CRACKING THE REAL ESTATE CODE

How to make sure you don't get ripped off when you buy a home or investment property

Michael is a Qualified Property Investment Advisor, in this book he shares 15 of his key tips and strategies that will put you in charge and keep you safe when you buy.

MICHAEL SLOAN

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Published by The Successful Investor

Printed and bound in Australia.

About Michael Sloan

Michael Sloan is the author of two books, *The Formula to Successful Property Investing* and *Cracking the Real Estate Code*. His articles appear on the National Australia Bank (NAB) website and he is regularly quoted in the media and speaks about property investing to audiences Australia wide.

Michael is the Co-Founder and Director of The Successful Investor, a national property advisory firm. With over 20 years in the industry, he and his team have helped thousands of people establish and grow successful property portfolios.

Michael's mission now is to lend his expertise to revealing the common traps regular investors face when investing in property.

The expertise he has shared in his books has helped many property investors and home owners make an informed decision in their journey to creating a successful future. He hopes it will do the same for you.

The Formula to Successful Property Investing

The Formula is the second book for property investors by Michael Sloan. This book captures a lifetime of professional experience and passion for helping people that has seen Michael achieve success as a qualified property Investment Advisor, financial planner, mortgage broker, licensed real estate agent and Investment property expert.

In this book Michael shares some life lessons as a 20-year veteran of the property industry and the thousands of clients he has worked with. Find out what properties you should stay away from and why, how you can buy a property with no cash deposit and when to sell.

This book offers vital information to guide you through your property investing journey whether you are a first time or experienced investor.

“The Formula isn’t rocket science, but it is the result of years of experience in property investment.”
– Michael Sloan

The Successful Investor

A boutique service that adapts to your needs. Everyone’s story is different but our experience shows us that there is the right way and a wrong way to invest.

- How much do you need to retire?
- How can you pay off your mortgage in record time?
- Why many high capital growth properties will send you broke?

Meet with one of our senior property advisors and learn the biggest mistakes property investors make so you don’t make them yourself. And learn the property investment that has achieved a 100% track record of success for over 50 years. Your initial appointment is at no charge.

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Welcome

This report has been written because, over the past 8 years, I have seen far too many people who have either purchased a bad investment property, or been simply ripped off.

It has been heartbreaking hearing story after story about folks paying inflated prices for investment properties, or basically making poor property decisions. Sadly, these people eventually realise they made a mistake, sell their mistake, take a loss, and start all over again - or worse still, they think investing is not for them and never return.

You've probably seen ads for investment seminars that claim: -

- 'You too can become a millionaire in three years'
- 'Traditional investments are too slow and lack excitement'
- 'Turn your financial dreams into reality'
- 'Amazing, unbelievable strategies for building massive wealth'

Well here's another strategy that's all too common in the market these days: -

Real estate scam promoters tend to list investment properties well above their fair market value. They then attempt to sell these properties to potential buyers, especially those who don't live locally.

Consequently, when the owners decide to sell, they discover they will suffer an enormous financial loss, simply because they bought too high at the outset.

Take a look at the following extract from the Consumer Affairs Victoria website - http://www.consumer.vic.gov.au:

- Every year an estimated 5600 Victorians fall victim to financial advice scams.
- Consumer Affairs Victoria receives about 300 enquiries or complaints about investment and financial scams every year.
- Australians lose an estimated $57 million to investment and financial scams each year.

This report is not just about getting scammed. It's also about the traps we can all fall victim to when looking to buy investment property.

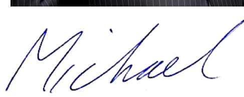
Industry professionals reading this may think it's too basic, but it is not written for them. It is written for the average person who doesn't know this information. And because they don't know it, may be vulnerable to exploitation.

My intention is for you to start making informed decisions towards building future wealth, with a portfolio of sound property investments.

Look, I can't possibly cover all the pitfalls, tricks and dangers you may come across when checking out the market, but I reckon the main topics have been covered in this report. Enough at least to keep you safe and prevent you from contributing to the tens of millions of dollars lost by well meaning investors yearly.

At the same time, this report can't possibly cover all aspects of successful property investing, but enough at least to give you a taste of how accessible and affordable it can be for the average person.

So this is my way of reaching out to as many investors as I can with a message. If it ends up saving you, or someone you know, from buying a bad investment property, then it will have done its job.



Michael Sloan
Managing Director
The Successful Investor

PS. Keep an eye out for our Special Offer on page 23.

Learn From Other's Mistakes

Learn from the mistakes of others. You can't live long enough to make them all yourself.

Eleanor Roosevelt. US Diplomat & Reformer 1881-1962

We all make financial mistakes in life. Sometimes they cost us a little, and sometimes they cost us a lot. And no doubt you've been told that making a mistake when buying an investment property is one of the biggest financial mistakes you will ever make.

Similarly, we often learn a valuable lesson from the mistakes we make. But how much better to learn from the mistakes of others, because you get the same lesson, without paying the price.

With this in mind, let's start with a case study.

My clients Mario and Mary, who even though they are on an average income, are a couple of Aussie battlers wanting to improve their financial net worth, not just for themselves, but for their children.

As you may know, properties are often sold in a one-size-fits-all type scenario. However an excellent purchase by one investor, may be an absolute disaster for another.

Through a buyer's agent they bought an apartment in Hawthorn, Victoria. It was a good quality apartment in a good location. The problem was it ended up as negative cash flow to the tune of $250 a week. Much more than they could afford. As a result, the property placed a severe strain on their finances.

You might be thinking - why didn't they just sell?

Well, it wasn't that easy. Let's take a look at the figures: -

Purchase price	$400,000
Stamp duty and other purchase costs	$22,000
3.5% Buyers Agent Fees	$14,700.
Total Cost	$436,700

As there had been no capital growth since they purchased the property 2 years prior, this meant if they sold at the price they bought, after taking into account selling costs, they would lose about $50,000 all up. The other option was to continue losing $12,000 a year through negative cash flow.

The lesson here is the property may have been an excellent long term investment for someone able to afford the $250 per week. But for Mario and Mary, it ended up being a poor decision to make.

Here's what actually happened behind the scenes.

The buyer's agent didn't run any figures to explain to Mario and Mary how bad the cash flow would be. To compound the problem, they used a mortgage broker who worked closely with the agent, who was not about to give an opinion which may have cost his referral source the sale.

Unfortunately, there are too many people out there speaking with, investing with, and trusting in bad companies.

Listen, as someone who likes helping people, stories like this make me really frustrated. Unfortunately, there are too many folks out there speaking with, investing with, and trusting in bad companies. More than I could ever hope to help.

This report aims to offer you some vital advice for staying safe when buying an investment property, and this advice will put you in control of the purchase, instead of giving away all the control to the salesperson you are dealing with.

But before we move on, let's agree that making a decision to purchase something as expensive as an investment property, on the spot, is a bad idea. However, this is exactly what most property sales people want you to do.

And one of the most powerful strategies they have at their disposal is known as 'Breaking the Pact.'

Breaking The Pact

Over the years, I have asked a number of property advisors and real estate agents about 'Breaking the Pact', some of whom have hundreds of clients. Less than 1 in 10 have ever confessed or admitted to knowing anything about it.

Before we go into detail about this topic, let me first make a few comments about salespeople.

Salespeople offer a vital service, one that adds value to everyone's life. If you learn how to be an effective sales person, then you will always be in demand. In fact, it was a sales role which enabled me to totally change my life many years ago, by moving away from my career as a painter and decorator.

I have nothing against sales people. In fact I LOVE a good sales person because they make the purchasing process a real pleasure. And sales people should ask you to buy, that is their job. If they don't ask you to buy they do not deserve to be employed - period. To qualify as a quality sales person they need to master the art of asking you to buy, which is otherwise known as closing the sale.

So don't feel pressured when they ask you, just appreciate it as a legitimate part of the process. However, there are specific sales techniques that some property sales people use which can skew the process in another direction altogether. These techniques are designed to manipulate the purchaser into making a decision on the day, without ready access to professional advice, and often forfeiting your cooling off period in the process.

This is the kind of salesperson you need to avoid because they try to manipulate you into making a hasty and ill-informed decision. The following has been written to help you deal with these types of salespeople.

Firstly, let me ask you a question.

How much money did you invest last year learning how to resist salespeople who want you to buy on the day?

Probably nothing.

How much time do you spend each week learning techniques to resist sales people wanting you to buy on the day?

Again, probably nothing.

Well, good sales people - and property sales people are among the best in the business - can often spend thousands of dollars every year buying books and DVD's teaching sales techniques. These skills are taught by some of the best sales trainers on the planet. And the key objective behind this training is to learn the art of manipulation, by putting them in charge of the sales transaction, rather than you.

In other words, they learn how to overcome every objection you can throw at them, including the big one - *"I would like to think about it."*

Now I know many of you who are reading this report will be thinking - *"that wouldn't happen to me, I would never buy on the day."* Whilst that may be true for some, I can guarantee that others would indeed end up buying that property -and that is because the salesperson - 'Broke The Pact'.

So, what is Breaking The Pact, and why do you need to know about it?

Property Sales people will often fly you interstate or take you on what is called a Property Run. Typically they will show you 3 properties, and their goal is to have you purchase one of those 3 properties that very day.

However, they know before you meet with them, you will have made a pact, either with yourself or with your partner. On the way to meet the sales person, your conversation may go something like this:

"Now we are not buying today are we?"

"No dear, we are just looking."

"So, do we have an agreement that we are not buying today?"

"Yes dear."

No matter how the conversation goes, you have just made a pact, or agreement between you.

The problem is, the sales person knows you have made that pact, and will deliberately set out to break it.

Some clients of mine, Peter and Susan, were flown up to Queensland recently and provided with quality accommodation at a very low price. It seemed like a great deal to them, because as they said to me - *"we were adamant we were not going to buy a property on the trip."*

However they found themselves flying back to Melbourne as the proud owners of an investment property. As they put it, they looked at each other on the flight home and said - *"I thought we weren't going to buy anything."*

Two years later, after the rental guarantee ran out, they placed the property with a local property manager, and the weekly rent dropped $50. They realised the rental income had been propped up by the sales company for the last 2 years, to make the property seem more attractive.

With this in mind they then had the property valued and were devastated to discover it valued at $45,000 less than they had paid!

If they had simply come home to Melbourne, and done their research and due diligence, they would never have purchased this property in the first place. The key reason they didn't is because the sales person was skilled in breaking the pact, along with another very powerful ingredient.

There is a famous saying in property sales, which goes - '*If they fly, they buy*.'

What this means is the sale is as good as done, simply because the purchaser feels somehow obligated to reciprocate the offer of a free flight and discounted accommodation. It's human nature to feel indebted to someone because they give us something for free, or at little cost. What it boils down to is smart manipulation through basic psychology.

So understanding a salespeople's strategy is critical. This knowledge puts you in full control, not the salesperson, and can save you from making a potential mistake.

However, it is not just breaking the pact you have to worry about.

Read this from one sales trainer: -

In our training, we teach you how to have 10 or 15 ways prepared and rehearsed for overcoming objections. Without this preparation your rate of success in overcoming objections will be much lower. Get a notebook and create a page for every objection you can't overcome. Then ask everyone you know how they handle that objection. We teach a detailed, step by step approach to do this but every objection needs practice if we want to be good at overcoming objections.

Try this simple test. A customer has just said they want to think it over. How many ways can you write down that you have practiced, drilled and rehearsed for overcoming objections? If you don't have at least ten ways that you have practiced, drilled and rehearsed, a little work in this area will help you dramatically with overcoming objections.

And this from another sales trainer: -

'The Five Simple But Essential Steps To Getting The Sale' will take you from the all important, but largely overlooked 'Self Preparation' right through to 'Closing The Deal On The Day!' In an easy to read and down to earth format that will have you returning to the book over and over again whenever you need inspiration or a quick refresher course to boost your sales figures.

The contents of this book include: -

- *Introduction*
- *Know Your Enemy*
- *The Importance Of Proper Self Preparation*
- *Meet And Greet*
- *Warm Up*
- *Breaking The Pact*
- *The Purpose of the Statement of Intent*
- *Fact Finding, The Foundation Of Your Presentation*
- *Simple Product Presentation*
- *Closing on the Day!*
- *Bonus Chapter: A Tried And Tested Three Step Formula Guaranteed To Overcome Any Objection*

This is the kind of training salespeople go through all the time.

But take note of some of the points they want the salesperson to study.

'Know your Enemy' - (You!)

'Breaking the Pact'

'Closing on the Day', and 'Overcoming any Objection'

Here's the way it's done. Sales professionals simply start by putting doubt in your mind about this property not being available tomorrow.

- They offer you an incentive that is only available that day.

- It is the last one left, and will not be available tomorrow.
- A colleague is showing the same property to buyers who are really keen.
- You get a 'discount' if you agree to give them a testimonial.
- They have to meet a sales target so they can offer you the following bargain price ....

Are you starting to get the picture? It doesn't matter to them what they offer so long as they break that pact. But as long as you realise what they are up to, you can resist their 'once in a lifetime' offers.

Trust me, whatever they offer you today will be offered again tomorrow, and the day after, and so on. The same offer is probably being given by one of their colleagues to someone else while you are speaking to them, or even while you're reading this.

Even though you now know about breaking the pact, I guarantee this sales technique is so powerful, that if you find yourself in this situation, some of you will still find yourself saying - *"I know I read that report about breaking the pact, and I know what they are doing, but if I don't sign up today I'll miss out on this great property."*

I nearly fell for it myself at a time-share presentation. For a great example of breaking the pact go along to one of these presentations. But be careful, you have been warned!

In fact, I observed them breaking the pact when they rolled out this amazing offer apparently only on offer that day. I even started to think - *"Gee, this looks like a good deal, maybe we should go for it today."*

Then I came to my senses. I couldn't believe what I was thinking.

After we extracted ourselves from the magnet-like sales person, we went home and did a search on e-Bay. We found an auction list of properties, sold by the same time-share company, on-selling for massive discounts by people who had no doubt broken their pact.

Sometimes in our own company, we often catch ourselves discussing certain properties and saying things like - *"There are only 2 left, so if you want one you will need to be quick."*

When I say these words, I always think I sound like a typical salesperson. But the difference is it happens to be the truth. We don't roll out any special offers to convince people to buy. **And I always tell my clients there will ALWAYS be another one tomorrow or next week. Because there always will be.**

For example, in the last two days before Christmas 2009, we sold 3 recommended house and land packages in one of our favourite locations. I had been speaking with 7 people about those 3 properties, and said to all of them - *"You will need to be quick."* But I also mentioned there will always be others, so don't feel under any pressure to commit on the spot.

The properties did end up selling, and those who missed out were actually disappointed. But, the outcome from this is they are now on a waiting list for the next release, and ready to move quickly this time.

Hopefully, you may be convinced of this by now, but it is important. In closing this section, I would like to give you one more example where Breaking The Pact is considered so important. This comes from Tom Hopkins, one of the world's leading sales trainers. He supplies his trainees with the following powerful sales script: -

Break the Pact By Tom Hopkins

Separate the Duo to Make Progress

In our sales resistance formula, we had them acknowledge they may have made a pact. Now, we are going to break the pact, like this:

"John and Mary -- do you remember how we joked earlier about how you both possibly made a commitment to do nothing about your needs tonight?

"Mary, I'll ask you first, how do you feel about what/ how our research revealed?'"

Now, with that one little question, you listen to the answer and notice the other party's reaction. Then you ask the same question of the second decision maker.

"John, how are you feeling?"

Each will see the other moving forward, agreeing to the proposal and the pact will be broken.

You might say it like this, "You know, John and Mary, after what you've seen here tonight, do you think it might be wise to release each other from the commitment to do nothing, if what we're offering truly makes sense for you and your family?"

Just that one little sentence, and they'll break the pact, and you've closed the transaction.

From: Sell It Today, Sell It Now DVD

© 2003 Tom Hopkins International, Inc. and Pat Leiby

There are Only 3 Left

How many times have you seen a promotion with a headline like the following? - 'Hurry! Only 3 left in this fast selling development.'

If the sales company was honest, the headline should read - 'Don't even think about buying here, because all the good apartments have been sold.'

Nevertheless, a typical salesperson will try and convince you otherwise, and get you to act quickly by grabbing one of the last 3 in the block.

The problem is the last 3 are often the worst apartments, with a poor design or bad outlook, and will not represent a good investment for you.

Instead, you are better served to wait and find an apartment block about to be launched, and then get in early to grab the pick of the best before they all go.

Now to be fair, this is not always the case. In rare situations all apartments can be valid investments, but trust me, it is very unusual for that to happen.

Likewise, if someone is recommending a particular apartment to you, and they tell you it is a great one, ask them why. Don't allow them to compare it to what is left, insist they compare it to all the apartments in the complex instead.

By the way, there is nothing wrong with an agent trying to sell you the last property in a complex, as they are paid by the vendor to do just that.

In our company, once we approve an apartment project, we then analyse each one in the complex and create a shortlist of the best. Once these preferred apartments are sold then we no longer recommend that particular project. Quite often, over half the apartments will still be available when we stop recommending that project to our clients.

So when we tell you there are only 3 left, there may actually be 23 left, but only 3 that we are willing to recommend!

For this reason, we don't accept exclusive listings, because that would mean we would be obliged to sell every property to our clients, even the average ones.

By maintaining this standpoint, we are able to accept potential clients from a select number of professional mortgage brokers and financial planners who are happy to refer them to us. In return, we pay them a referral fee, which they disclose to their clients.

For more information about how we get paid, visit our web site: - www.thesuccessfulinvestor.com.au

The point here is all of these professional referrers could simply go direct to the same property suppliers we deal with, and receive much higher fees in return.

The reason they don't is because they know those companies will sell any property to their clients, because that is what they are paid to do.

Our reputation hangs on the fact we will ONLY recommend the pick of the properties, so our professional associates are safe in the knowledge their own client's best interests are placed ahead of any additional income that might come their way.

Beware of the Great Story

One of the dilemmas you face when deciding on whether to trust the property company you are speaking with, is that even the worst operators can often have good properties on their books.

I was recently at a launch of an apartment project in Brisbane. It was an impressive complex, great location, great architect and builder, and the right price. We were one of a number of companies granted the right to sell these apartments.

At the launch I started speaking with a salesman from one of the other agents present. After he found out I was from Melbourne, he tried to convince me to take a look at some of the apartments his company had for sale.

These were apartments in a hotel complex, which according to the great story behind them, had a very high conversion rate from enquiries to sales.

He was right. There was a great 'story' behind them.

It turned out these apartments were with one of the most recognisable hotel brands in the country, with good depreciation rates, great rent, and no apparent vacancies. For the uninitiated, they were a no-brainer. He told me they had clients lining up to buy them, and in the process - *"making a fortune."*

Then he told me the following - *"The only trouble is, they are rubbish investments. We sold a heap like these 5 years ago in a similar project, and they are still not worth what people paid for them."*

Now he wasn't telling me anything I didn't know, because I knew they were a very poor investment. But until then, I just thought he was a sales person who couldn't tell a good investment property from a bad one.

Sadly, he knew they were poor properties, but just didn't care!

Buying into hotel complexes like this in Melbourne are amongst the most heartbreaking stories I have ever heard from investors. Properties that couldn't even be sold for $70,000 less than was paid just 2 years before, and were $10,000 a year negative cashflow into the bargain.

So here was this company in Queensland, looking to sell the same excellent properties as we were selling. But they were also knowingly selling very poor investment properties at the same time.

After I told him what I thought of his company, he stopped speaking with me.

You can see why it is so difficult for any purchaser to make a decision about trusting a property company, who use their good properties to provide their success stories. They then use these success stories to prove they sell quality properties, and then proceed to sell you rubbish.

Yet another example why you should be doing your due diligence, and not making a decision to buy on the day.

Student Accomodation

One of the ways you can find out if a property company sells rubbish investments is to ask if they ever have any student accommodation, serviced apartments or hotel accommodation on their books. Try expressing some interest in these types of investments and take note of their response.

To make a bold upfront statement, I can categorically state the above types of properties will turn out to be poor investments.

When you find a company that sells these types of properties, there is every chance they are focused on the commission they will be making, not the quality of the property they are recommending to you.

Ask them about student accommodation. If they say they do hold that type of property, and are happy to sell them to you, then run a mile. That is my advice.

But beware the genuine salesperson.

Keep in mind the salesperson you are dealing with may get upset with me for saying student accommodation is a poor investment, because they may genuinely believe the opposite.

The thing is, they may not know any better. They tend to be recruited because they are good sales people, and don't know much about property investments when they start their job.

And because they don't have a property background, they tend to be influenced by the same sales story you get about student accommodation, and other poor investments, being a great investment opportunity.

Naturally, when they are selling them to you, their genuine belief in them being good properties comes across and helps you decide to buy.

For example, one of my long term clients, Nicky, who is now a part time consultant for us, said to me she genuinely believes in our company and the way we operate. As a result, our clients tend to show more enthusiasm, because her passion comes across when she is speaking to people about our recommended properties.

The reason I am warning people to be wary about genuine sales people, is because this quality alone does not make it a good investment.

The difference with Nicky, like the entire team at The Successful Investor, is that she is an experienced investor herself who has purchased multiple properties, and knows from experience which are good. Having this knowledge is the difference, not just enthusiasm, because anyone can have that.

Back to student accommodation. Here's the typical spiel about investing in student accommodation: -

- Students come from all over the world to live in Melbourne and need to live close to universities.
- Low entry cost - you can become a property investor with only a small upfront deposit, so people who thought property investing was out of reach can afford to invest.
- High demand, as there is a shortage of student accommodation around universities.
- Very low to no vacancy rates, because students prefer to live in these types of apartments.
- There is often staff on-site to manage the property.

Now all the above points may be true. However, I have seen some student accommodation vacant for months. But even if it is all correct, this still does not mean they are good investment properties.

Valuer Charter Keck Cramer states there are 1900 self-contained student apartments in the Melbourne CBD, and 2300 apartments in the inner north. A further 600 apartments are in metropolitan Melbourne and 1200 apartments are under construction.

In fact, there is no scarcity in the student accommodation market. When you put a property on the market the only reason you will sell is because it is the cheapest. This is not the way to get good capital growth.

To see what I mean, and for my final comment on why I think you should stay away from student accommodation, and companies that sell them, let's take a look at Carlton in Melbourne.

Carlton is one of the premier suburbs in Melbourne very close to the city. At the time of writing this report, on www.realestate.com.au there are 101 properties for sale in Carlton for less than $250,000, and only 8 are under contract (or been sold).

The clearance rate for properties being sold in Melbourne is currently well over 80%. This means in excess of 80 should still be under contract.

So why have only 8 sold in a great location like Carlton?

All of the 101 apartments for sale are student accommodation, and I hate to say it, but more than likely those eight people made a mistake.

If you go to the other side of the city to Richmond, which is equidistant to the City of Melbourne as Carlton, there are no properties for sale under $250,000. Because as far as I know, there is no designated student accommodation in Richmond.

Auction is the dominant way of selling properties in Melbourne, and not one of these 101 apartments are for sale by auction. The reason is simple - the Real Estate Agents selling these properties know if they try to sell by auction, nobody will turn up.

The Flip Side To Getting a Bargain

Some people think the best way to buy investment property is to buy a bargain. Naturally, this statement has some merit. But if you only buy properties that nobody else is interested in, especially in a strong healthy market, you need to ask why your low offer was accepted.

Unless you are going to improve that property, what will the demand be like when you want to sell? And if demand is low, how are you going to get a good price?

My advice is that you only buy home-owner quality properties for investment.

Think about it.

When you buy an investment property, you have to have an exit strategy, which means you will sell that property one day.

But when you put it on the market, do you only want it to appeal to another investor?

My advice is NO. You should always buy a property that appeals to investors, as well as owner occupiers. This will give you the best opportunity for capital growth.

So looking at properties that no one else wants, and making lots of low offers, is counter productive to ending up with a good investment property.

You should aim to buy properties that you need to snap up before someone else does. In other words, they are in demand. That way, you will end up with a purchase that will serve you well into the long term.

I actually made this mistake with 5 of the investment properties we purchased a few years ago. Thankfully, all have now been sold or are currently being sold, so I can move our investment strategy into a smaller number of quality properties. Like I said earlier, learn from other's mistakes!

Protect Yourself and Your Future

It is absolutely vital you don't leave yourself in a vulnerable position, when buying an investment property.

Thankfully, there are a number of things you can do to ensure this doesn't happen.

Firstly, you either need to have some funds behind you, or some equity available in your home, after you have purchased a property. For most people, the equity available in their home is what they will use in an emergency. But if you use it all, and something in your life goes wrong, you can be left in a very vulnerable position.

I would rather see you pay a few thousand dollars for mortgage insurance, and have plenty of emergency funds in case something untoward happens.

A couple of years ago Gordon and Sandra came to see me about investing. They had been at loggerheads for years about property investing. Sandra was all for it, but Gordon wouldn't consider it. Just reading his body language told me he didn't even want to be in the meeting. I remember it was an after hours appointment, it had been a long day, and I was offering 60 to 90 minutes of my time at no cost, and Gordon was acting like he was about to have his front teeth pulled out without anaesthetic.

I finally got Gordon to relax by telling him it was not my job to talk him in to doing anything. I had to tell Sandra this too, as she expected me to try and convince Gordon to invest. But this is not how we work at The Successful Investor.

Basically, Gordon didn't want to put his home at risk. He also felt Sandra wanted him to do this by using the equity to buy investments.

I knew they had limited cash, so I asked him the following: - *"If something goes wrong in your life, and you needed a substantial amount of money, where would those funds come from?"*

He replied they would borrow against their home. So their only safety net was their family home. In fact, he was putting their home at risk by not having any other investments to fall back on if anything went wrong financially.

Even if they owned one investment property, and held it for just a couple of years, that would provide a buffer between their family home and financial difficulty. It is one thing selling your investment property to get out of debt, it is another to sell the family home.

Gordon came to see this point of view, and around 3 months later, purchased their first investment property. 3 years down the track they have 4.

Do Not Put Yourself In A Vulnerable Position

I am very passionate about not placing yourself in a vulnerable position, and that is why I would do everything possible to prevent Gordon and Sandra ending up in one.

Let me tell you why.

12 years ago, my wife Laurel, started a contracting position paying $18 per hour, as PA for a senior manager at Telstra. Within 2 years, she was earning over $100,000 a year.

At the same time, I was working in sales and earning a good income plus commission. We were cruising through life without a financial concern in the world.

Laurel then went for a routine visit to the doctor, and was diagnosed with cancer. She left work the day after her diagnosis, and $100,000 per year disappeared from our income overnight.

Laurel was a contractor so she had no accumulated sick leave, no long service leave and no holiday pay. While I was fully covered with income protection, Laurel didn't have any because she had previously suffered from cancer, and was no longer insurable.

Laurel and I had enough to worry about, without the added burden of her missing income, so we immediately sold one of our investment properties. This provided the funds we required to cover our expenses, so Laurel could concentrate on her treatment.

If something like this had happened to Gordon or Sandra, their home would have been at risk as they had no income protection.

Whatever you do, DO NOT use all your available equity, as this will leave you vulnerable. Take a look at the amount of equity you have, and set aside an amount, say three months net income, which you do not touch, even if that stops you investing for a while. That is the emergency fund you will need if anything unexpected happens in your life.

In other words - do not leave yourself in a vulnerable position.

About 5 years ago I had a really nice young couple come to see me about getting a loan to purchase their first investment property. They were in their 20's, and while I admired them for getting started so young, they wanted to purchase an apartment for $385,000 in a high rise in Brisbane's Mall.

They were seeking a 95% loan with mortgage insurance capitalised, which in effect meant virtually a 100% loan. As a result, they would be left with no equity or savings available after the purchase. I just refused to do it, and told them they would leave themselves too vulnerable by doing so.

They called me two weeks later to say they decided to go ahead and the bank had approved their loan. I wished them all the best and really hoped nothing would go wrong for them, but if it did, at least I could sleep at night knowing I was not part of the cause.

Please protect yourself, your family and your future in the event something goes wrong in your life. You are investing to secure your future so make sure you protect your investing strategy and your income with the appropriate insurance cover.

I spoke to a client of mine the other day who said they looked into income protection insurance, but they couldn't afford it. I said you can't afford NOT to have it. Their whole financial future was at risk without it.

Even if you have a long waiting period, perhaps two years before income protection kicks in, at least it will then protect you for the rest of your life. To have no protection for the rest of your life when you are getting started to invest, and taking on debt for investment property, is simply crazy.

So many Australians think they are doing a great job of building wealth for the future, but in reality they are in a very vulnerable situation because everything revolves around the income earners staying healthy.

By the way, the shorter the waiting period the more expensive the cover will be. So work out how long you can survive without cover by using your holidays, sick leave, and maybe even living out of your emergency equity for a while. The longer you can wait for the protection to kick in, the cheaper it will get.

I remember reading a tragic story in the *Melbourne Age* about a Melbourne family and the lack of low income housing. The breadwinner of this family had a stroke, he lost his job, and they lost their home. The mum, dad and children all ended up living in various locations with relatives because there was no low cost housing available.

When I finished reading I thought the journalist had missed a critical part of the story. There was no mention of how none of those terrible things would have happened if the family had adequate income protection and trauma insurance.

And please don't tell me you can't afford it. If you purchase an investment property worth $360,000 on average, you will gain $30,000 per year growth in equity over the next 12 years. So if you need to increase your debt by borrowing to pay your insurance premiums, and protecting your income, then please do so.

Making An Informed Decision

One of the critical reasons for not buying on the day is because you need to make an informed decision. Unless you know the cashflow of the property, and the impact an adverse interest rate movement will have on your investment, you are simply not in a position to make that call.

After all, what back up plan do you have if interest rates rise - will you still be able to afford the property?

At the same time, don't make the mistake of not buying a good property just because it is going to cost you some money out of your own pocket each week. I have seen too many people not proceed with a good property purchase simply because it was negatively geared, when in fact the amount of cash they had to inject each week was nothing but spare change for them.

I had discussions recently with a potential client from Sydney who was in a great financial position. She had an exceptional income and she owned a home worth 2 million dollars with no debt. However, her mind was set on a property priced around $250,000, but it had to be positive cashflow.

We worked out she could easily get an excellent investment property in a great location, and be out of pocket for just $50 per week. The problem was, her mindset told her to only look at average properties in average areas.

But think about this. If the lady in question had paid $50 per week, or $2,600 per year for 12 years on a $360,000 investment property (assuming the rent never goes up), you can expect your equity to increase in value on average by $30,000 per year.

So why would you not do this, to purchase a quality home in a quality location, if cashflow is not a concern?

I suggest you get your accountant to help you with this, and if your accountant can't help, then you need to get one that understands property.

Here’s my last word on cashflow.

Most people who come to see us are Australian families with a mortgage. They earn reasonable income and have equity in their home. What's more, most of these people are able to purchase a brand new 4 bedroom home in a premier Melbourne housing estate, with no weekly cash outlay at current interest rates. But, you always have to look at what the cashflow would be if rates rise!

For example, as I write this, for a family on one income of $65,000 per year, with a home mortgage at current interest rates, the cashflow on the 4 bedroom home above, would be as follows: -

- 6.1% Interest Positive Cashflow $25 per week
- 7.0% Interest Negative Cashflow $21 per week
- 8.0% Interest Negative Cashflow $72 per week

So the current figures look great, but could you afford $72 per week if rates go up to 8%? Keep in mind if you have sufficient equity, then the $72 per week could come from your loan as discussed earlier.

For someone on $120,000, the cashflow would be as follows: -

- 6.1% Interest Positive Cashflow $42 per week
- 7.0% Interest Negative Cashflow $1 per week
- 8.0% Interest Negative Cashflow $50 per week

A Special Offer For Our Readers

As already mentioned, it is essential you are aware of your cashflow position in order to start the process of purchasing an investment property.

Therefore, as part of our mission to help you stay safe, we are offering our readers a free report on any property you are thinking of buying.

Instead of the usual $195 we normally charge for a Cashflow Report, you can receive this important document free.

Your in-depth personalised report will contain two sections - one using current interest rates, and the second using a stress test which you can use to model your cashflow under an adverse interest rate movement. This way you can see how your cashflow projections will change if interest rates rise.

To apply, simply visit our website through the following link:

www.thesuccessfulinvestor.com.au/cashflowreport

Once there, you will need to complete your details in the section provided. A list of the questions can be found on the next page. To see a sample report based on a property we currently have for sale, visit the same link as above:

www.thesuccessfulinvestor.com.au/cashflowreport

Over the page are the details we require to complete your special report, which will then be posted to you.

Please note, this offer covers a limit of one Cashflow Report per person.

■ Your Name		
■ Address		
■ Email address		
■ Contact phone(s)		
■ Applicant's income(s)	A$	B$
■ Current value of home	$	
■ Current debt against home	$	
■ Value of investment property	$	
■ Anticipated rent on this property	$	
■ Owners corporation fees (if applicable)	$	
■ Annual property management fee	$	
■ Insurance costs	$	
■ Any other annual expenses	$	
■ Rates	$	
■ Depreciation estimate for first 10 years	$	

(*for a free estimation go to: - www.bmtqs.com.au or leave this blank and we will calculate it for you*)

- The name(s) the property will be purchased under

Person A:

Person B:

Joint names:

OSFA stands for One Size Fits All - But Does It Really?

- Buy houses
- Buy apartments
- Buy house and land
- Buy apartments off the plan
- Buy houses and renovate
- Buy negative geared properties
- Buy positive cashflow properties
- Buy and subdivide
- Buy a house, knock down a house, and build some units
- Buy within 7kms of the CBD
- Buy lots of properties
- Buy a small number of quality properties
- Buy, buy, buy....!

There is no shortage of experts out there telling you how to invest, and naturally they are keen to suggest their way is the only way. But one size does not fit all, so be careful when someone tells you their way is the ONLY way to invest in property.

Go to a display house or display apartment and watch as the sales person will tell everybody who walks in the door what a good investment the property is.

Go to a seminar where the presenter will tell everybody in the room that house and land packages, or whatever, are the only investments you should buy. Especially when that is all they have to sell!

The bottom line is, there is never only one solution. One size fits all does not work with investment properties. So you have to work out what is right for you.

Look on our website, you will find no properties for sale. All we have are examples of the kind of properties we recommend.

Why? Because we are not saying every property we have available is suitable for everyone who walks in the door.

We match the property and the cashflow with our individual clients, and if none of our properties are suitable - then we just tell them.

Financing Your Investment Property

I must admit I am biased in favour of using brokers, to going direct to a bank. As a former Top 100 Mortgage Broker in Australia, I actually believe brokers have something special to offer. It doesn't matter how good the person at the CBA bank is, they can only give you the best loan they have. They can't give you the best loan from Westpac, or any other bank for that matter. Whereas a mortgage broker can look at all the different lenders, and select the best package for you.

However, be very wary if a broker asks you to change banks. Keep in mind when a mortgage broker takes you from one bank to another, they get paid commission on the full amount of your current loan. If you stay put, they only receive commission on any new loans you obtain.

On average, it will cost you about $800 to move from one bank to another. Therefore, ask the broker to justify why they have suggested you move.

Beware of One Stop Shops

Be wary if you come across a property company that wants to do everything for you. Especially if they have sold you a property, and they also want to arrange your loan.

I have already mentioned this in a previous section, but if you are dealing with one of the bad operators, or with someone who is blatantly trying to rip you off, it will be in their interest not to be transparent with valuations. They will not disclose all the figures nor alert you if the property undervalues.

Instead, insist on an agreement before you start the loan process, stating they will tell you the true valuation of the investment property in question.

Don't let anyone other than yourself be in control of the process. I know it can seem too good to be true when they find you a property, have a solicitor and mortgage broker conveniently on tap, and they also tell you how great everyone else is. But ask yourself, who is in control here? Certainly not you.

Use a Tax Planning Accountant not a Tax Agent

A tax agent’s job is to simply prepare your annual lodgement to the ATO. Their scope does not extend to giving an opinion or advice on your tax affairs and structures.

So once you have an investment property, you will need to engage a tax planning accountant, who can set up any strategies and look at legal ways of minimising your tax before the end of the financial year. It is simply too late to do it in the following financial year. So make sure the accountants you work with understand property.

Likewise, make sure your accountant understands loan structures and how they work.

For example, because they have purchased an investment property, we have shown certain loan structures to some of our clients which are the most effective for helping them pay off their home loan faster. They have then taken these structures to their accountant who has not understood the figures, simply because they are tax accountants, and not planning accountants.

It is the same procedure when obtaining advice from a Financial Planner. Make sure they have an understanding of property, and they understand the different ways of purchasing property.

For instance, should you purchase a property in your own name, joint names, as tenants in common, or maybe purchase an investment property inside your self-managed super fund?

Anyone aged 40 and over should seek advice from a financial planner who has a thorough understanding of buying a property through a self managed superannuation fund.

Accepting Advice

How many times have we heard the saying - be careful from whom you take advice?

Your friends and relatives will all tell you to be careful, and that is fair enough. But as you can see in this report you need to be very careful. **Don't let poor advice hold you back, and always be wary about what motives are behind the advice you are given.**

We had a mortgage broker once who was referring clients to us. But when he realised we can sometimes recommend properties that take up to 2 years to complete, he became negative, simply because it would be 2 years before he earned any fees from setting up the loan. As a result, he told his clients to go elsewhere and deal with companies who had property ready to go, even though this was not necessarily the best option for his clients.

By the way, at The Successful Investor, we often wait up to 3 years before we ourselves receive any profit on the sale of many of our properties. We do this because we know they are good long-term investments for our clients.

When another couple came to see us, we referred them back to their broker to set up the finance, because we don't organise home loans. We offer whatever help we can, but we don't handle the finance.

The broker told them not to deal with us. He told them he had someone who could look after them instead. He then sent the couple to one of his contacts from whom he received commission. As a consequence, they ended up purchasing a very poor property.

Lucy and Rick are clients both on excellent incomes and in a great position to invest. But they nearly didn't even come to see me, because of the advice from well meaning relatives. They were told they couldn't buy an investment property because they still had a mortgage.

Today, they are well on their way to owning their first $1million worth of property. Their well-meaning relatives on the other hand simply didn't realise the potential of this couple. Lucy & Rick's goal now, is to build a multi million-dollar property portfolio.

So don't be scared to take advice. But, be careful when the advice is coming from a biased source. **If you find a property is being recommended to you, ask the following questions - why this area, why this specific builder or developer, and why this source of finance?**

Do your own research based on that information given to you. And whatever you do, don't be pressured to sign on the spot.

Getting a Valuation

The alarm bells first went off when the Real Estate Agent called my office and informed Julie, our office manager, that one of our clients' conditions were not required. They told her - "you have made it subject to valuation and this is not necessary because the bank always does a valuation. So please delete that condition."

Now to be blunt, this is simply not true. However, it is a line you will often hear from Real Estate Agents. Banks do not order a valuation on every property, so don't let the Agents tell you they do!

The reason for this is because there is very little risk to the bank, who will only lend you up to 80% without mortgage insurance anyway. In other words, their desk valuation has to be out by more than 20% before they are at risk.

The only person at risk, when a full valuation is not completed - is YOU.

That is, unless you make your offer 'subject to a satisfactory valuation.'

The interesting point here is the bank will tell you a full valuation is a vital part of the lending process, and then simply not order one.

Just look at the following from the Commonwealth Bank of Australia to see how they explain the vital role a full valuation plays in the purchase process. And make sure you read the last line.

Property valuation

Property valuation is an essential part of the Home Loan application process. In order to help, we're going to tell you what factors are taken into account when valuing your property.

Valuations are used to determine the security value of a property being offered to secure a Home Loan. A valuation needs to be carried out when you borrow to buy a new property, when refinancing, or when you want to access the equity in your home.

We will consider a number of factors to determine the type of property valuation required. In some cases, a licensed property valuer will be brought in to complete a valuation on our behalf.

To assess a property's value, a valuer will measure the property, record details on the number and type of rooms, along with fixtures, fittings and any improvements. A property's unique attributes will also be taken into account, such as:

- Location
- Building structure and its condition
- Building/structural faults
- Standard of presentation and fit-out
- Access, e.g. good vehicle access and a garage
- Planning restrictions and local council zoning

The valuer combines these attributes together with recent comparable sales in the surrounding area and prevailing market conditions to produce a valuation report.

Valuations should not be confused with appraisals carried out by real estate agents. A licensed valuer must base their opinion on hard evidence and take legal responsibility for any information they provide. Estate agents are acting for the vendor and are rewarded for getting the highest price for a property.

Also keep in mind that the cost to build a property or the asking price doesn't necessarily equate to value. It is easy to over-capitalise in real estate or be drawn in by a seller who is pitching their property above the market price.

As part of the application process, we will advise you if your property requires a valuation.

Did you read the last line?

That's right. They either make the professional valuer do all that work as above, which includes a site visit - or they decide there is no risk to the bank and say no valuation is required, leaving you at risk of paying too much for the property.

Let's assume the following scenario. You receive a letter from the bank telling you your loan is now fully approved. At this stage you might be feeling mighty relieved because you know a full valuation was done. In other words, you are safe - right?

Well no, actually!

The Bank can order a full valuation, but it might come in less than the purchase price, and yet they will still approve your loan. Not only that, they won't even tell you the property is undervalued.

Why? Because they are not at risk - you are!

For this reason alone, it is critical you deal with a mortgage broker you trust. When you do so, make sure they tell you if the bank ordered a valuation. If they didn't, then please order your own.

And if the subsequent valuation comes in low, then the choice is yours whether you proceed or not.

The main point here is not that the property exactly matches valuation at purchase price, but that you are in charge of your own decision making.

Remember, when you let a real estate agent convince you to remove that valuation condition, then the decision is out of your hands and you become vulnerable.

So are full valuations always perfect? Well no, they are not.

To give you another example. One house and land package we sold in Melbourne recently undervalued because the valuer was concerned at the impact of the first home buyer bonus being removed from the market.

In contrast, we sold an almost identical property 4 doors away on the same day, which valued at purchase price because that valuer did not have the same concerns.

Interestingly, we have offered to show the valuer through a completed property after every house and land sale we make, so they can see the standard for themselves. To date not one valuer has taken up our offer, and all valuations have been completed at a desk.

To summarise:

- Make sure your Offer is subject to a satisfactory bank valuation.
- Do not believe the Real Estate Agent when they tell you the bank will not lend you the money if it undervalues.
- Make sure you have a real understanding of the types of property in your chosen suburb and their values.
- Walk away if you need to, there is always another property.

Expensive Courses and Seminars

Listen, there are no secrets.

Everything you need for a better future and success has already been written. And guess what - all you have to do is go to the library.

Jim Rohn

As it happens, Jim could have been referring to getting educated about property investment, because so many people are paying thousands of dollars to learn information which is readily available from the local library.

There is a lot of common knowledge about property investing. Terms such as depreciation, available tax breaks, and so on, are all widely known, no matter who talks about them.

But if this is the first time you have been exposed to this information, you may think the person telling you this is a property guru, and be tempted to part with your money at a seminar or property investing course.

For many Australians, the path to contributing to the $57 million lost to scams in 2009 started with an advert just like this: -

We guarantee to find you property that will earn positive cash flow every month!

Our unique and FREE service is offered
only to Property Mentor course attendees.

Positive Cash Flow = Profit Every Month
that's AFTER mortgage payments have been deducted!

Let us show you how you can earn a fortune from
property as the recession eases and confidence grows.
We guarantee it will be the most profitable 2 hours of your life.

And how do we know this? Because you will be shown the exact same easy to follow strategies that we are using. New, up-to-date strategies specifically designed to profit from the current market conditions and the economic recovery.

Just like us, you too will be in a position to make the most of low property prices and profit from the green shoots of recovery. You will learn tax secrets the tax department does not want you to know, and hear firsthand about property techniques used for decades by the elite in this country.

As it is a free seminar, you think you have nothing to lose. You are impressed because the presenter provides a whole range of information you didn’t know about property investing.

But be warned, at the end of the evening, the organisers invariably roll out an irresistible offer. Their program will no doubt promise to uncover their unique, easy to follow strategies, not revealed anywhere else. And, you will find all this hidden gold only at their weekend property course, available at a massive discount - but only if you join tonight, with a special bonus for the first 20 action takers!

They will probably break the pact at some stage too, by using words and phrases aimed at getting you to make an immediate decision. Before you know it, you are in a queue at the back of the room signing up for an advanced course costing many thousands of dollars.

So don't do it!

No matter what they say about the offer only being available on the night, be assured the very same offer will be pulled out of the bag at the next seminar.

To read more about these seminars and how they are run, read this excellent information on the ASIC website: -

https://www.moneysmart.gov.au/investing/investment-warnings/investment-seminars

Also, gather as much information as you can before you go, and you'll be able to listen to the presenters from a position of strength. As a result, you will not be swayed by their persuasive offers.

There are some excellent books out there by people like Jan Somers.

Many books on property investing are nothing more that a long brochure for the authors business.

Read those that take your interest. But don't believe everything someone says because they have written a book. Many authors think they need to focus on one aspect of property investing to appear as the single authority on that topic. In my book The Formula I prove that there is not a one size fits all approach to property investing. You need to find the approach that works best for you.

Realistic Property Values

So how many years does it take for properties to double in value?

Well if you read what most pundits claim, it is 'common knowledge' that properties double in value every 7-10 years. This figure has been quoted again and again by Real Estate Agents all over Australia, and by companies selling properties off the plan. It has been used so often it has now become accepted as an undisputed fact by many in the industry, even by people who to my knowledge, operate ethical companies.

The problem is - it is just not true.

What I am about to say goes against almost everything you will hear from other property sales people, so read on.

I have taken some excerpts about this topic from the following an article an article on Bubpledia, a website which has since been deleted.

Please note, I have not reproduced the entire article due to it's size.

Discussion of the 'House prices double every 7 to 10 years' theory

We can dismiss this myth right off the bat. According to Nigel Stapledon of the University of NSW School of Economics, the average dwelling price in Australia in 1880 was (the pounds equivalent of) $870 in nominal terms. If prices had risen by 7.2%pa since, the average today would be $5,547,052. At 10% pa, it would be $142,888,600. Clearly, it does not pay to generalise about exponential growth!

Nonetheless, this myth has such strong legs, it makes for an interesting examination. The following are examples of the myth with some commentary: -

"Historically, house prices have doubled every ten years..."

John Fitzgerald; Untold Wealth Success from Scratch; Infomercial;
Southern Cross television infomercial.

"If you look at the investment property, it is virtually guaranteed to go up in value. The average Australian residential investment property doubles every 7 to 10 years. Now that does not mean every investment property is going to double every 7 to 10 years, some will double in less."

Jamie McIntyre; What I Didn't Learn at School but Wish I Had ; 2002.

A particularly humorous inability to calculate the exponential function comes from Malcolm Reid, a buyers agent from Melbourne and former economist with the Reserve Bank in Sydney who states: -

Let's look at the facts about property markets.

England has by far the longest uninterrupted collection of price statistics on land and property compared to any other country on earth. This is because, when the Normans conquered the Saxons in 1066 A.D., they introduced a method of governing England through a unique collection of statistics in every parish.

The Doomsday Book, maintained in every parish in England since 1088 AD, has collected meticulously accurate statistics on every birth, death, marriage and sale of land. Because of this unique and accurate history of land prices, researchers have done much study on property prices in England.

The result is that, for 919 years, property prices have risen at a compound rate of increase of 10.2% per annum. The Rule of 72 states that any number which increases at 10% p.a. compound, doubles every 7.2 years. So, for over 900 years, property prices in England have been doubling, on average, every 7 years.

To read the full article from Malcolm Reid go to: -
https://www.yourinvestmentpropertymag.com.au/market-analysis/why-melbournes-properties-will-keep-on-rising-79693.aspx

OK, these are the facts.

In the middle ages there were 240 pennies to the pound, which means that if you bought a house for a single penny and it grew at 10.2% annually, your thousand year old mud hut would be worth 112,754,230,709,517,155 times the yearly economic output of the entire United Kingdom!

Exponential growth can become extremely large over time, and the maths and the scale are not easily grasped by people. An apt quote by Albert Einstein is: - *The most powerful force in the universe is compound interest*.

Michael Yardney director of Metropole Property Investment Strategists thinks it is a done deal: -

"THE median house price in Darwin will be $8.36 million in less than 30 years, a property expert has said.

Based on an average rise in property values of 8 per cent per year, Michael Yardney *said the $8 million mark would be reached by 2036"*

"'Property values in major capitals have doubled every eight to 10 years,' he said this week.

"It's about 10 per cent per annum - but not Darwin.

'Darwin is about 8.5 per cent per annum."

- Darwin median house prices 'to reach $8m'; Northern Territory News; March 22nd 2007;

"'Now that is just an amazing figure,' Mr Yardney said. The property commentator predicts Adelaide's median house price will be $13.5 million in less than 40 years."

- Property prices tipped to soar; The Advertiser; April 18th 2007;

The Future

If you are considering investing in property, you can choose to believe that this is going to happen, and go ahead and buy; or you can accept that the 7.2% is a generalisation from a very short period of time that cannot hold in the future.

End of extract from bubblepedia.net.au

So my advice is, if anyone tells you that a property they recommend will double in value every 7 years, just don't deal with their company.

Keep in mind that many sales people will tell you they agree properties don't always double in value every 7 years, but their properties are the exception to this rule. Again, don't believe them.

Since we prepare cashflow reports for our clients, you may well ask what capital growth rate do we use?

The answer is we use 6%.

6% means a property would double in value every 12 years. However, this would not hold true for the last 120 years either. But let's be clear about this, I am not saying properties have always grown at that rate in Australia.

Based on the $870 that Nigel Stapledon of the University of NSW School of Economics says was the average dwelling price in Australia in 1880, if the property had doubled every 12 years since then, the average price now would be $1,802,240, which of course would be incorrect.

However, I am happy to use that figure based on research with my clients over the past 8 years.

To go some way to proving this, I have done the following exercise with literally hundreds of clients. In the vast majority of cases, 6% has been shown to be a realistic growth rate since the 1970's.

So let's do this exercise based on a property you, or someone you know, had purchased. Try to project figures back to the 1970's, which would give us 40 years of growth to work with.

For our example let's say this sample property was built in 1974 for the sum of $50,000.

As you can see, after every 12 years, the property doubles in value.

Year	Purchase Price
1974	$50,000
1986	$100,000
1998	$200,000
2010	$400,000

Hopefully you, or the person you are asking, knows the current value of your property. This will help demonstrate how valid my theory of 6% capital growth projection is.

But don't take my word for it, put it to the test yourselves in different scenarios. You will find 6% is a realistic growth rate.

One of my friends Steve said to me the other day - “Michael you are always telling us to do that exercise to show that 10% growth is not realistic. But I did it on my parent's home, and they actually got 10% growth since the 1970's."

What Steve forgot to factor in was the $150,000 renovation completed a few years ago!

In any case, I am not saying 10% growth, or doubling every 7 years, never happens. Because if you purchased a flat in Bondi in the 1970's it probably has achieved this result. What I am saying is you should not believe this figure when it is quoted offhand by someone trying to sell you any property.

Just for fun, let's see what that sample $50,000 property would be valued in 2010 based on a 7% and 10% growth rate.

Year	6% Growth	Year	7% Growth	Year	10% Growth
1974	50,000	1974	50,000	1974	50,000
1986	100,000	1984	100,000	1981	100,000
1998	200,000	1994	200,000	1988	200,000
2010	400,000	2004	400,000	1995	400,000
		2010	642,000	2002	800,000
				2009	1,600,000
				2010	1,760,000

So based on our realistic growth rate of 6%, the sample property would be worth $400,000, $642,000 at 7% growth, and $1,760,000 at 10% growth.

Obviously $1,760,000 is unrealistic. Maybe some properties could be worth close to $642,000, but keep in mind we are speaking about un-renovated properties, and when sales people quote double in 7-10 years, they are giving the impression 10 years is the maximum it would take.

I always like to be conservative, and so should you. Also keep in mind if you purchase 2 investment properties worth $400,000 each at 6%, your average growth over a 12 year period would be $66,000 per year. So if you work on obtaining this result and get more, just treat it as a bonus.

By the way, did you notice if you earn $66,000 per year, buying two properties will earn you the equivalent of your total income. And if you sell, you will only pay half the tax you pay on your salary.

As I said, run the figures for yourself and make up your own mind.

Making An Offer

I hope by now you have found the information in this report of interest, and it helps you stay safe when you venture in to the Property Investment Market.

At The Successful Investor, we sell mainly new house and land, and new apartments off the plan, so most of the advice in the report relates to that section of the Investment Property Market. For those of you who are buying existing properties, either for investment or to live in -

This section is really important!

I have lost count of how many of my clients were saved from making a major mistake by getting hold of the following information in this section.

Conditions on making an offer to purchase a property, are being increasingly added to the purchase contract by the Real Estate Agent acting for the vendor.

They are your conditions, so why would you let someone representing the vendor dictate the conditions you have on your offer?

Dealing with Real Estate Agents is a game, a game they like to control. You can either let them run the show and dominate proceedings, or you can toughen up, get involved and show them you know how to play by the same rules.

Let's look at a likely scenario. You have found a great property, it looks in good condition, but you tell the agent your offer will be subject to a building and pest report, just to be on the safe side. The Agent tells you they have no problem with your request, and supply the purchase contract with the building inspection clause conveniently included.

Now let's look at a typical building condition put in the contract by the real estate agent, who is, you remember, acting for the vendor.

Please read this condition very carefully and see if you can spot anything in the wording that would prevent you from signing.

Building Inspection

The contract is conditional upon the buyer/s obtaining at their expense a written report from an independent registered builder or qualified structural engineer, certifying that the dwelling on the property is structurally sound within 14 days of acceptance of this contract.

If the report discloses that the dwelling is not structurally sound, the buyer/s may at the buyer's option, terminate this contract by written notice, supported by a copy of the report, to the vendor within 24 hours of receipt of the report.

If the buyer fails to obtain the report within the prescribed time (in accordance with clause 1 above) the buyer agrees that he/she shall be deemed to have waived the benefit of this clause without further notice from either the buyer or the seller.

Okay, so what is wrong with this condition - did you spot the clause?

What does NOT STRUCTUALLY SOUND mean?

Think about it, you signed the contract and the building report comes back containing the following faults:

- The gutters are rusted and require replacing.
- A number of the windows have severe rot and need to be replaced.
- The shower has been leaking in to the wall causing the tiles to be loose.
- Tiles have been laid in the bathroom directly over old floorboards.
- The new kitchen is a poor quality flat pack kitchen.
- And so on...

You call the building inspector and ask him if things are really as bad as they look, and he tells you he would run a mile from this ongoing maintenance nightmare.

You then call the Real Estate Agent and tell them you are not going ahead because of the building inspectors report.

The agent says you have that right as set out in the Building Inspection clause. Please send a copy of the report. Which you do right away.

The next day you receive a call from the Agent who tells you the vendor has gone over the building report, and as a result are not willing to let you out of the contract, because the report does not state - the property is not structurally sound.

And they are right. You are obliged to proceed with the purchase because you signed the above clause, and on settlement day, the Agent takes a bottle of wine to the vendor, and makes sure the vendor is reminded how clever the Agent was to use that specific wording in the building report condition.

Make no mistake, this clause is written this specific way to prevent you from withdrawing from a purchase due to a bad building inspectors report. Very few properties are deemed structurally unsound, so in effect, this clause leaves you without an effective building inspection get out clause.

Now here's where you need to be careful. Many Real Estate Agents will really give you a hard time about changing this clause, and especially when you cross it off the contract and insert your own wording.

I find the good agents simply put up their hands and say - *"you got me."* They know they were trying to remove your protection, and you caught them at it.

The others though can be quite feral about you changing the clause. They are not used to you, the purchaser, knowing your rights in this matter, and some can hardly cope when they realise they lost control of the process.

Instead, they will tell you your conditions are not acceptable to the vendor, who has been suitably advised by the agent not to accept it. They might even wheel out the one, and claim it is a standard clause in all contracts in Australia! What they really mean is they have used this clause for so long now it has become standard to them.

So stand your ground and change the wording. Do not believe them when they make these claims, no matter how strongly or how many times they say it to you.

We recently purchased a house in Healesville, and when we changed that clause in the contract wording to be in our favour, (see below), the agent just could not cope.

He was only a young kid who had never faced a buyer who knew their way around the industry. So handed me over to his colleague. She was not much older, but thought she knew it all.

We ended up having a heated discussion for over an hour about this condition, and she still insisted it was a standard REIV clause. I said it was not. It then started to get ridiculous when she claimed we could withdraw from the contract if there was a splinter sticking out of a doorframe. I agreed, but asked why I would do this when I wanted to purchase this particular property?

We were buying for lifestyle, and did not want to miss out on making an offer. So after we both signed, which I insisted happen on the same day, I then told them I had organised for a building inspector to visit the very next day. I also mentioned if I didn't like the building report, I would pull out during my cooling off period. Well, they nearly had a heart attack and claimed I couldn't enforce this condition, but as it turned out, we ended up buying the property anyway.

I then wrote to the Real Estate Institute of Victoria (REIV), and asked them to send me a list of their standard purchasing conditions. The reply was exactly as I expected. They asked if I meant the conditions designed to protect a buyer when purchasing a property. If this was the case, they stated they did not have any standard conditions. They suggested we contact the Law Society instead.

I then sent the email to the owner of the Healesville Real Estate Agency, and suggested he show it to his staff so they no longer entered into any arguments with potential purchasers who knew what they were talking about.

I also pointed out the clauses were to protect the buyer, and suggested the manager inform his Agents, as they seemed to think the clauses were there to protect the vendor - and their sale of course.

The Pest Inspection Condition

Again, here is a standard clause inserted in the contract by many Real Estate Agents. Please read it carefully and see if you would be happy to sign.

This Contract is conditional upon a Termite Clearance Certificate being obtained at the expense of the Purchaser from a recognised and reputable Pest Control Company, certifying that the buildings are free from termite activity as at the date of inspection, and stating also whether there is damage occasioned by previous activity.

The Timber Pest Inspection report must be to Australian Standard 4349.3 or 1998. Should the certificate disclose infestation or damage and should the Vendors be unable or unwilling to remedy or rectify such infestation or damage, the Purchaser may at any time prior to ten days from the date fixed for Settlements, by notice in writing terminate this contract whereupon the contract shall be at the end and all monies paid hereunder shall be repaid to the Purchasers without deduction.

If you are like most people, you might read this and think it all looks OK.

Now this is why you need to engage a Solicitor or Conveyancer who knows about these and other clauses. If they question you when you ask to see their recommended building and pest inspection clauses, go somewhere else.

To illustrate this point, I was once referred to a conveyancer in South Australia, and passed on their details to my client. When my client received the contracts and called the conveyancer for advice, he was told to just sign the paperwork and send them back to the Agent with a copy for himself. When the client called and told me what had happened, we dropped them immediately and found a quality solicitor who continues to service our clients to this day.

Let me tell you another real story that happened to one of my clients regarding this specific Pest Inspection clause. As they were in the process of buying a property in South Australia, they changed both the building and pest clauses to our recommended versions, but had to battle with the selling agent to do so.

Eventually they got the pest report completed first. In fact, my advice is you don't pay to have them both done at the same time, because if the first one is bad enough for you not to proceed, why pay for the second inspection?

The pest inspector then called my client and told him the owners tried to hide the fact the place was riddled with termites by laying a new floating floor, and putting the property on the market. His advice was to stay well clear.

Now read this clause again: -

If the Vendor is unable or unwilling to remedy the infestation, it states, the Purchaser may terminate the contract.

So with this wording, they would have been forced to still buy this property if the Vendor had simply said they will deal with the problem by killing the termites.

Would you have wanted to still buy this property?

On my advice, and the advice of the pest inspector, my client withdrew. They were able to do so because they stood up to the agent who didn't want them to change the clauses.

By the way, the agent was very shocked to find out about the termite damage as he had no idea!

Clauses

Remember, we are not Solicitors, but here are the building and pest conditions I personally put in my contracts. Please do not use these clauses without first having them approved by your own Solicitor.

Annexure 'A'

Pest Inspection Report

This Contract is conditional upon a Pest Inspection Report being obtained at the expense of the Purchaser and accepted as satisfactory by them within 14 days of acceptance of this contract.

If the report is not to their satisfaction, the Purchaser/s may at their option, terminate this contract by written notice, supported by a copy of the report, to the vendors Agent prior to the date of 14 days from acceptance.

Whereupon the contract shall be at the end and all monies paid hereunder shall be repaid to the Purchasers without deduction.

Annexure 'B'

Building Inspection Report

The contract is conditional upon the Purchaser/s obtaining at their expense a Building Inspection Report accepted as satisfactory by them within 14 days of acceptance of this contract.

If the report is not to the purchasers satisfaction, the Purchaser/s may at their option, terminate this contract by written notice, supported by a copy of the report, to the vendors Agent prior to date of 14 days from acceptance.

Whereupon the contract shall be at the end and all monies paid hereunder shall be repaid to the Purchasers without deduction.

Now just a couple of quick tips, these relate to the State of Victoria, so please check with your solicitor in other States.

Cooling-Off Period

You are entitled to a 3 day cooling-off period, and it starts from WHEN YOU SIGN THE CONTRACT, not from when the vendor signs. So, if you sign on a Monday and the Agent can't get hold of the Vendor until Thursday, your cooling-off period has disappeared.

Please note if you obtain legal advice before you sign the contract, your cooling-off period is also waived.

So be particularly wary about anyone who sells you a property and then wants to take you to a solicitor right away to ‘take care' of the paperwork. They may be doing so in order to lock you in to the sale, and prevent you from changing your mind when you go home to think it over.

Subject to Finance

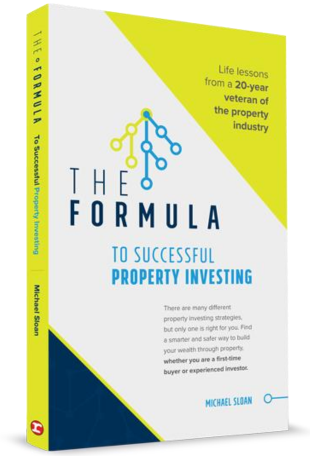
Most Agents will agree with the number of days you are entitled to arrange finance, and then put a date in the contract to this effect.

For example, say you sign on the 1st day of the month, and the agent gives you 21 days to arrange finance, to which you agree. They then put the Subject to Finance Date as the 21st - (don't let them put 14 days, it is too short).

But then they take a week to get the vendor to sign the documents and get them back to you. So in effect, you now have only 14 days to get your finance sorted.

To get around this, you need to put into the contract that your offer is Subject to Finance 21 days from acceptance of your offer. This means you have 21 days from when the vendor signs, not from when you sign.

A Final Word



Property investing is a wonderful adventure. There is so much opportunity out there waiting for you - so don't leave it too late to get started.

I plan on updating this report on a regular basis. So if you have a story to tell, perhaps one that might save someone else from making an expensive mistake, then we would love to hear from you. Similarly, email me with any feedback or other suggestions you might have.

You can reach me directly at - michael@thesuccessfulinvestor.com.au

And just to keep you in the loop, my new book has been released; 'The Formula to Successful Property Investing.' I am excited to share more critical, up-to-date information about safely investing in property with you, presented in the most understandable and honest way.

The first 3 chapters are free, just click here to download them.

But I'd love to hear your story. Has any of this piqued your interest? Perhaps you're getting serious about building a stable financial future through property investment? Either way, I'd love to chat.
Just click here to organise a time for us to talk.

All the best, and I look forward to speaking with you.

Michael Sloan
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