a leak or blockage in the water pipe that leads from the mains and into the house (the owner's problem).

Two further possible precautions are, 1. Look for unexplained and extraordinarily green patches in an otherwise dry garden area, and/or, 2. Ask to see the vendor's last two water bills to ensure that their water usage was not unbelievably excessive.

Thinking about hot water for a minute here - the water authority is only kind enough to provide cold water... you have to do the heating yourself. Enter the need for a hot water service! Once the water is heated, it then needs its own separate pipes to get to the hot taps in the house, which is why you'll find both hot and cold water pipes encased in the walls.

Once again, these pipes can leak, which is why you wear track suit pants to house inspection - so you can get under the house (for non-slab houses) or in the roof to look for wet patches under or near the water pipes (remember to bring a torch).

Also, if the pipes are the old galvanised type (copper or plastic are used thesedays), they will be prone to rusting out. That's why it's wise to taste the hot and cold water, and if there's a strong hint of metal, then trouble may be brewing.

By the way, if the hot water is suspiciously dirty-looking then the hot water service may be on its last legs. An exception to this observation is if the property has been vacant for a while. In this case, sediment tends to collect which can be flushed through by running the taps for a short while.

Next up, be sure to test the condition of every tap in the house. Having to replace many washers (and maybe many taps) can be an expensive exercise. For example, decent quality kitchen mixer taps can cost up to \$250 (plus fitting)! If you find problems then just make it a condition of the contract that the suspect taps are fixed to your satisfaction.

Finally, it's useful to mention that, prior to buying, you should check that water is not just 'supplied', but is also 'connected'. This may require a phone call to the local water authority, but it's worth it as I've seen, several times now, the somewhat incredible situation where water mains run down the street but are not officially (or maybe actually) connected to the property. This is an issue because paying a plumber to hook things up can be expensive

Well, that's lots of insights in a few short paragraphs. Next month we'll look at the issues associated with removing water and waste away from the home.

Call to Action

- If you need help with conducting a thorough building inspection, including access to the due diligence templates that I use, then assistance is available at a bargain basement price. Check out: <http://www.propertyinvesting.com/resources/1.html>
- Don't allow ignorance, fear or naivety to prevent you from completing a thorough pre-inspection. If you do, expect to shell out large amounts of money to fund your easy-come-easy-go approach.
- Do you have some more insights to add or plumbing, or perhaps a story to share? Please post it at: <http://www.propertyinvesting.com/forum/topic/19896.html>

Forum Post Of The Month: Steve Crunches A Property Deal

This month's forum post comes from Cathniv <http://www.propertyinvesting.com/forum/topic/19539.html>. She writes:

"Hi, I'm hoping some readers may be able to give me an idea about how far off my property might be from being positively geared as I'm new and don't understand the breakdown.

Purchase price \$125,000
 Rate 6.95% - 30yrs
 Rates \$1300
 Renovations needed \$10,000

The reason I'm interested is because I can arrange for a tenant to privately pay \$170.00 per week rent while I have full access to place to do reno, and then once completed, I can rent the property for around \$200 per week.

Does this sound close to being positively geared?

This would be our first investment property - it's in our town, has a good tenant and, for now, I will manage it myself as it's family (and I used to work in property management)."

Cathniv, Thanks for your post and I agree that it can be difficult to crunch the numbers on a property deal, especially if you aren't familiar with how to calculate loan repayments. I have done some preliminary work for you in the form of asking two questions.

1. How Much Down?

In your case, let's assume that you are going to borrow 80% of the purchase price from the bank. Your cash down will therefore be a 20% deposit (\$25,000), plus closing costs (say \$6,000), plus reno costs (\$10,000). Total: \$41,000

2. How Much Back?

Working on the lower rental figure you mentioned:

Annual Rent: \$8,840
 Interest: -\$7,927 (P&I, 6.95% interest, 30 Year Loan, Weekly Repayments in advance)
 Rates: -\$1,300
 Insurance: -\$300 (say)
 Result: -\$687

Other Costs Not Considered: Maintenance, Repairs, Land Tax

3. Evaluation

This property would probably result in negative cashflow. It would be close to cashflow neutral if you

financed it with an interest-only loan, and then possibly cashflow positive after you had factored in the higher rent and also any depreciation benefits arising from the renos.

Deciding to do the management yourself will save money, but remember that sophisticated investors place a high price on their time and delegate wherever possible as more money is made in 'the deal' than in 'the do'.

If you believed there were good growth prospects for this property then you may decide to buy it on the basis that your cashflow outcome is likely to be a slow bleed rather than an enormous haemorrhage, and that your capital gain will outstrip any cashflow loss

Call To Action

- If you struggle with crunching the numbers on a property deal then Investment Detective is fantastic and easy to use software that can take the pain away. There's currently a special running, so check it out: <<http://www.propertyinvesting.com/resources/24.html>>

Final Words

I hope you've enjoyed this edition of Insider. Don't forget that you're welcome to forward this email to others; all I ask is that you remind them that they can join the mailing list by going to <<http://www.propertyinvesting.com/register/newsletter.asp>>

Until next month, remember that success comes from doing things differently.

Regards,

- Steve McKnight

P.S. Don't forget that I'd love to receive your feedback on any matter. Drop me an email at <feedback@propertyinvesting.com>

Disclaimer: This newsletter is not intended to be a substitute for taxation advice. It is a broad discussion to provide a general understanding. You should seek specific advice for your unique situation.

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