Introduction

Property investing can seem like something that other people do. It's hard enough for many of us to service the mortgage we have on our own homes, let alone buy another. (Then another!) Because, as we all know, don't you have to *have* money in order to make money? The short answer is no. Anyone can become a property investor. And not just a market dabbler who owns a little unit in a nearby suburb that they rent out for the tax benefits. We're talking about amassing a property portfolio that will eventually fund the sort of lifestyle you've always wanted — a retirement that doesn't rely on the aged pension to survive. Want to get 10 properties in 10 years? Very doable. And we'll show you how.

If you've picked up this book, it's probably because you want to make a better life for yourself, and you realise that making money is the key to achieving it. It's probably not the first book on property investment you've read, and it might not be the last. You've probably attended a few property-investment seminars, too. You might have even been to one of ours.

What's unique about this book and our approach is that we combine expert property investment advice with specialist guidance on loan structures to ensure that you not only target the properties that will rapidly increase in value, but that you do so while spending the smallest amount of money possible. In other words, our approach maximises your gains in the shortest period.

We run regular property-investing seminars and meet a lot of people through our respective businesses. We've never met anyone who didn't say they wanted financial freedom; that is, the ability to live the life they want. A life free of money worries. Everyone wants it, although most people don't achieve it. Why? Because they are afraid to take real action. The people who do achieve it don't necessarily have a spare $500 000 in their pockets, nor are they on astronomical incomes. Our clients come from diverse backgrounds, although many are average people living in average suburbs earning average incomes. What's not average about them is that they've done something about it. They've educated themselves about property investing, pushed aside their fear of debt, sought the right advice and taken the first step.

It's easy to sit on the sidelines and admire what other people have. It's easy to make excuses as to why you too don't have the wealth or financial freedom they enjoy. But once you dig a little deeper, you'll discover that most of these people weren't handed their wealth on a platter. They worked for it. Or invested wisely. Around 80 per cent of the world's richest people got there, for the most part, through property investing. And they did it by taking action. Not by procrastinating, but by acting.

Australian property prices, on the whole, are always on the increase. To many, that fact makes them think that they can't afford it now, and it's only going to get harder — so why bother? Yes, property prices are going up, but so is the value of your own home, and with it, the equity you have on which to borrow to invest. Plus, interest rates have been consistently low over the past 20 years, so repaying loans is not as onerous as it has been in times gone by.

Although we say anyone can do it, that doesn't mean it's a simple process that everyone has the tools right now to be able to achieve. What we mean is that you don't have to be a millionaire to make a start in property investment. In fact, you don't even need to own a home yet. But what you do need is knowledge.

In part I, we will help you assess what your financial goals are. After all, you need to know where you're going before you can get there.

How do you structure your loan to maximise your gains and reduce your repayments so they'll be manageable on an average income? In part II, we'll show you what to do. In fact, we'll show you how to structure your loan so the bank's actually paying for your investment property, not you. Sound too good to be true? Believe us, it's possible. Most banks will do it, although they won't advertise it. We'll tell you what to ask for. After all, you don't want to find yourself drowning in mortgage repayments. What would be the point in that? The idea of this book is to show you how to create wealth so you don't have to worry about money, not to make you so stressed that you can't sleep at night.

Every week there are almost 1 million properties for sale in Australia. So which do you choose? Which ones will make the best investment? The answer is only about 5 per cent of them. In part III of this book we'll show you how to spot them. Finally, we'll take you through how to deal with your properties once you've got them.

We will give you all the tips you need to get started in obtaining a multi-property portfolio that will mean you won't have to worry about your financial future; it will be set.

And it will be better than you ever thought possible.

A note about our website

We have created a website exclusively for readers of this book. On it, you will find a whole host of bonus materials that will help you map your financial goals, look at home loan options, estimate home loan repayments, plan your property investment strategy and manage your investment properties.

Throughout this book we will point you to the website when we have particular materials that will help you apply what you just read to your own situation.

We will be updating the website regularly, so be sure to visit us online from time to time or subscribe to our newsletter.

Visit <www.propertyrich.com.au> to find out more.

1

Beginning with the end in mind

It's important to know what you want before you even start to think about what type of property you'd like to invest in and which locations would suit you best. As you will see, your goals need to be firmly established and your finances thought through, because the way you set up even that first loan will impact on your borrowing capacity in the future. How many investment properties do you ultimately want to buy? Over what period of time?

Choosing the best properties is heavily dependent on your goals. Are you young, with a relatively low income and looking for long-term capital growth? Or are you closer to retirement, able to access a bit more money and looking for an influx of cash in a shorter time frame?

Whatever your goals, it's important to articulate them at the start—that will give you the best chance of realising them in the future.

Why investing is important

Once upon a time—in our parents' generation—you got married at around age 20, bought a house, raised a family until the kids were about 20 (when they got married and moved out), worked for another 20 years (probably for the same company you'd been working for your whole life), saved some money and retired … with a little help from the government in the form of an aged pension. Our expectations were low and that was all okay. Retirement planning was unheard of, and not really necessary. Few people talked about investing for the future on a large scale, and banks weren't in the habit of handing out big loans for mums and dads to buy investment properties.

How times have changed. That 20-year saving window has disappeared and many retirees are finding the age pension is barely giving them enough money to live on. Now, people are getting married later—at maybe 30—and kids are staying at home longer—maybe until they're also 30—so now you find yourself at 65. Where did those 20 years of saving go?

> **Melissa says**
>
> Knowing what you want is the first step in planning an investment strategy.

On top of all this, lifestyle expectations are higher. People are no longer happy with the same car for 15 years, travelling within their state or territory for holidays or putting up with that old, outdated kitchen. Every child wants their own room, not to mention the latest electronic gadgets and designer clothes to fill it. The strain on our resources has never been greater. More people are living beyond their means than ever, and our credit card debt as a population is tipping $42 billion.

The point of these home truths is not to make us sound greedy. We all deserve to live a comfortable life and a financially independent retirement. After 40 or 50 years of contributing to our society, we deserve to put our feet up for a while and enjoy life. Retirement is no longer just that short space of time between finishing work and kicking the bucket. People are retiring younger, and our health is better thanks to more sophisticated medical care and people taking a more active role in their own health. We live longer, and in that time, we often enjoy a better quality of life than our ancestors.

But how do we pay for it? How do we avoid worrying about money until the day we die?

How we got here

Why do most people end up having to rely on the age pension after they finish work? It's unlikely that it's because they didn't earn much money in their lifetime. Just think: if you started work at age 25 earning $35 000 and, allowing for an annual increase of 2 per cent (which is very modest because most people progress to higher responsibilities during their career), then by the time you retire at 65 you will have earned over $4 million. That's not bad. But where did all that money go? Of course, you had to eat, right? But did you really need to replace your car six times? A new pair of shoes for every outfit? The problem is we love spending. Now more than ever, people seem to want 'stuff'. They want to accumulate, have what their neighbours and friends have. This one-upmanship isn't sustainable. And really, does it matter if you don't have the latest black four-wheel drive like every other family in your street, or the most expensive floor tiles you can find?

Of course you want to enjoy the little luxuries we have come to expect in Australia, and share them with your family. And you deserve to. All we're saying is to keep it in perspective: good investment decisions versus lifestyle decisions. Your time will come. Follow the tips in this book and you will be able to afford the things you love — although it won't come without taking action. Stick with us and we'll show you how you can do it by making the right decisions and sacrificing little. We'll show you that, on an average income, you will be able to amass a property portfolio that will see you through your days in comfort — and leave a little something for your kids if that's what you want to do.

The first step is really understanding what you want, and what you will need to do to get it.

Crunching the numbers

Have you ever sat down and mapped out your financial goals? The truth is, most people seem to put more planning into their holidays than they do into their financial future. For those who do plan, usually it's not much more than drawing up a will or contributing more to their super. But have you ever tried to figure out how much you'll actually need to live the retirement you want? Is it 50 per cent of what you earn now? Seventy-five per cent?

Let's say you currently earn $70 000, and you've decided that you will need to maintain your current income to live a comfortable retirement that will allow you to do all the things you want to do: travel, make some improvements around the house, and have something to leave the family once you're gone. Let's do the maths. First, we will subtract 30 per cent to allow for tax that might have to be subtracted from your wage.

Desired annual income

$70 000 × 70% = **$49 000**

Age pension (approximate maximum for a single person)

$330 per week × 52 weeks = **$17 160**

Shortfall

$49 000 – $17 160 = **$31 840**

The shortfall is $31 840 a year.

Stephen says

It's never too late to start investing in property, but the sooner you start the better.

Let's add super to the calculation. The average super retirement payouts are currently around a total of $160 000 for men and $75 000 for women. So let's say you're a male who lives to an average life expectancy of 80. That's $160 000 divided across 15 years, which adds about $10 600 in income each year. Assuming interest of around 6 per cent, let's average it out at $11 236 a year. That brings the shortfall to $20 604 per year. (It should be noted that the current eligibility age for Australian men is 65 years. For women, it's a little younger but it will be brought in line with men in July 2013. By 2019 it will be age 66 for both men and women and, by 2023, age 67.)

Let's do the numbers for a couple. Say your combined income is $100 000 and, again, allowing for tax, you calculate you will need 70 per cent of that in retirement.

Desired annual income

$100 000 × 70% = **$70 000**

Age pension (approximate maximum for a couple)

$496 per week × 52 weeks = **$25 792**

Shortfall

$70 000 – $25 792 = **$44 208**

The shortfall is $44 208 a year.

Add in the combined average super ($235 000) over 20 years (assuming women live longer than men) and you can rely on another $12 455 a year (adding in interest of 6 per cent). The shortfall is still $31 753 per year.

Where are you going to find that money? If that isn't bad enough, there are more things to consider in this scenario:

1. Do you want to wait until you're 65 to retire?
2. What if you live longer than the average life expectancy?

These things only make the sums look worse.

BONUS MATERIAL

Visit <www.propertyrich.com.au> for an online example that works out much you'll need to retire.

Saving versus investing

How much money do you save in a year? Maybe after you've taken out your mortgage, bills, school fees, grocery costs and other living expenses, you might be able to manage a few thousand dollars a year. How long is it going to take you to save what you need for the scenarios we just mentioned? In the single-person scenario, assuming you live for 15 years after retirement, you will need \$316 860, which equates to about \$21 000 a year to meet the annual shortfall. The couple would need to save about \$649 620 to cover the shortfall for 20 years, which equates to about \$32 000 a year to meet the annual shortfall. Most of us could no way achieve this.

But not all hope is lost. If you were able to use the principles in this book to start a property portfolio with no money down, in 15 years you could easily have five to 10 investment properties to fund a lavish retirement (see breakdown of figures in chapter 6).

What seems more achievable? Nothing to pay or saving \$25 000 a year? The answer's obvious.

Setting yourself apart from the crowd

How many of your friends and family have an investment property? Or more than one? How many have planned out their financial futures? The answer, in most cases, will be 'not many'. If any. As a society we are taught to go out and get a good education, establish ourselves in a career, buy a home and concentrate on paying it off. How long does it take most people to pay off their mortgage? Twenty or 25 years? Sometimes longer. If you wait until you pay off your mortgage, then start thinking about investing in other properties, how many years of capital growth have slipped by? How many properties could you have purchased in those intervening years? You could have used the equity in your own home to purchase a number of investment properties and sat back while they, along with your own home, continued to grow in value. Remember: once you purchase the right properties, time is the key ingredient in realising gains in the property market.

Most people retire with little because they have too many excuses to avoid investing. *It's too hard, we don't have enough time, it's too risky, we can't afford it.* Can't afford it? We'd say you can't afford not to!

That's what superannuation is for, we hear you say. *That's what the aged pension is for*. Yes, it is. But will those two income streams combined allow you to live the kind of retirement you want?

For all the reasons we've talked about in this chapter, the answer is undoubtedly no.

Shorter term financial goals

Of course, planning for retirement is not necessarily the number one thing on some people's minds — especially the people in generation Y, who still have a lot of years of work ahead of them. But what if you don't want to wait that long? What if there are things you want to achieve before you retire? Perhaps you want to establish a vineyard in 10 years' time. Or set up a shelter for homeless people. Maybe you're a relatively new arrival to Australia and want to build wealth so you can bring your elderly parents here to live. The reasons are endless, and they're your own. One thing that is common among most of us is that wages alone are unlikely to be able to create the wealth we will need to achieve our goals.

Case study: a five-year exit strategy

Gayle and Ian were aged in their late fifties when they realised they weren't going to have enough money to retire on in six or seven years' time. They had recently downsized from their large family home to an inner-city apartment, making about $100 000 profit. They loved their new lifestyle but knew they wouldn't be able to sustain it once they retired. They had to do something quickly and couldn't afford to wait 15 years for a property to achieve high capital growth.

With the help of a buyer's advocate, Gayle and Ian used their $100 000 cash and purchased a boutique town house as an investment in another inner-city area where the median price was $400 000 for a house and $360 000 for a unit. They picked up their town house for $320 000. It needed a bit of cosmetic work although it was in a good location with 'glimpse views' of the city. It was one of eight, had a balcony off the master bedroom and was an easy walk to public transport. It had a good 'personality' and was marketable for tenants.

Over the next five years, while they were still working, Gayle and Ian spent $25 000 doing up the town house. When it came time to sell, the median price for a unit in that suburb was $500 000. Because they had chosen well and added value through some basic renovations, Gayle and Ian ended up selling for $580 000, a profit of about $260 000 in five years (however, this does not take into account transaction costs and capital gains tax, which need to be subtracted).

Summing it up …

So, we've established that you will need more than savings, super and the aged pension to live the life you want. You will need to have a written financial plan in place that will include short-term and long-term goals, which will help keep you disciplined and focused along the way.

But why is investing in property the best way to achieve your financial goals? We'll take a look at that now in chapter 2.

In the next chapter …

In chapter 2, we will look at why property is a good — and safe — investment. We will discuss how the historical demand for property and the direction the market is headed, in combination with the factors that drive the property market, make property a safe investment. We'll also discuss the benefits of investing in property versus paying off your home loan and, as is only fair, we'll also discuss the pitfalls of investing in property.