Think
INVESTMENT REALTY

INVESTMENT PROPERTY RULES

& How property investment works for every day people

thinkinvestmentrealty.com.au

INVESTMENT PROPERTY RULES

This title can be read in two ways and both interpretations work perfectly.

Investment property does rule
when it comes to creating wealth and retiring comfortably; more importantly you need to know the rules of getting it right!

Not all property is created equal, so knowing the **4 golden rules of property investing** will certainly help you fast track your wealth and retirement goals.

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About Me

Hi, I'm Troy

My goal is to provide clients and potential property investors with access to specialist recommendations and tools which will help them achieve greater investment returns and ultimately total financial independence.

I have been analysing property markets for more than 18 years, and have supported my clients to build wealth through the purchase of more than 2000 investment properties. I am a firm believer that to grow a successful portfolio in any market conditions it's all about the fundamentals of property investment.

I have prepared this content to provide some of the core fundamentals that can help you on your property investment journey.

RULE NO. 1

BUY BRAND NEW

If you are going to create wealth with property, you need all the help you can get. Buying brand new was one of the smartest lessons I learnt in creating the strongest and most resilient portfolio that also created the most wealth in the shortest amount of time.

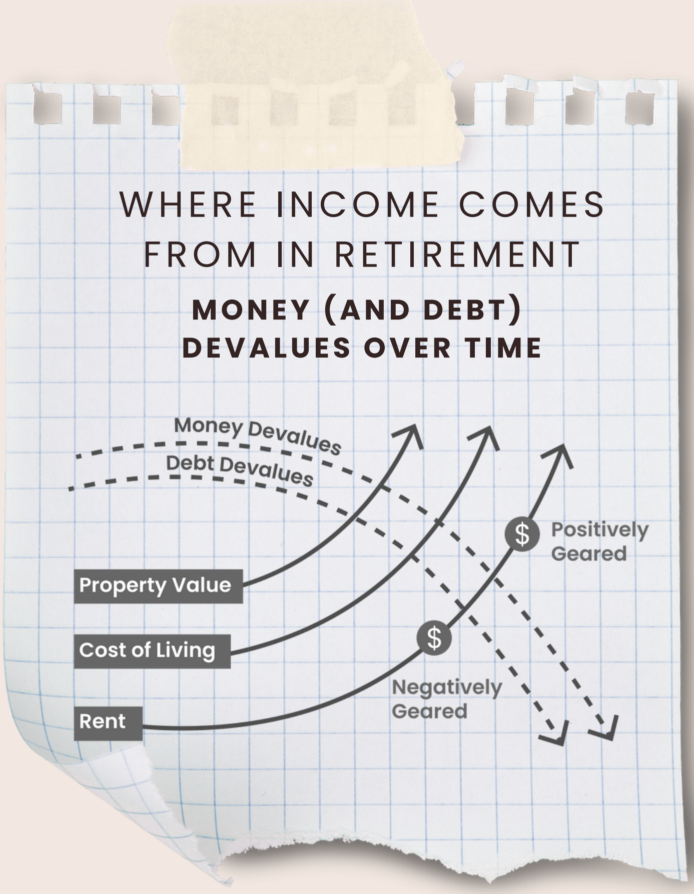
There are three reasons for this:

- The tax benefits - this takes care of the holding costs more easily
- No maintenance expenses draining the income
- New property can attract good tenants in a busy market

Buying the perfect investment property is a combination of many things. Getting the right property at the right time in the right location are all obvious. However, the biggest threat to a property portfolio is the holding costs. Trying to work out a strategy for managing the holding costs has seen many people make rookie errors, like looking for properties that are cash flow positive from the beginning is one of the biggest mistakes you can make.

Obviously, all property will eventually be positively geared, that is how we will get an income in retirement from property.

The value of the debt will reduce for two reasons, the cost of living goes up, money devalues over time and debt is money. I show this simply on a graph showing money devaluing because the cost of living goes up. The value of property also goes up as does rent, and rent goes up with the cost of money. Rent will therefore in the long-term give you an ongoing increasing income for the rest of your life.

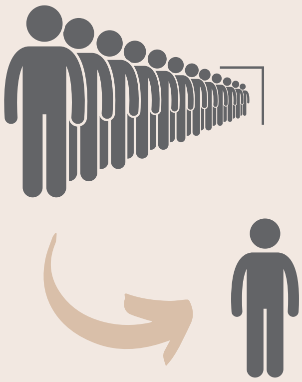


The value of property goes up and so does the rent and eventually over time the property turns from negatively to positively geared. Then you retire on an ongoing increasing income for the rest of your life

Troy's TIPS #1

Don't mistake yeild for wealth. Yeild is the vehicle that allows us to hold the property whilst it grows in value.

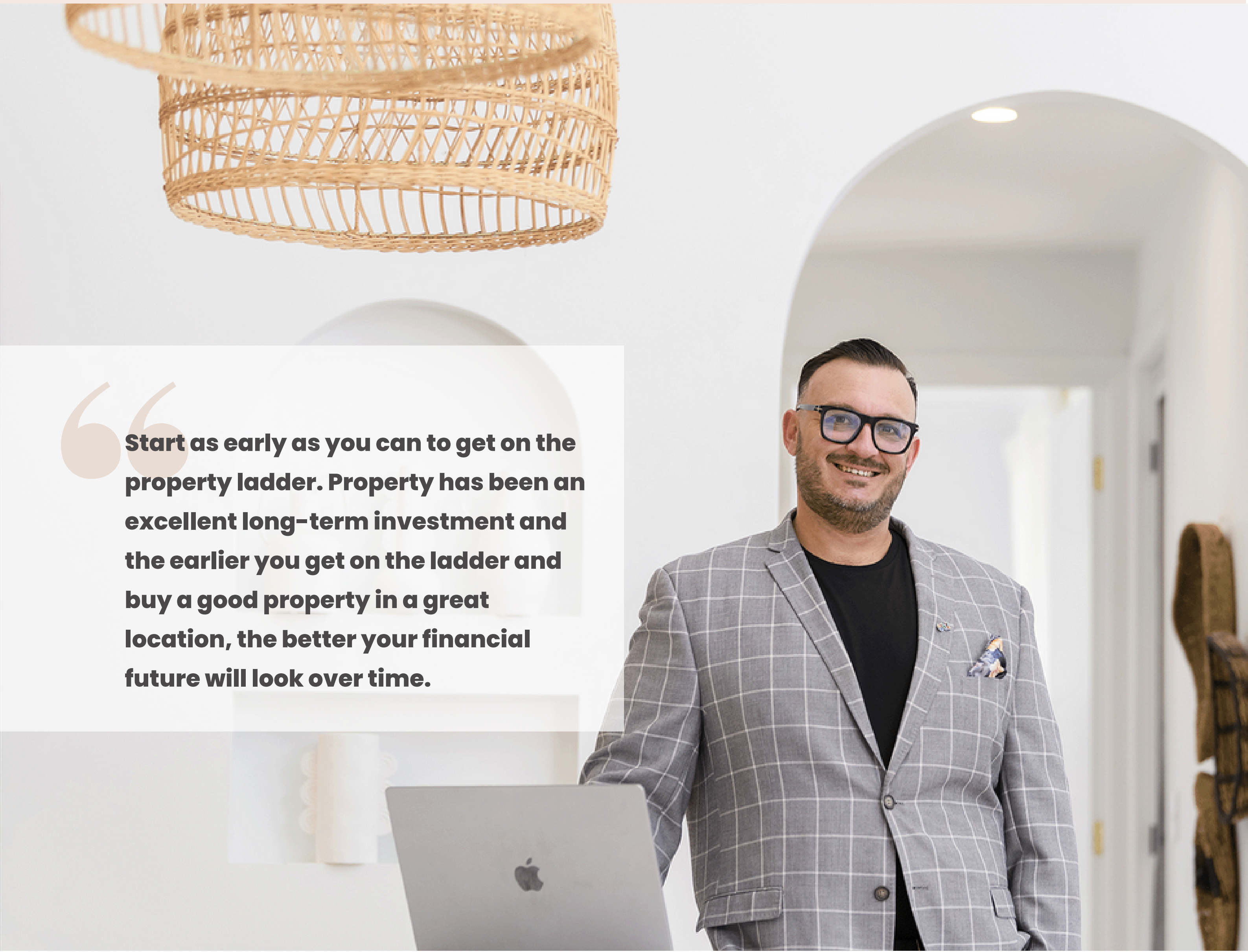
The risks are much higher when you buy property that is already positively geared. The reasoning is simple and history can point out the lessons. For example – the mining town boom (and bust). One of the reasons for property income being higher than the costs is when there is supply and demand issues. If there is a lack of rentals available in an area and the demand for accommodation is high, it can temporarily inflate the rent being charged. This is NOT sustainable.



If there is a lack of rentals available in an area and the demand for accommodation is high, it can temporarily inflate the rent being charged. This is NOT sustainable.

The property cycle goes through stages of undersupply and oversupply. This was also obvious with Brisbane just recently with a short-term oversupply of units available from the wave of demand for SMSF (Self-Managed Super Fund) investment requirements. This produced an oversupply, and rents dropped. The Council stopped approving unit developments, the banks stopped lending to developers for inner city developments, developers stopped building which has started the swing back to undersupply, and rents will recover then go up, starting the cycle again.

While this is a normal cycle, it points out the risks of buying property for the benefit of higher-than-normal rents. It just doesn't last. If you are relying on these higher rents to manage the holding costs you will soon get into trouble.



Start as early as you can to get on the property ladder. Property has been an excellent long-term investment and the earlier you get on the ladder and buy a good property in a great location, the better your financial future will look over time.

RULE NO. 2

GET THE RIGHT SUPPORT

When choosing a property, make sure you don't go it alone or buy the first shiny one that comes along. As with any big decision, and this is a big one, look at who is an expert in the field.

Anyone can make money with property in a strong, growing market; only the savvy and well-educated can also make money with property in a difficult or declining property market with increasing interest rates! Yet history shows that is exactly what our clients do.

The property sector is full of "instant experts" in buying property, or worse still, there are property spruikers out there who don't even own a home, let alone have a property portfolio.

you are going to take advice from someone, look at who they are and what they have, and if they have what you want... they probably know how to get there – so take their advice.

If From the right research to the right property style, from diversification to demographics, having a property expert on your side will ensure you avoid the many pitfalls and potholes on the road to property wealth.

Let's face it – there are few professionals who get to where they are without a mentor or coach, so why would you be any different?

Whether you are striving for Olympic gold, business success or personal wealth, it pays to have a coach, in this case a property expert to help you succeed.

Troy's TIPS #2

Surround yourself with the right herd. Spend quality time with people who have what you want. "The people that you surround yourself with, will either raise you up or pull you down" Kerwin Rae

Getting the right support is the key to success.

At Think Investment Realty we call it your "Success Team". Ensuring you have property experts on your side.

When it comes to brokers, lawyers, accoutnants, financial planners, property strategists and buyers advocates it is essential to ensure that the people you partner with are property investment focused.

It's like choosing between a specialist dermatologist and a GP for a skin condition. You want someone who deals in investment property day in and day out. And preferably has investment properties of their own. This shows that they understand the power of property and are going to be able to support you in the right way.

Our specialist research
We have and hold the fundamentals for property success. What really sets us apart is our research. Our in-house research team specialise in researching investment properties.

Yes, you can buy research, but how do we know it's not someone paid to make the property look good? I call them spruikers.

Fielding our own research and rating the research with our custom software systems enables us to identify opportunities and assess an area, looking past any stigmas or stereotypes of the locations.

PIPA property investment professionals
The property industry is very much an open field with very few regulations, until now. The Property Investment Professionals of Australia (PIPA) is fast becoming the standard for property regulation. As a PIPA member, we subscribe to their voluntary Code of Conduct, which ensures integrity, disclosure, and excellence in service provision. The Code means PIPA members are viewed as the most ethical property investment professionals in the industry We have been PIPA accredited for a number of years - ahead of the rest. Don't let a property 'spruiker' deal you a bad hand. By working with Think Investment Realty, you know that we are putting YOUR interests first.

Full support for the lifecycle of your investments
We sit on your side of the table and support you even after the property settles. From the beginning of the process of working out if you are ready to invest or what kind of property suits your personal property strategy right through to managing the properties over the coming years, we are by your side to help you navigate the entire process.

- Create the right filing system, so you have all the documents for each property at hand when you need them, AND it makes tax time so much easier!
- Get the right loan set-up and learn how to manage your loans as your portfolio grows.
- How to manage holding costs while still enjoying your current lifestyle

How we support property investors

To secure your financial future you'll need much more than just a real estate agent or a buyer's agent.

Working with Think Investment Realty gives you holistic and long term support.

We customise a solution to meet your specific needs through our time-tested system for acquiring wealth. We help beginning investors buy their first property, experienced investors add to their portfolio and sophisticated investors increase capital growth, manage their portfolios and use proven strategies that make holding property easy.

RULE NO. 3

WORK OUT HOW MANY PROPERTIES YOU NEED

If you plan to retire without having to rely on government pensions or other handouts, it would be worth your time to calculate how much you actually need to live to your lifestyle requirements in retirement. Most of my clients have worked out they need a minimum of $100k to give them the lifestyle they require. Assuming they have paid off their own home, and their kids have also left home.

Sometimes it is a lot more, rarely is it a lot less.

This calculation is based on what they are earning now and what they have calculated they want to do in retirement, the choices they want to make, if they want to travel, be able to go out for dinner with friends regularly, replace their car every 5 years or so and basically have enough money to make the choices they want to make without the stress of running out of money.

I choose property as my income vehicle in retirement because rent goes up with the cost of living, therefore rent gives an ongoing increasing income for the rest of your life (if you follow the other rules like 'never sell!')

So how do you calculate how many properties you need?

The maths can be quite simple. In today's dollars, if you have a $500k property you should get about $500 per week rent.

NB: If you have held the property long term – say 10-15 years which is how long a property takes to mature, the debt will have gone down, be paid off, or the debt balance will be irrelevant against the income.

The actual figures will be different – the cost of living goes up as does the rent. However, the ratios are going to be about the same, and it is easier for your brain to relate to the money in today's values. I explain this in much more detail in my property education events..

Troy's TIPS #3

Buy with your head, not your heart. Don't let emotions come into play when buying. This is a business decision.

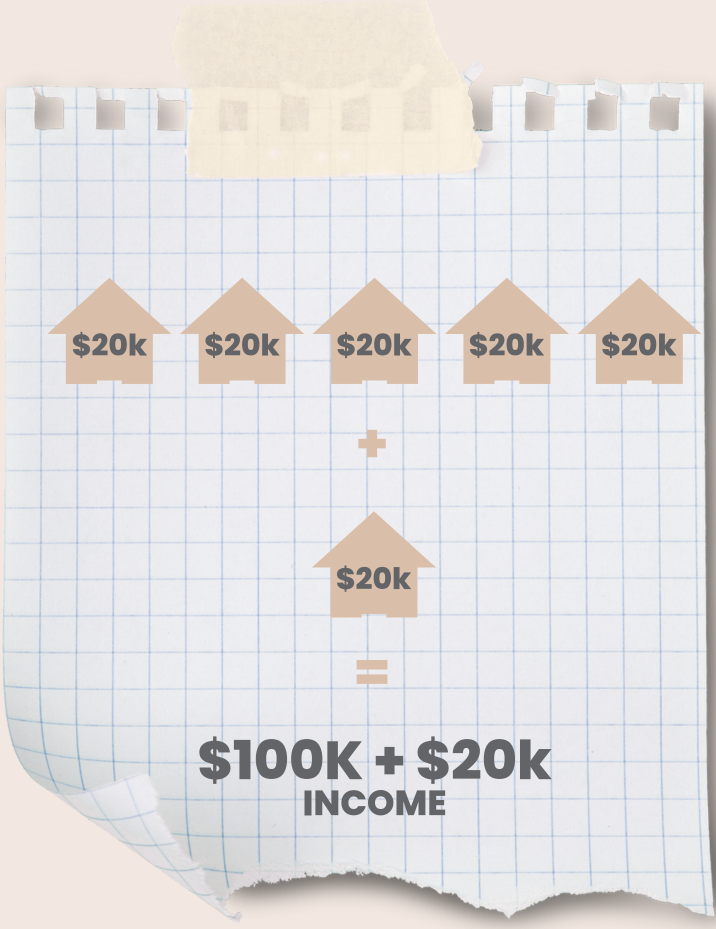
This rent at $500 per week equates to $26k for the year. Assuming the debt is paid off or irrelevant, you only have the normal property holding costs. Rates, Property Manager, insurance, water, maybe a bit of maintenance or the occasional vacancy. Let's assume this equates to about $6k in a normal year. We now have a net rental income of $20k per $500k property.

Then it is just maths. If you want $100k in income, you will need 5 properties. I always say plus 1. The plus 1 would put another $20k into the mix to help with any extra holding costs for the portfolio. Then if something does go a bit pear-shaped one year, you have the extra funds without eating into your personal budget.

If you want $160k per year, you would need 8 properties plus 1.

$200k would require 10 properties plus 1.

NB: These calculations are based on properties that all follow the Property Rules. This is working on using the other rules though, buying brand new is an important part of the mix. If you have old properties in your portfolio, you will need to double the numbers as the holding costs will be much, much higher as the maintenance costs will severely eat into your rent. (I know this from experience)



This is only a basic guide. Each individual circumstance will be different. The right Success Team will discuss your individual needs.

For clients holding lots of property, having an "Investment Pot" is the key to not only holding the properties, but also paying them down. We explain this at our events.

Troy's TIPS # 4

RULE NO. 4

NEVER EVER SELL (EXCEPT SOMETIMES)

This is where most people make their biggest mistake. In retirement or leading up to retirement, most people, from years of listening to the older generations, think they need to sell off assets to clear any remaining debt and to create a cash pool to live on. Both are the exact opposite of what you need to do if you want to ensure a comfortable retirement with an ongoing increasing income for the rest of your life.

After spending years in the accumulation phase and then the maturity phase of your property wealth creation, we want to avoid going into the decumulation phase. Let me explain. When teaching clients how to retire on a property portfolio, I explain the 'phases' they need to go through to achieve enough income in retirement.

THE ACCUMULATION PHASE is when you use your income and the equity in your home to purchase the first 2 or 3 properties. During this time you will be working on the personal side to reduce your non-deductible mortgage on your home which gives you more equity and serviceability. It also gives you your financial security buffer to allow you to continue to hold more investment properties and allow for security on the personal side should something go wrong, like losing your job, getting sick, or something right like having a baby, or deciding to work less

THE ACCELERATION PHASE is when the income and equity in your property investments have grown enough to allow you to use them to accumulate the balance of the property portfolio to get to your property number. The number of properties you have calculated you need to give you your income goal in retirement. During this phase, you will continue to reduce the debt on your own home until it is paid off, and after that milestone is celebrated, we continue to utilise the debt reduction knowledge by taking a small chunk of investment debt to the personal side and doing it again and again. This accelerates both the acceleration phase and the maturity phase.

THE MATURITY PHASE is when the income and equity in your property investments have grown enough to allow you to use them to accumulate the balance of the property portfolio to get to your property number. The number of properties you have calculated you need to give you your income goal in retirement. During this phase, you will continue to reduce the debt on your own home until it is paid off, and after that milestone is celebrated, we continue to utilise the debt reduction knowledge by taking a small chunk of investment debt to the personal side and doing it again and again. This accelerates both the acceleration phase and the maturity phase.

Here is an example to explain how. Let's say we took a time machine back to 1970. You could buy a property in Brisbane for $12,000. Sounds crazy doesn't it. However, the average wage was around $35 per week so it isn't that crazy, in fact the headlines of the day were that it was impossible for young people to buy their own home because the property market had increased too much and there was no hope of normal young married people to ever get into the market... Sound familiar?

Back to the numbers. If you bought this property back then the rent would have been about $10-$12 per week, today the property would be worth $600k and the rent around $550-$600 per week. If you still had the full debt of the purchase price $12k it would be irrelevant. It would cost less than 1 week's rent per year to service the debt.

BUT...

There are times when we advise to sell, take profit, reduce debt and re-invest. That is the advantage of having us work with you over the long term.

Keep your money separate! Separate your personal life and investment life. Investing is like running a small business. Businesses run on the numbers, as we should for property.

Troy's TIPS # 5

BONUS

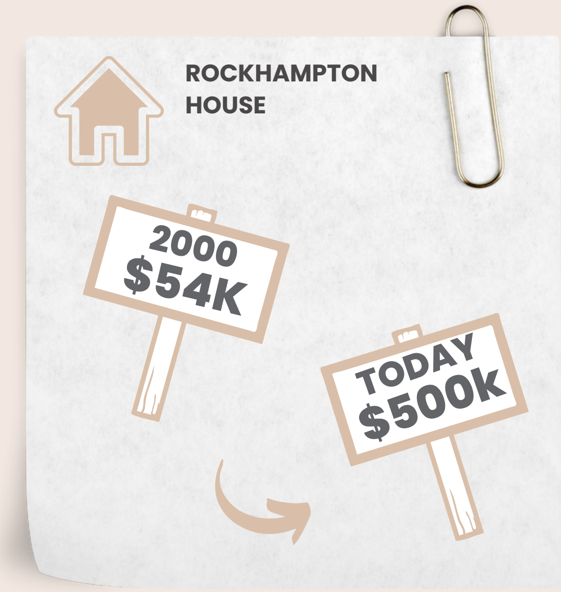
How Property Investment Works

Now if you think that is all very well but things have changed let's look at two more examples. These are examples from personal property buying experience.

One of the first investment properties Jack bought was a property in Rockhampton in 2000. He bought a 4-bedroom house on an 800 sqm block. He hadn't learnt the four rules of investing in property then, so it was a second-hand property. He paid $54k for it. Sounds ridiculously cheap now, but at the time, his friends were in shock, 'you paid HOW MUCH!!' 'Are you CRAZY!' 'You are going to go bankrupt! The market will never go up more than that, you have bought at the top of the market, and the market is going to crash soon....' And so on and so on.

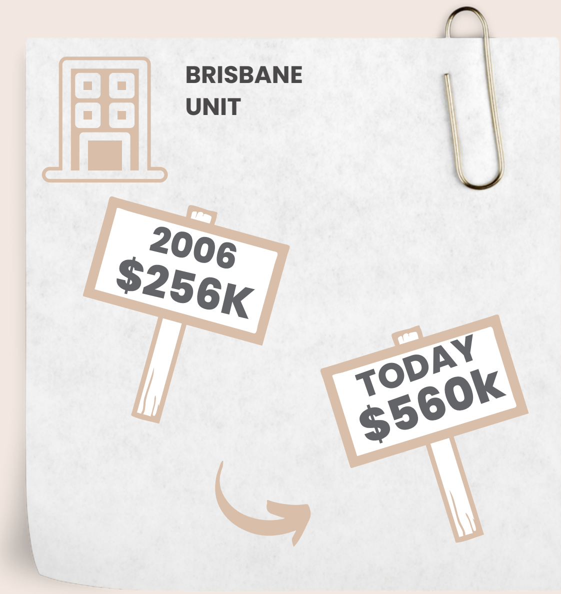
Today, that property would be worth $500k and would be earning $500 per week. If I still owned it and it still had the full amount of debt, say $54k, the debt would be costing around $2600 per year, and the rent, after costs like rates, insurance etc, would be around $20,800. Netting me $18k per year. Had I bought 10 of them, $180k in retirement even with the debt... Starting to get it?

Now he could have paid the debt off in the above example in 3 years using the increased rent. That's the maturity phase... Sitting and waiting while the value of the property and the rent goes up, and the extra rent starts to pay off the property.



The last example, just in case you think... yeah but... that was Rocky, it wouldn't happen here...

In 2006 Jack bought a property in Brisbane, and he paid about $256k for it. He could have bought two houses or more in Rocky with the same amount of money he was buying a 2-bedroom unit for. Yes crazy!! Today, the property is worth about $560k, and the rent is about the same. The debt has been reduced by the extra rent and continues to reduce. The value of the property has increased, and the value of the debt has decreased...



During the maturity phase, you just wait. Time makes everything happen, values of property and rent go up because rent goes up with the cost of living, property values go up to ensure the media can keep assuring us the young ones will never be able to get into the property market...

RENTAL INCOMES INCREASE	PROPERTY VALUES INCREASE	COST OF LIVING INCREASES

This trend, which has been happening for the past 100 years, means you will have an ongoing increasing income in retirement if you don't sell.

During the last five years before retirement, hopefully, you will be in maturity, depending on how late you left starting. You will still be working on money management and debt reduction, you will start to concentrate a little more on topping up your super too.

Hopefully, you will have one or two of your properties in a Self-Managed Super fund because if you ever do need to sell a property, here is the perfect vehicle to do that in. In a SMSF in retirement, if you sell a property, there is currently no capital gains tax payable.

We teach our clients if they can get one or two extra properties in their portfolio, they can sell one if they start to run out of cash in retirement.

"Time makes everything happen, values of property and rent go up because rent goes up with the cost of living, property values go up"

Troy's TIPS #6

Use a mortgage broker! Understand a broker works for you, not the bank. "Get the right loan set up for you"

And sometimes I do say "Sell"...

YOUR OWN HOME
I always suggest selling when you are shifting where you live. One of the most common mistakes is to keep 'home' and move it to the investment side, and then buy another home. The reason this is the wrong idea investment wise is because we want to have the least amount of debt on the personal side. If we are reducing debt and the value of the property is going up, we are creating equity. Great news!

If we then keep this property and buy a new home using this equity or a cash deposit, we have got maximum debt on the personal side, we have a 2nd hand property on the investment side and a property with less debt than it should have.

The best option is to sell on the personal side, rebuy keeping the lowest amount of debt on the non-tax-deductible debt side, then use the equity to buy the right kind of investment property.

AN INVESTMENT IN A GROWTH AREA
I also look at options of selling an investment property during a growth period to take the profit, reduce debt in your own mortgage then use the equity to reinvest into another investment property.

AN OLD INVESTMENT PROPERTY
Sometimes clients will come to see me, and they already have old investment properties. Now, if they are old but ok, meaning they aren't going to be a major vacuum of rent in maintaining and repairing them, that's fine. We build the portfolio from there. However, if the property is in disrepair, and the costs of maintaining the property is going to constantly take the rent and more, it may be a good idea to rip the band-aid and sell this one and replace it with a new property with all of the benefits and tax deductions!

Other than those times, we follow the rules and rule no 4 is never ever sell.

The property will give you an ongoing and increasing income for the rest of your life. There will always be ups and downs in the property market and cycle. There will always be times when the media does their scare tactics and warns you there is an imminent property crash coming or a bubble is about to burst, and we are all going to DIE!! I have seen this type of media hoo-ha time and time again over the past 20 years. When you buy normal residential property, in normal areas, it doesn't actually happen, and it hasn't actually ever happened. Just normal property cycles that repeat themselves every few years.

Troy's **TIPS #7**

Property is a long-term play, not a lotto ticket. The time you buy into the market and the time you spend inside the market will determine your success!

The Rules of Property Investing

Think
INVESTMENT REALTY

1 BUY BRAND NEW

Not only does buying brand new assist you to qualify for bonuses, boosts and grants in the case of investors, but you can also maximise the tax benefits of brand new property. We specialise in new property, house and land packages, off-the-plan units and town-houses.

2 GET THE RIGHT SUPPORT

Surround yourself with a "Success Team" that walks the walk. Having the right, experienced, investment property-focused support around you means that you have someone in your corner through the ups and downs of the market and of the property investment journey itself.

3 WORK OUT HOW MANY YOU NEED

If your plan is to build an ongoing income from your investments, we can help build you a bespoke strategy to get there with ongoing support. We don't just have a cookie-cutter strategy. Your unique needs and goals will shape how we support you.

4 NEVER SELL

Holding property gives you a forever-growing income. The debt becomes irrelevant once the property value and rent increase. You can use the equity to expand your portfolio. Because we work with you over the long term, we can help take the stress out of holding property without impacting your lifestyle.

Troy's TIPS #8

Location - Don't just focus on the capital cities. There are over 400 regions with a population of 10,000 people. Research is key to finding (and not missing out on) the right location for you.

Think INVESTMENT REALTY

ARE YOU READY TO JUMP-START YOUR FUTURE?

We connect you to the right property in the right area at the right time

Attend a FREE property event to learn the pro's tips for finding the right property for you.

Our property insight events are filled with expert advice gathered from years of hands-on industry experience. We have investments to fit every budget and individual strategy.

Think Investment Realty takes all of the stress and hassle from buying and building property, whether it's your very first venture into an investment property or building your own home, we make the journey a pleasant one.

See **thinkinvestmentrealty**.com.au to register for our next event

"As long-term clients the many events that Think Investment Realty host have been so beneficial for us. We have learned so much at every one and it helps to speak to like-minded people who also have a passion for purchasing investment properties."
- JANELLE

Troy and Sandy are here for you
call our office in 07 5451 1080 to make a time to catch up

Do you want to get personalised property investment support?

Book your FREE property strategy session with Troy

Contact Us

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