# HOW MANY PROPERTIES DO YOU NEED TO RETIRE?

**by Michael Yardney**

*If you're like over 1.7 million other Australians you own at least one investment property, but have you ever wondered how many properties is enought to retire?*

Metropole
KNOWN | PROVEN | TRUSTED

Michael Yardney's
propertyupdate.com.au

# >>Michael Yardney

This special report is brought to you by Metropole Property Strategists and Michael Yardney's Property Update Blog

www.PropertyUpdate.com.au



Phone: 1300 METROPOLE
Website: www.metropole.com.au



# What's your end game?

Have you ever wondered how may properties you'll need to retire comfortably?

If you're like over 1.7 million other Australian's you own at least one investment property and if you're like many more, you're probably thinking of getting involved in property investment.

So what's your end game? Why are you doing it? For many it is to give them more choices in life – to be able to go to work because you want to, not because you have to; but for some it is to retire.

## How much do you need to enjoy your retirement?

Financial planners often suggested that, based on current average annual returns, a couple will need close to $1,000,000 in superannuation when they retire in order to maintain a modest post work lifestyle.

In my opinion that would only give them a very modest lifestyle since they would in general live off the $40,000 or so interest they receive on this, or on dividends from the shares in the super fund.

Apparently a single person requires about $800,000 to live modestly.

I think you will need much, much more than this to fund a comfortable retirement.

Either way this means millions of Australians will struggle in retirement, because only 10% of Australians have more than $100,000 in their super accounts.

I read a report by the Association of Superannuation Funds of Australia that says:

> "On the basis of the current average superannuation balance and average income of those aged 35 to 44 and the assumption of only compulsory superannuation contributions being made, the average retirement superannuation payout at age 60 for a male currently aged 35 to 44 would be $183,000, while for a female it would only be $93,000."

Now that's scary stuff...

With 5.3 million Baby Boomers transitioning into retirement over the next fifteen years or so, most won't be able to live the retirement they dreamed of.

## So how much super is enough?

I guess the real question is: how much money do you need for your retirement?

Well...lifestyle is a very personal thing —luxury living for one person is a modest existence for someone else.
While you're in your working years choosing a lifestyle is simple — most of us live the life we can afford. If we want a fancier lifestyle, we need to earn more, win the lottery, marry someone rich or inherit money from a wealthy relative.
However if you want a comfortable life in retirement, then you had better start working on your financial independence now. Super alone is unlikely to get you there, but I guess you know that, which is one of the reasons you're reading this book.

## Just how many properties does it take to enable you to quit your day job and live comfortably?

The answer is simple ... It depends.
Okay that's probably not what you wanted to hear, but in fact it's a bad question.
It doesn't really matter how many properties you own. What is more important is the value of your asset base and how hard your money works for you.

Why do I say this?

**Because I'd rather own one Westfield Shopping Centre than 50 secondary properties in regional Australia.**

## Have you ever wondered how you will live off your property portfolio?

While many investors know that they want their properties to replace their income, I've found most don't really think about how they'll actually achieve financial freedom.

They don't have a strategy. They don't have a plan. They just hope it will happen.

Other investors think that they'll live off their rental income, yet I rarely see this happen. It's just too hard to grow a sufficiently sized portfolio of cash flow positive properties to replace your income.

On the other hand, the wealthy investors I deal with have built a cash machine by first growing a substantial asset base of high growth properties, and then lowering their loan to value ratios (LVR) so that they can transition into the next phase, the cash flow phase of their investment life.
They lower their LVR in a variety of ways.

For instance they could:

- stop (or slow down) buying properties, so that while the value of their portfolio keeps rising, their loans remain much the same.
- add value to their properties by manufacturing capital growth through renovations or development;
- pay off some debt using their superannuation;
- reduce their debt by paying off principal and interest; or
- sell a property or two.

Remember the first phase of wealth creation through property is to educate yourself.

The next phase involves building a substantial asset base. Only then can you transition into the cash flow phase of your investment journey.
At this stage many sophisticated investors add commercial properties to their portfolios, as these tend to be higher cash flow but lower growth types of investment options.

## Can't I just live off the rent?

It's not as easy as you thing...let's say you want an annual after tax income of $100,000. How are you going to achieve that? How many properties do you need?

If your plan is to eventually pay down your debt and live off the rent, you'll probably need at least $4 million worth of properties, with no mortgage, to achieve that $100,000 after tax income.

**Don't believe me?**
The average gross yield for well located properties in Australia is around 4%, but let's be generous and say you earn a 4.5% yield across your property portfolio.

This means if you eventually own $1 million worth of properties with no debt, you'll get $45,000 rent. But you'll still have to pay rates, insurance and agents commissions and repairs; leaving you with something like $35,000 a year. And then you'll have to pay tax on this income.

When you do the sums you'll see that you need an unencumbered portfolio worth at least $4 million to earn that $100,000 a year after tax. Remember that's $4 million worth of property and no mortgage debt; otherwise your cash flow will be lower. And of course you'll also need to own your own home with no debt against it.
In essence, you'll need $4.5 to $5 million worth of property.

**Let me ask you a question...**

Will you ever be able to save four or five million dollars?

Will you ever build a portfolio that size on a few dollars a week positive cash flow from your rental income?

That's why I advocate you build a substantial asset base by taking advantage of leverage and compounding growth of the value of well located properties.

In my mind the only way to become financially independent through property is to first grow a substantial asset base (by buying high growth properties) and then transitioning to the next stage – the cash flow stage – by lowering your debt, but not paying it off completely.

## Here's how it works

Fast forward 10 or 15 years and imagine you own your own home plus $5 million of well-located investment properties.

If you had a typical 80% Loan to Value Ratio (LVR), you would be highly negatively geared. On the other hand, if you had no debt against your property portfolio you would have positive cash flow, but would forego the benefits of leverage.

Somewhere in the middle, maybe at 45% to 50% LVR, your property portfolio would be self-funding. You may even have a little cash flow left over, but not enough to live on.

If you think about it, it will be much easier to amass a $5 million property portfolio with $2.5 million of debt than the same size portfolio with no debt.

You could then go to the bank and explain that you've got a self-funding portfolio that isn't reliant on your income and in fact, provides a little surplus cash for serviceability. You would then ask for an extra $100,000 loan, so you increase your Loan to Valuation Ratio slightly.

The good news is that because it's a loan you don't have to pay tax on this money because it's not income. But you would have to pay interest, which won't be tax deductible if you use the money for your living expenses.

This means after the interest payments you're left with around $93,000 to live on.

**Crunch the numbers...**

At the end of the year, you've "eaten up" your $100,000; but in a good year, your $5 million property portfolio would increase in value by say $400,000.

In an average year it will have increased in value by $300,000 and in a bad year it may have only gone up by $150,000 or $200,000.

Of course your rents will also have increased because your properties have grown in value. Sure you've used up the $100,000 you borrowed, but because your portfolio has risen in value, along with rents, your LVR is less at the end of the year than the beginning, so you finish off the year richer than you began it. You truly have a cash machine, and then you can do this over and over again.

## Does this really work?

In the old days living off equity was easy. You just had to go to the bank and get a low doc loan and as long as your properties increased in value it was smooth sailing.

Sure it's harder today, but it's definitely do-able. You have to own the right type of property and lower your LVR to show serviceability to the banks.

Needless to say, you can't achieve this overnight. It takes time to build a substantial asset base and a comfortable loan-to-value ratio. But if you take advantage of the magic of leverage, compounding and time, it happens.

Of course this strategy depends on the growth in your property portfolio and your ability to ride the property cycle, I explain how to achieve this in my best selling books Michael Yardney's Rules of Property and How to Grow a Multi Million Dollar Property Portfolio – in your spare time.

## My Living Off Equity Strategy

To ensure that you better understand the concept, let's examine the numbers in more detail. To make things easy, let's just use today's dollar values when we make our projections otherwise things become a bit too complicated.

Again let's imagine you own your own home and have paid off the mortgage as well as now owning a substantial property portfolio.

You've built your asset base and now transitioned into the cash flow phase of your investment life by slowly lowering your Loan to Value Ratio to 50 % and you're ready to live off your Cash Machine. (This rent return is low, but keep in mind it's net after rates, agents' commissions, repairs etc.)

In the following table, we are going to see how these figures change over a 10-year period – which should encompass a complete property cycle. During this time I have allowed for periods of poor capital growth and strong property growth as well as periods of low interest rates and higher interest rates.

Your investment property portfolio could look a bit like this:

Total value of investment properties - $5 million
Loans - $2.5 million
Equity - $2.5 million
**Net Rental return before interest - $175,000**

I have also assumed that because you're living your life to the fullest your cost of living increases by 6% each year and your rental returns increase around the same as the growth in your property values.

These are the assumptions I've used:

| | Inflation | Capital Growth | Interest Rates | Lifestyle Costs |
|---|---|---|---|---|
| Year 1 | 2.50% | 4.00% | 6.00% | $100,000 |
| 2 | 2.70% | 4.50% | 6.25% | $106,000 |
| 3 | 2.80% | 5.00% | 6.75% | $112,360 |
| 4 | 2.90% | 5.50% | 7.00% | $119,102 |
| 5 | 3.00% | 6.50% | 7.00% | $126,248 |
| 6 | 3.00% | 8.00% | 7.50% | $133,823 |
| 7 | 3.30% | 9.00% | 8.00% | $141,852 |
| 8 | 3.40% | 11.50% | 8.50% | $150,363 |
| 9 | 3.50% | 13.00% | 8.25% | $159,385 |
| 10 | 3.60% | 13.00% | 8.50% | $168,948 |
| Average: | 3.07% | 8.00% | 7.38% | |

Let's see what these assumptions do to the value of your properties and your loans over this 10-year period:

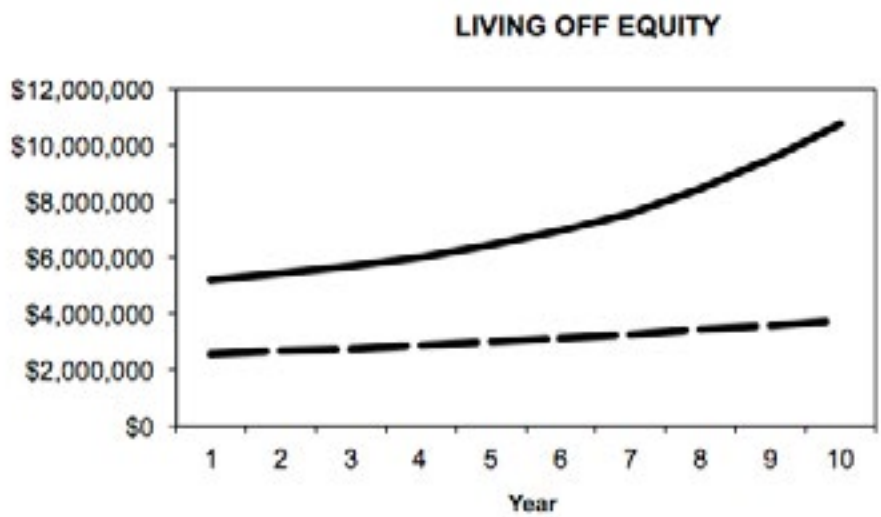
| | | Value Of Properties | | Loans & Expenses | | | | | Loan |
|---|---|---|---|---|---|---|---|---|---|
| | Equity | Start of Year Value | End of Year Value | Loans | Rent | Interest | Living Costs | New Loan Balance | to Value Ratio |
| Year | | | | | | | | | |
| 1 | $2,500,000 | $5,000,000 | **$5,200,000** | $2,500,000 | $175,000 | $150,000 | $100,000 | **$2,575,000** | 50% |
| 2 | $2,625,000 | $5,200,000 | **$5,434,000** | $2,575,000 | $182,000 | $160,938 | $106,000 | **$2,659,938** | 49% |
| 3 | $2,774,063 | $5,434,000 | **$5,705,700** | $2,659,938 | $190,190 | $179,546 | $112,360 | **$2,761,653** | 48% |
| 4 | $2,944,047 | $5,705,700 | **$6,019,514** | $2,761,653 | $199,700 | $193,316 | $119,102 | **$2,874,371** | 48% |
| 5 | $3,145,142 | $6,019,514 | **$6,410,782** | $2,874,371 | $210,683 | $201,206 | $126,248 | **$2,991,142** | 47% |
| 6 | $3,419,640 | $6,410,782 | **$6,923,644** | $2,991,142 | $224,377 | $224,336 | $133,823 | **$3,124,923** | 45% |
| 7 | $3,798,722 | $6,923,644 | **$7,546,772** | $3,124,923 | $242,328 | $249,994 | $141,852 | **$3,274,441** | 43% |
| 8 | $4,272,332 | $7,546,772 | **$8,414,651** | $3,274,441 | $264,137 | $278,327 | $150,363 | **$3,438,994** | 41% |
| 9 | $4,975,657 | $8,414,651 | **$9,508,556** | $3,438,994 | $294,513 | $283,717 | $159,365 | **$3,587,583** | 38% |
| 10 | $5,920,973 | $9,508,556 | **$10,744,668** | $3,587,583 | $332,799 | $304,945 | $168,948 | **$3,728,676** | 35% |

As you can see from these calculations, even despite poor growth in the value of your properties in the first few years and the fact that each year you borrow money to live off the increasing equity in your properties, you still end up with more equity than you began the year with.

Your position would look even better if the capital growth of your properties was higher in the first few years of the 10-year period, but I did not want to illustrate an over-optimistic example.

## Let's look at these same sums graphically

You can see that even though your loans are increasing each year, your net equity – how much you are worth after you subtract all of your loans from the value of your properties – is increasing faster than you can spend your money.



## Will the banks keep lending me money?

Before I answer this, remember that if you follow this model you still are earning income – in fact you're getting it from two sources:

**First, the Passive Income** you receive from the growth in value of your property portfolio. Of course banks don't usually recognise this capital growth as income. They would much rather see wages or rents cover the mortgage payments. The good news is you don't pay tax on this income.

**Second, the Rental Income:** Remember I suggested that you lower your loan to value ratio so that your rental income at least covers your property expenses and your mortgages? Depending upon your returns, this means your LVR will have to be around 45 to 50%.

At the time of writing banks are still cautious and reluctant to refinance property portfolios based purely on the prospect of capital growth.
What this means is that as you become a sophisticated investor you are going to have to lower your Loan to Value ratios (decrease your debt as a proportion of your portfolio) using one of the strategies that I mentioned a few moments ago.

And as you do, your property portfolio Cash Machine will start producing more cash flow. And if you substitute a commercial property or two for some of your residential properties this will increase your cash flow even more.

Of course a by-product of not being as highly leveraged is that your asset base will not grow in value as fast, but that's okay because you are now in the cash flow stage of your investment life, not the asset accumulation stage.

## Do you have an asset protection plan?

Of course this strategy depends on the growth in your property portfolio over the years and your ability to ride the property cycle.


This means that as you build your asset base, buying high-growth properties and adding value, you will need an asset protection plan to see you through the highs and lows that you'll experience. After all, over the next ten years we'll have good times and bad. There will be periods of high interest rates and times of lower interest rates. And we'll have periods of strong economic growth, but there will also be downturns.

Savvy investors count on the good times but plan for the downturns by having an asset protection plan, as well as a finance and tax strategy to make sure they set up their structures in the most efficient way.

## Don't get me wrong

While I've just made gaining financial freedom from property investing sound simple, it's not easy.
If you want financial freedom from property investment to fund your dreams, you're going to have to do something different to what most property investors are doing. You're going to have to listen to different people to whom most Australian property investors listen.
You're going to need to set yourself some goals and follow a strategy that's known, proven and trusted.
Then you grow your property investment businesses one property at a time and of course you need to buy the right type of properties.

# Six Reasons Most People Will Never Get Rich...

# And How To Make Sure You Do!

In the first chapter of this eBook I made it sound so simple... buy the right type of property, use the magic of leverage, compounding and time, and you'll own a multi-million dollar property portfolio that will lead to financial freedom.
But as I said...it's not easy. Most property investors fail.

**"Fear keeps many of us from getting what we want, especially in matters of money. It's true for me and it's true for you."**

More than half of all Australians who buy an investment property sell up in the first 5 years, and of those who stay in the market, less than ten percent ever own more than two investment properties. In fact less than one in two hundred property investors own six or more properties.
So as I said...

## Most property investors fail!

However having worked with thousands of property investors over the years, I discovered that successful investors do things in a certain way that helps them become rich while others continue do things differently and in general they tend to struggle.
I've come to the conclusion that when you do what these successful investors do, you get to become one of them, and if you don't, you won't.

**So lets look at six simple reasons most people will never get rich and how to make sure you do:**

## Reason 1. Most people wait too long to start

Most people can't wait to succeed, yet they are willing to wait to get started on the road to success.

Many investors are waiting for everything to be "perfect" before they get going. They wait for the right time in the cycle, the right property, the right economic environment or the right interest rates. Which means they never get going.
The longer you wait to get started with your investing, the longer it will be before you get the money, success and freedom you want. It takes time to grow real wealth. It takes time for the power of compounding to work its magic.

Fear keeps many of us from getting what we want, especially in matters of money.
It's true for me and it's true for you.

You need to understand that the timing will never be perfect or you will never have all the information you want. You need to develop the confidence to make an investment decision based on knowing enough and realising that you will learnt he rest along the way.

## Reason 2. Fear stops them

Be honest with yourself and count the number of times fear has prevented you from taking action, and in the process cost you a lost financial opportunity.

In the matter of property investment fear holds many investors back. Some fear taking on more debt, others fear failure and some even have a fear of success (will my friends still like me?)

Successful investors have learned to harness their fears and rather than focus on the negatives, they use fear to force them into positive action. For example, rather than allowing fear of debt to stop them taking on the commitment of buying a property they use the fear of not moving forward with their investments to motivate them. They use the fear of being stuck in their job for the rest of

their lives, without the financial independence that they are craving, to motivate them to take on the commitment of an investment property.

Just like a river, fear can be bridged.

The river of fear is only as deep and as wide as you allow it to be. And once you've crossed that river of fear and experienced the success on the other side, you usually look back and wonder why you were ever afraid.

But here's the catch. The only people who actually realise this are those that have crossed the river and stand on the other side.
Money and success lives on the other side of fear.

## Reason 3. Waiting until they know enough

The fear of not knowing enough prevents other investors from getting started.

However the irony here is that the more you learn, the more you learn that you don't know! Once you start learning some basic investment concepts you suddenly realise there are a whole lot more things about investing or property that you don't understand.

That's the paradox of knowledge. The more you learn, the more you learn you don't know. The trap is that many investors think that the way to escape this paradox is to learn even more, so they read more books, go to more seminars, listen to CD's and watch DVD's.

As they learn more they find a whole heap more things they don't yet know.

The way out is to recognise that while you don't know it all, and you never will, you do know enough to get started with your investing and you will learn more along the way as you apply your knowledge in the real world, surviving any mistakes and challenges along the way.

## Reason 4. Focusing on linear income instead of passive income

It is important to realise that not all income is created equal. Some streams are linear and some are passive.

**Linear income** is what you get from a job. You work for an hour and get paid once for that hour's work, and that's it. If you don't turn up to work you don't get paid.

**Passive income** is when you work once but continue to get paid over and over again from work you're no longer doing. The way to become wealthy is having passive income coming in whether you go to work or not.
Wouldn't it be nice to be paid hundreds of times for every hour you work?

That's what happens to property investors. Initially they work long hours and save up a deposit and then invest it into a property. Now their money starts working for them and keeps giving them sound investments returns "passively" in the form of capital growth and rental returns. Rather than getting another job, the wealthy people know they need to send their money out to work for them.

To put it simply -

> **"if you're not making money while you sleep, you'll never become rich."**

## Reason 5. Not using systems for making money

A system for making money is something that takes the emotion out of your investment decisions and makes the results more reproducible.

My preferred system is investing in high growth property.
In particular I invest in high growth properties in areas that are in the upturn stage of their property cycle. I buy them below replacement cost and then add value through renovations or redevelopment. I never sell these properties.

I borrow against the increasing equity in my property portfolio to buy more properties.
Once you create a proven system for making money, there is no limit to the money you can make.

## Reason 6 - Not being patient

Warren Buffest once said:

> **"wealth is the transfer of money from the impatient to the patient."**

To become a successful property investor requires patience and persistence. You must not only get started, but you must continue on and follow through.

Residential property is a long-term investment. It's not a get rich quick scheme.

Yet many investors speculate rather than invest. They look for that "big deal" which will land them a jackpot in a short period of time. In general these types of deals rarely occur and if you find one are speculative in nature and more risky.

The problem for many investors is that the successful buy and hold strategy I advocate is boring and others consider it slow. But successful property investment is a long-term affair.

Many investors look for the latest fad or try finding the next hot spot or speculative growth areas. Other investors consider other types of investments with potentially higher returns.

When you are tempted to do this remind yourself that real estate has been the number one long-term multi-millionaire maker throughout New Zealand's history, yet most people that speculate in the latest fads have not made much money.

You don't have to look for the latest fads or the latest speculative growth areas if you create your own capital growth through buying a good property at a fair price, then adding value through refurbishments, renovations or redevelopments. By doing this you are manufacturing your own capital growth.

## So, it's really quite simple...

Decide to do these six things that successful property investors do and you are much more likely to become a successful and wealthy property investor. If you don't do them, then like most people, you may never get rich.

# The Secret to Successful Property Investment

Trevor, a client, recently asked me:

> **"What's the secret to successful property investing? What did you do differently to the average investor to build you wealth?"**

I think I disappointed him when I told him that there is no real secret! Successful investors just follow a system that is rooted in the real world and has stood the test of time in changing markets.
When Trevor asked for more details I explained my:

## My top down approach

The property investment system that has helped me build a very substantial property portfolio uses what I call a top down approach.

**1. It starts with buying at the right stage of the economic cycle.** I look at the big picture – how the economy is performing and where we are in the economic cycle.

**2. Then I look for the right state in which to invest.** While I don't try and time the property cycle, I don't want to buy near or just after the market peak.

**3. Then I look for the right suburbs within that state** – ones that have had a long history of outperforming the averages and that are likely to continue to do so in the future because of their demographics. I've found some suburbs have 50 to 100 per cent more capital growth than others over a 10-year period. Obviously those are the suburbs I target.

These are areas where more home buyers want to live because of lifestyle choices and are locations where the locals are prepared to, and can afford to, pay a premium price to live because they have high disposal incomes.

This is different to the speculative approach some investors adopt. They say things like, "Oh, this suburb hasn't had much capital growth – maybe its time has now come," or, "That's a brand-new suburb. They're getting a train line down there so it must grow in value."

**4. I then look for the right location within those suburbs.** Think about the suburb where you live – there would be areas you'd happily live in and areas you would avoid, like on main roads or too close to shops, schools or commercial areas.

**5. Then I look for the right property**, using my 5 Stranded Strategic Approach which I'll explain in a moment. And finally I look for …

**6. The right price.** I'm not looking for a "cheap" property (there will always be cheap properties in secondary locations). Instead I look for the right property at a good price.

I choose my properties in that order going from the macro to the micro, which leads some people to ask why price is at the bottom of the list.

Fact is you make your money when you buy your property not because you got a bargain, but because you bought the right property – one that will be in continuing strong demand by both owner occupiers (who push up property values) and tenants (who will help you pay off your mortgage).

To ensure I buy a property that will outperform the market averages I use my...

## 5 Stranded Strategic Approach

**I buy:**

1. A property that will appeal to owner occupiers because they're the ones that push up property values.

2. Below its intrinsic value – that's why I avoid new and off the plan properties, which come at a premium price.

3. In an area that has a long history of strong capital growth and which will continue to outperform the averages.

4. I look for a property with a twist – something unique, special, different or scarce about the property, and finally

5. A property where I can manufacture capital growth through refurbishment, renovations or redevelopment.

By using a strategic approach I minimise my risks and maximise my upside. Each strand represents a way of making money from property and combining all five is a powerful way of putting the odds in my favour. If one strand lets me down, I have three or four others supporting my property's performance.

Trevor then asked me...

## How I conduct my research

He probably thought I would quote the various on line research portals, but while these are great resources, that's not the answer I gave.

Think about it...most research data tells us what's happened in the past, but what I'm looking for are leading indicators - I want potential predictors of what will happen in the future.

So I pay attention to things like economic forecasts, population growth, consumer confidence, employment growth and finance approval trends.

But more importantly I recognise that the destiny of our property markets will be determined by two main factors:

**1. Demographics**
How many of us there will be, where we want to live and how we will want to live – and;

**2. The wealth of our nation**
I look for suburbs where people are able to, and prepared to, pay a premium to live because their disposable income is growing above average.

Then I get to know the real estate markets in those areas by analysing market trends – supply, demand, auction clearance rates, vendors asking prices, days on market etc. And most importantly I inspect lots of properties and track their sales results.

You see... there's really no secret to successful property investing.

# 10 Things To Consider When Buying An Investment Property

So if you're planning top get into property where do you start?

There are so many options out there, everyone seems to have an opinion and many of their suggestions are conflicting.

To start you on the right path I'd like to help by suggesting ten questions that, I believe all budding investor needs to get their head around before buying into the property game.

## 1. What do I want to achieve?

Is it money? Wealth? Financial freedom? Maybe all of the above!

Remember the bricks and mortar are not really the end goal; rather they're just the vehicle you choose to get there.

So firstly identify your end goal and then formulate a plan to get you there in a timeframe that works for you.

You see... property investment, as with any other journey, requires you to know where you're heading and how you intend to get there.

Unfortunately most investors don't have a plan and that's why they get lost along the way or get distracted by the latest investment fad or the next "hot spot." And if they do have a plan they rarely review it to make sure they're on track.

## 2. What is my preferred strategy?

Once you know where you are going you need to implement an investment strategy that helps you get there.

Since you can't save your way to wealth so my goal is to build a substantial asset base though capital growth using my 5 stranded strategy I explained in the last chapter.

## 3. What type of property?

You need to own the right type of property; one that will be in continuous strong demand from both owner occupiers and tenants, because the former push up market prices, whilst the latter help to pay your mortgage.

Today more people are trading their backyards for balconies and that's why I prefer inner suburban apartment style accommodation.

## 4. Should I buy something old or new?

More often than not, new or off the plan apartments are a "box" in a high-rise monolith. The problem here is that you pay a premium to the developer and miss out on the first few years' capital growth.

At the same time the majority of owners in the building are likely to be investors. I prefer buying where owner-occupiers, who look after the building better, predominate.

If you haven't guessed it by now, I prefer to buy an established apartment, in a character filled block, which has the potential to be "tarted up" with cosmetic refurbishments.

This gives you the potential to not only increase your rental income, but also "manufacture some capital growth.

## 5. Where should I buy?

Location is critical to the long term performance of your investment. I look for suburbs that have always outperformed the averages or ones going through gentrification.

These are generally lifestyle suburbs in major capital cities close to the CBD, amenities or the water.

Then I drill down even further and chose the best spots in those suburbs.

## 6. When should I buy?

While there are investment opportunities at most times, I've found that many of my successful investments have been made by going against the crowd and buying when most people are worried about the market and sitting on the sidelines.

## 7. What can I afford?

Before you start looking at what to buy, you need to know what you can afford to buy. Get a loan pre-approved and make sure you've set some funds aside for acquisition costs, holding costs and a financial buffer for a rainy day or rising interest rates.

## 8. How will I set up my purchase?

It's important to own your property in an entity that protects your assets and legally minimizes your tax.

Whether you buy in your own name, your super fund or a trust, you need to be aware of what it will mean for you and your family, now and in the future.

## 9. Who should I ask for help?

If you are the smartest person in the room, you are in the wrong room! The real estate game is a team sport, requiring expert input and advice from a qualified accountant, a smart solicitor, a finance broker, an independent property strategist and a mentor who will help set you up for a win.

## 10. Should I take advice from my friends and family?

In general the answer is - no! Not unless they've invested successfully through a number of property cycles.

This is because "the crowd" is usually wrong. When everyone's optimistic, people come out of the woodwork keen to give well-meaning advice, however investors tend to be most optimistic at the peak of the cycle – when the risk is the greatest.

Just like they are pessimistic at times when the property market is flat and the risk of further downside is low.

# Know Which Properties To Avoid

I've some questions you should ask to help you understand what type of investment property to buy, but at any given time there could be over 350,000 properties for sale in Australia however in my mind less than 5% are what I would call "investment grade", so let's look at what type of property a property investor should not buy. Firstly let's explore...

## Properties the banks don't like

There are certain properties that the banks don't seem to like and against which they will lend a lower Loan to Value ratio, meaning you'll need to fork out a bigger deposit. More importantly, if the banks are wary of them, rather than thinking you know better, take it as a warning sign and consider looking elsewhere.

In general, the banks restrict lending to properties that appeal to a limited resale or tenant market including...

**1. Serviced apartments** – which carry a lot more risk than buying an ordinary apartment as you're relying on the operator to get it right and on the tourism and business markets to remain strong to maintain occupancy. These properties have a limited resale market (since only investors buy them you're cutting out up to 70% of potential purchasers), a limited letting market and often have expensive ongoing management costs.

**2. Department of Defence Housing** accommodation – while these properties come with the certainty of long leases and no ongoing maintenance, they have a limited resale market and hefty management charges.

**3. Small units** – most banks prefer apartments to comprise at least 50 square metres of living space, not including balconies or car parking. However, with our changing lifestyles some will now lend on properties that are 40 square metres in size.

**4. Studio apartments and student accommodation** – these also have restricted markets because of their size.

**5. Large off the plan developments** – banks worry about a "concentration risk" and therefore restrict how many apartments they will lend on in some large new complexes. Of course there are lots of other potential issues with off the plan properties that would make me wary of this type of investment.

## Other properties I would avoid

**1. Out of place** – I only buy properties that fit in with the overall character of their neighbourhood. While I love terrace houses, if the property happens to be the only terrace in a street full of bungalows, I'd look elsewhere and buy a property consistent with the streetscape.

**2. The wrong location in the street** - Even the best streets can have sections with an unattractive mix of properties or that are too close to the shops or main road. Choose livable streets and make sure you buy the right property in the right section of the street.

**3. Encumbrances on Title** - Check the title carefully for easements, covenants or overlays that could restrict your capacity for future extensions or rebuilding.

**4. Other Title Troubles** - Banks will restrict their lending for apartments on some older forms of title, such as company-share or stratum titles.

**5. Body Corporation Problems** - When buying an apartment carefully peruse the minutes of the last few owners' corporate meetings. Are there any issues with the building or excessive expenses planned? Has a sinking fund been set up to handle future repairs or refurbishment?

**6. No Car parking** – While absence of parking may save you some money today, it will always limit an apartment's appeal to tenants, homeowners and future investors.

**7. Wrong position in the block** – Avoid apartments in sub-optimal positions in the block. You know what I mean... the ones overlooking the car park or situated near the waste bins.

**8. Avoid main roads and secondary locations** – Sure people live everywhere but when the market slows secondary properties are harder to sell and fall in value first.

**9. Rental guaranteed apartments** – remember the cost of the rental guarantee (which is usually inflated to make the return look better than it really is) is added to the purchase price and used by the developer to justify inflated prices. In other words you're paying the developer up front to guarantee the rent for you. And it's not uncommon for the rent to drop when the rental guarantee period expires, leaving you with a hole in your budget.

**10. Holiday Homes or Apartments** – I'm not suggesting don't buy yourself a weekend getaway property if you can afford it. What I'm saying is don't pretend you're buying it as an investment, because you're likely to end up with an asset that on the one hand isn't meeting your lifestyle dreams and on the other, doesn't deliver your financial objectives.

**11. Mining towns** - These markets tend to have little market depth from owner-occupiers and being more investor driven tend to be more volatile and best avoided.

**12. NRAS** - The National Rental Affordability Scheme is a federal government initiative designed to tackle the issue of affordable housing where investors receiver a tax incentive to provide housing at below market rental rates. Again a very specialized type of property.

The lesson from all of this is that if you want your property portfolio to outperform, you need to own the type of property that will appeal to a wide demographic of owner-occupiers who in general make up the bulk of purchasers, tend to buy emotionally, pay higher prices and push up the price of properties similar to yours.

To top it off, these are the types of property the banks are willing to lend 80%, 90% or sometimes even 95% on. Now that's interesting isn't it?

# Six Strategies To Put You On Top Of The Property Ladder, No Matter What!

As you build your financial future through property investment it's appropriate to remember that it is not so much the outside world that defines your success, but the place we take in it as investors.

There will always be forces working against us over which we have no control. Politicians will keep making and changing policies, interest rates will rise and fall and the world will keep on turning without much regard for our personal plans. In order to navigate through the changes and obstacles that will crop up, we need prepare in advance to weather these difficulties that will inevitably come our way.

So let's look at six strategies that could help you reach your investment goals, irrespective of the external forces at play.

"Sure it's exciting to have big dreams, but if the path to get you there is paved with gold that you simply can't afford, then your dreams run the risk of becoming dilemmas."

## 1. Invest in your knowledge before you invest in bricks and mortar

The best place to start investing is in yourself.

However with so much information out there, it's hard to know who to listen to. I suggest you learn from others who've not only achieved what you want to achieve, but who've maintained their wealth over a long period of time, not just during the last property cycle. You see a rising tide lifts all ships.

Also surround yourself with like minded people and get a mentor who will not only inspire and challenge you, but hold you accountable for your actions.

## 2. Marry your investment plans with your investment capital

There's little doubt interest rates will rise causing capital growth to slow down. This means some investors who have bitten off more than they can chew will come unstuck because they've overcommitted financially.

Sure it's exciting to have big dreams, but if the path to get you there is paved with gold that you simply can't afford, then your dreams run the risk of becoming dilemmas.

Remember that all booms come to an end and we're heading towards the peak of this property cycle. So while enjoying the current phase, make sure you're financially prepared for what's ahead.

## 3. Use your portfolio to reduce your risk

Strategic investors look forward to the best of times but protect their portfolios for the tough times that will inevitably come.

Rather than gearing to the max, they take a more prudent approach by building an emergency buffer to buy themselves time to ride through the storms. These are often lines of credit or offset accounts, which they can call upon should the unexpected such as a loss of employment, a prolonged illness, an unforeseen repair or an extended vacancy in their rental property occur.

They also own the type of property that will be in continuous strong demand by a wide demographic of owner-occupiers in the big capital cities of Australia, because these locations are underpinned by

multiple pillars of economic support and therefore values don't fluctuate widely when times become tough.

## 4. Do the due diligence before you do the deal

While the average investors buy their properties emotionally, sophisticated investors have an investment plan that they adhere to and carefully evaluate any potential investment opportunity in light of their long-term goals.

They know that this makes their investment decisions less emotional and their results are more consistent and predictable.

## 5. Keep your sights set on your goals

While most investors buy a property and hold it for the long term, strategic investors regularly review their investment portfolio's performance in light of their long-term goals.

Currently many are evaluating how their properties will perform if interest rates rise one or two percent as many economists predict will happen. This means some are considering selling up secondary properties that are likely to languish in the next stage of the cycle.

I like to look at my portfolio's performance at least once a year. Are my properties performing to my expectations? Are they outperforming the market? If that property were for sale today would I buy it again? Does this property still fit in with my overall plan?

You see...over time you grow, your skills improve and your circumstances change. Treat your property like a business and evaluate your assets dispassionately and take appropriate action.

## 6. Remember that in real estate, less is often more

The person who wins in the end is not the one with the most properties. And contrary to what you might believe, owning heaps of properties does not necessarily mean you will have financial freedom later in life.

Concentrate on getting the best deals for your investment goals, not the most deals. When it comes down to it, capital growth is key in building wealth through real estate and properties that outperform the long term averages always come at a price. But it is a price worth paying.

The trick is to avoid cheap or secondary properties. You make your money when you buy your property, not by purchasing a cheap property, but by buying the right property.

Hopefully your investment journey will be a long one however this means you're likely to encounter some good economic times and some tough ones, periods of low interest rates and high interest rates, booms in the property markets and slumps.

Remember to prepare for the worst, while hoping for the best – in other words maximise your upside while at the same time covering your downside and you'll remain in control of your destiny.

# 9 Life Lessons Of A Property Investor

As I've been investing in property, and some would suggest rather successfully, for almost 40 years I'd like to share some of the most valuable investment lessons I've learnt over the last four decades.

## 1. Have a Plan

Strategic investors have a plan, know where they are heading and follow a proven system to take the emotion out of their decisions and give them more consistent results. They make educated investment decisions based on research and buy a property below it's intrinsic value, in an area that has above average long term capital growth and then add value to manufacture equity.


## 2. Take a long-term perspective

The property market moves in cycles and in every decade there are a few years of flat or falling property prices, however well located real estate has increased in value by an average of over 8 per cent per annum over the long term.
Imagine if you could buy the house your parents bought at the price they paid thirty or forty years ago; how many properties would you have bought then knowing what those properties would be worth today?

## 3. Treat your property investment like a business

The successful investors I know have grown a substantial asset base by treating their investments like a business. They do this by surrounding themselves with a great team of advisors, getting the right type of finance, setting up the correct ownership and asset protection structures and knowing how to legally use the taxation system to their advantage.

## 4. There is not one property market.

While many people generalise about "the property market" there are many submarkets around Australia. Each state is at a different stage of its property cycle and within each state the markets are segmented by geography, price points and type of property. For example the top end of the market will perform differently to the new homebuyers market or the investor segment or the median priced established property sector. And while at any time there are hundreds of thousands of properties for sale in Australia, most are not investment grade properties.

## 4. The crowd is usually wrong

"Crowd psychology" influences people's investment decisions, often to their detriment. Investors tend to be most optimistic near the peak of the cycle, at a time when they should be the most cautious and they're the most pessimistic when all the doom and gloom is in the media near the bottom of the cycle, when there is the least downside. Market sentiment is a key driver of property cycles and one of the reasons why our markets overreact, overshooting the mark during booms and getting too depressed during slumps. Remember that each property boom sets us up for the next downturn, just as each downturn sets the scene for the next upswing.

## 5. There will always be reasons not to invest

Every year brings its own set of crises and lots of reasons not to invest. You can go back as far in history as you like and there won't be a crisis free year. Sure some years are worse than others, but there is always bad news and much of it is

unexpected. Where investors get into trouble is that rather than focusing on their long term goals, they see these crises as once in a generation events that will alter the course of history, when in reality they are just the normal path of history.

## 6. The devil is in the detail

With so much market analysis available to us today, it's easy to get caught up in the detail and scared into inaction. It's better to keep an eye on the big picture and look at the property markets through a telescope and not a microscope.

## 7. Remember it's about property

You're in the business of property investment, yet at times investors forget the age-old rule of buying the best property they could afford in proven locations. Instead they get sidetracked by get rich quick schemes or glamorous finance or tax strategies and lose out.

Fact is...property is not a get rich quick scheme. Don't get carried away by the next hot spot or latest fad – make your investing boring, so that the rest of your life can be exciting.

## 8. Use Debt as a tool

While many people worry about debt, smart investors use "good debt" and leverage to build their asset base. They then protect their assets by buying time though having a "rainy day" cashflow buffer set aside in a line of credit or offset account.

## 9. The 2 big drivers of property values

While in the short term our property markets will be driven by market sentiment, interest rates, supply and demand and microeconomic factors; in the long term the value of well located properties will rise propelled by the twin factors that have always driven long term property prices – population growth and the wealth of the nation. Both of which will increase substantially over the next few decades.

Learn from these lessons and the rollercoaster ride of your property

Warren Buffet was right when he said;

> **"Wealth is the transfer of money from the impatient to the patient."**

investment career may not be as dramatic. Remember both fear and greed will send you down the wrong path, but sense and sensibility will keep you heading in the right direction; toward real estate riches.

# Consider Using A Buyer's Agent

Many investors find the real estate landscape is stacked in favour of the sellers, because that's whom the agents obviously work for.

While the hunt and chase of finding investments and negotiating with agents can be exciting, and it would be nice to have all the skills to choose the right investment property, sometimes it's worth considering engaging the services of a good property buyer's agent to do the research and all of the wheeling and dealing on your behalf.
They buy and sell property and negotiate prices all the time – it's their job, whereas you've probably only done it once or twice in your lifetime.

Sure, I'm biased as I head Metropole Property Strategists, Australia's premier buyer's agency – www.metropole.com.au, but I've seen the great results our team has achieved for both beginning and experienced investors.


Choosing a good buyers' agent helps level the playing field, and at Metropole our team members have been awarded Australia's leading Buyers' Agent of the Year on a number of occasions.
It's a great feeling having an experienced agent on your side, levelling the playing field, rather than working for the seller. So let's find out a bit more about this curious breed we call buyers' agents...

## What is a buyers' agent?

A buyers' agent or buyers' advocate is the opposite of a selling agent, because they work for and are paid by the buyer. They are licensed real estate agents and their job is to work for you and protect your interests. They help you buy the right property for your needs, at the right price, on the right terms and with unbiased advice.

## Why pay money for something you can do yourself?

Good question... let me give you 6 reasons why:

**Their research saves you money** – they know what's really going on in the property market – after all they're in it all day.

**Their skills reduce your stress.**
Buying investment property can be about as nerve-racking as it gets. It's emotional, exhausting and sometimes terribly discouraging. A buyers' agent's job is to make the process as hassle free as possible for you.

**Their experience saves you time** – and this is one of your most precious assets. Using a buyers' agent will give you back your weekends.

**Their industry knowledge levels the playing field** – selling agents are not your friend, they represent their client – the seller.

**Their industry contacts widen your options** – they have access to every property for sale and a good buyers' agent even has access to silent - "off market sales" that you may never find out about.

**This means that you can buy properties in areas you're not familiar with**, in other states or even in your own home state, allowing you to invest in markets that are in the right stage of their own property cycle.

## Why can't a selling agent help me?

A selling agent must act in the best interests of their client - the seller. They do not, and should not, work for you - the buyer. I know some agents would like to work for both sides and have it both ways, but when you think about it, they cannot possibly do both effectively as this would create a clear conflict of interest.

## Why doesn't everybody use a buyers' agent?

Actually, many people do, especially overseas. In Sydney, Melbourne and Brisbane the numbers are growing and we have seen estimates that up to 1 in 10 buyers now use an advocate or seek independent professional advice.

But be wary...

## Not all buyer's agents are the same

Here are some questions you could ask your buyer's agent before engaging them:

**Are you a fully licensed real estate agent?** Be wary of hiring someone who doesn't hold a real estate license and hasn't had extensive experience in the property industry. There are some people out there calling themselves a buyers' agent or buyers' advocate who are not licensed estate agents.

Don't risk putting what could be one of the largest purchases in your life in the hands of somebody who hasn't had the years of experience necessary to negotiate on your behalf. Don't be tempted to engage somebody just because they offer lower fees. If they can provide great service and add real value for their clients, they wouldn't have to win new business by offering low fees.

**Are you a member of PIPA?** The Property Investment Professionals of Australia is an organisation that promotes ethics in the sphere of property investment and education.

**Are you a member of the state Real Estate**

**Institute?** This should give you the reassurance that they are operating to professional industry standards.

**Do you have current professional indemnity insurance?** If something goes wrong with your property purchase, you will have absolutely no recourse if they don't.

**Are you a dedicated buyers' agent?** Or are they just a division of a real estate agency or a one-man band working from home or out of a post office box? They can't offer a high standard of service when searching and negotiating for properties for their clients unless they are dedicated professionals focused on this process.

**Do you specialise in investment properties?** If the buyer's agent doesn't have a strong recent track record of buying investment properties, I suggest you don't engage their services. There is a big difference between buying homes and buying investments. Don't be shy to ask them for the results of at least four recent purchases in the area you are looking at buying in.

- Do you have access to "silent sales"? Many properties that are sold never hit the public market. It is imperative that your buyer's agent has years of personal relationships with all real estate agents in the area where you are looking at purchasing, so as soon as properties come up for sale you have access to these before they go to the general public.

# >>What's Next?

So there you have it...an insight into how many and what types of properties you'll need to retire comfortably.

I wrote this book to encourage readers to gain financial freedom through growing their own multi-million dollar property portfolio.

Of course the power of the information is not in the knowledge; it's in its implementation, and unfortunately many people will read this eBook, enjoy the content and do nothing with it.

As I've already explained it's easy to learn more, become financially fluent and become a property invesor. But I guess it's also easy not to do anything.

You can read more, learn more, attend seminars or you can take action.

If you're scared of doing it on your own, why not give us a call at Metropole on 1300 20 30 30 and we'll help you.

Remember, where you are right now is the result of the decisions you've made up until now. Where you will be in ten years time will be the result of the decisions you make from now on.

The bottom line is, ten years from now will be ten years from now – whether you take action and build your property portfolio or not.

Sure there will be obstacles along the way, they are part of what makes success possible.

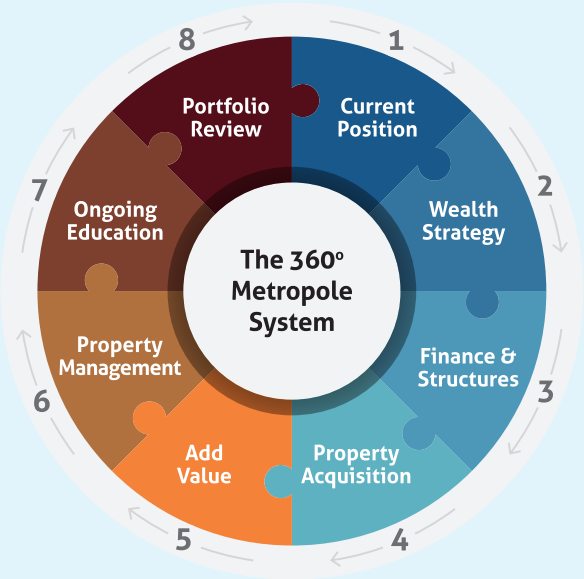
I wish you tremendous personal growth, financial success and that you build your own multi-million dollar property portfolio. And I hope to see you along the way.

Spend your time...wisely.

*Michael Yardney*

# BUILD A PORTFOLIO THAT WILL GIVE YOU FINANCIAL INDEPENDENCE

## Currently, less than 1% of properties on the market are 'investment grade'. Do you know how to select them?




### Turn to Metropole for independent, unbiased property advice.

- We offer our clients a time-tested system
- A proven track record: we've been involved in over $2 billion worth of property transactions
- True on-the-ground experience from our offices in Melbourne, Sydney and Brisbane
- We don't sell property, but have access to every property on the market

**This means you will outperform the average investor & could give your family the financial freedom they deserve.**

***"Property investors & home buyers :***
*with all the agents, marketers and developers out there looking after their own interests, it's a great feeling having the independent team at Metropole on your side working for you."*

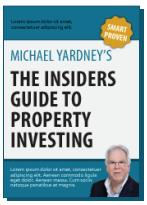
**Are you just getting started or want to grow your existing property portfolio?**

**CALL 1300 20 30 30** for an obligation free strategy session or a review of your property portfolio


## GET YOUR FREE REPORT NOW:

**THE INSIDERS GUIDE TO PROPERTY INVESTING**

Download now at **www.metropole.com.au/api**




Metropole Property Strategists

PROPERTY INVESTMENT PROFESSIONALS OF AUSTRALIA PIPA

**www.metropole.com.au**

Metropole
KNOWN | PROVEN | TRUSTED

Michael Yardney's propertyupdate.com.au

## FIND OUT HOW METROPOLE CAN HELP YOU RETIRE EARLIER AND WEALTHIER

**Please call us on 1300 20 30 30**
**Or access www.metropole.com.au**

**Melbourne:** Level 2, 181 Bay Street, Brighton, VIC, 3186; Tel 03 9591 8888
**Brisbane:** Suite 2, 162 Boundary St, West End, Qld, 4101; Tel 07 3106 7266
**Sydney:** Level 4, Edgecliff Centre 203-233 New South Head Rd, Edgecliff, NSW, 2027; Tel: 02 9327 2266