How to Create ……

a $million in Property in 9.5 years,

starting with very little (except a job).

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(an information website for investors.)

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The information presented in this ebook is based on his personal experiences.

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Introduction

Property has been and always will be one of the best ways for creating and holding wealth. There have been thousands of books written about it and there will be thousands more.

The Plan

This brief ebook outlines a plan to create a million dollars net worth in property, starting with very little, in 9.5 years or less. I believe most working people living in Australia, New Zealand, the UK, the USA and Canada (and probably many other countries) should be capable of achieving this goal, if they set their minds to it.

The timeframe of the plan will vary depending on which part of the property cycle you are beginning. The ideal time would be a few years after the top of the previous property cycle, when prices have had a correction and started to increase again.

The difference between the rich and the poor (or middle class) in my opinion is in their education and action. A formal education can get you a job. Self education can make you a fortune, providing you take action. This ebook provides an education on investing in property. It's up to you to take action.

The concept.

The concept I want to get across is that to become wealthy in property, we need to be able to control an appreciating asset, or assets, of large value, which over time will increase in value, and it is the increase in value, which makes us wealthy.

I want to really make a point of this, because it is the very simple concepts that many people overlook, trying to find the more complicated hidden secrets of a strategy.

There is none. There are no secrets. Simply control appreciating assets of large enough value, and in a short time you will become wealthy.

Eg. well located residential property generally increases in value at approx. 10% per annum, so $1million property will increase at $100,000 per annum. When you take into account the compounding effect, the property doubles in value in 7 years. It was Albert Einstein who quoted "The most powerful force in the Universe is compound interest".

Many people believe you need to own the property outright, without having debt against it, and will work really hard to pay off the mortgage. This is not the most financially smart way to go. By putting your cash into more assets, rather than pay off an existing one, you increase the value of assets you control, which will compound for you, creating wealth much faster than paying off just one asset.

Let's get started

Assuming we have an average paying job, or are self employed, and we have saved a deposit of say $30,000, or we can access this amount from equity in our own house. If we don't have any deposit or equity, we can find someone who does and go in a Joint Venture partnership with them, once you have found a great deal. Many people starting out have used parent's equity, or parent's guarantee to get started. Just take this ebook along to your Joint venture prospect, and share the plan with them.

We (my wife and I) have personally done 16 real estate deals using none of our own money, so I know it can be done.

On a property valued at $300,000 this would be $30,000 deposit. Some lenders will lend a higher percentage, so you will need less deposit.

Before you start saying, " Keith, how the heck am I going to come up with $30,000?" (or words to that effect) I will show you how to get started with far less than this, using leverage, in just a few chapters. So read on.

Find a great deal

Ok we have a deposit, now we need to find a great deal. One that is going to grow in value faster than the average, so that your wealth will grow quickly. You can learn how to do this yourself, read lots of books, attend seminars, and spend a lot of time analysing properties in a suitable area (which may not be very close to where you live) I used to drive 5 hours to an area I was investing in, spend a day or two looking at lots of property then drive home again.

Or you can do it the easy way, find someone you can trust who can find a great property for you (and hopefully they won't charge you too much for their time and skill). The strategy I propose uses the leverage of buying property off the plan, and using for example the service of Aviate Property Sourcing:

http://www.aviategroup.com.au/Canberra

Aviate specialise in sourcing great investment property, and do not charge you, as they are paid a small marketing fee by the developer. They will also help find a property manager (at a discount rate), furniture packages if required, and discounted rates on a quantity surveyor to prepare the depreciation schedule for your tax deductions.

What do I mean by a great deal? I mean a quality property, in a good suburb that has shown above average capital growth over the last 5 to 10 years, and looks stable enough to continue.

It is more likely to be a one, or two, bedroom unit or townhouse. A property that has a unique, or scarcity factor (ie. not a unit in a large tower, or a house in a new subdivision, where more and more identical houses are likely to be built). It would usually be located within 2 to 12 km of a major city CBD.

It should appeal to a target market of tenant who fits the following profile. Our target tenant demographics are either young professionals in the 26 to 35 year age bracket, generally time poor, enjoy socialising and eating out, so need to be close to restaurants, cafes, public transport etc.. Or our other target group, what we will call migrating empty nesters, who are 50 plus y/o, looking for proximity to services, and security. These two profiles are in a growth trend, which is expected to continue.

Off the plan Property

Our strategy utilises new off the plan property, to benefit from the leverage. I recommend smaller, low rise developments which do not have lifts or gymnasiums as these additions increase the body corporate costs, and affect our return on investment. There are arguments for and against any type of property, but new property is always in demand by tenants, has great tax deductions, and you should not have to spend money on maintenance for quite a while.

Start up money, using leverage - Deposit Bonds.

So lets assume we find a great deal for $300,000. Because it is off the plan, due for settlement in 12 months, we only need to put down a 10% deposit, which does not have to be cash. Deposit bonds are how many investors put up the deposit, costing approximately 5 to 10% of the deposit amount, depending on how long the bond is for, so for $30,000 deposit for 12 months it would be approximately $1500.

Other costs to pay are stamp duty and legal costs, which combined are usually 5% or less (approximately $15,000) depending on which state you buy in. So the total cash outlay is around $16,500 max. (another alternative to deposit bonds is a bank guarantee)

When choosing your property, another major benefit when you buy off the plan property in Victoria, is that stamp duty is only payable on the value at time of contract, which is basically land value, so a property purchase at $300,000 you pay only about $2000 stamp duty, rather than about $14,500.

This might just tempt us to choose Victoria for our first property. Our start up money could be only about $3,500, which for some of us is a big incentive.

New Zealand is also very attractive as there is no stamp duty to pay at all, which makes getting started even easier.

(See a mortgage broker for qualification requirements on deposit bonds)

Settlement

We then wait until settlement, when we would need to borrow the money from a lender to pay the balance.

Now when you buy off the plan, time is working on your side. You are controlling an asset, which is rising in value, without having paid for it.

The longer the settlement period, the more benefit you gain. If the market is rising faster than the average, like it does in the second half of the property cycle, then by settlement it’s valuation should be considerably more than when we initially put down the deposit. The property cycle is generally 7 to 10 years long. In the latter part of the property cycle, values may rise 15 to 20% per annum or more. Perth in the 12 months to June 2006 rose by 36% for units.

Let's assume that the market has risen only 10% since we put down the deposit 12 months ago, so the property is now valued at $330,000. ($300,000 + $30,000 = $330,000) We can approach the lender prior to settlement, with a new valuation, explaining that the property is now worth more, and ask for a higher loan.

If the original lender will not do this, then talk to a different lender. There is plenty of competition in the mortgage market these days. Or simply settle, then refinance shortly afterwards to take out the equity. The loan we take out is interest only, so that the repayments are lower. We do not need to pay off any of the principle at this stage

Assuming the bank was prepared to lend 90% originally on the $300,000, this would have been a $270,000 loan. Now they may lend 90% of the new value $330,000, which would be $297,000, and so we only need another $3000 of our own cash to settle. Our total cash outlay has been only $19,500 approximately (or as little as $6,500 in Victoria).

Obviously, in a faster rising market, this amount can be reduced even more, due to the increased growth and extra borrowing capacity, to the point where it is possible to purchase, and get back all the cash outlaid, at settlement, allowing us to get started on the next property.

Lenders

On the subject of lenders, there are so many different banks and other lenders, that to get the best deal will take you a lot of time, legwork and frustration, comparing them all. I highly recommend using a mortgage broker to leverage your time.

Mortgage brokers these days are very competitive, get paid by the lender, not by you, and are working hard on your behalf to get a good deal for you. They only get paid when the loan settles, so are keen to work with you. Generally they work with a handful of different lenders covering all kinds of loan, eg low doc, no doc, credit impaired and just take the stress out of finding a loan.

Here is the link to a great mortgage broker who specialises in working with investors, that I have personally used, Investor Finance.

http://www.investorfinance.com.au/autoaff.asp?ID=46

Make sure you get finance pre-approval for your property, even at this early stage, before you sign the contract. Or have a clause in the contract "subject to finance".

Renting out the property

Finding a good property manager is very important, we don't recommend you manage it yourself. Imagine owning properties in Melbourne, Brisbane and Perth, trying to manage them yourself. It can be done, but who want's those hassles. As I mentioned earlier, using the services of Aviate Property Sourcing, they would find a good property manager for you.

It's really important to do the numbers on your property before you sign a contract. You need to know if it will give you a net positive or negative cashflow after all expenses and tax deductions are taken into account.

Your serviceability of the loan on the property will be affected by this. Every property is different, and can vary quite a bit. If you are not on very high income, it may be better to look for a property which will break even after tax deductions.

However if it is slightly cashflow negative, and you are earning a good income, then this is not a bad thing. As an example, let's say your property is negative cashflow $50 per week, or $2600 per year.

This is also a tax deduction and will reduce your tax. Your $300,000 property is increasing in value approximately $30,000 per annum. So you are outlaying $2600 each year to get a return of $30,000 each year.

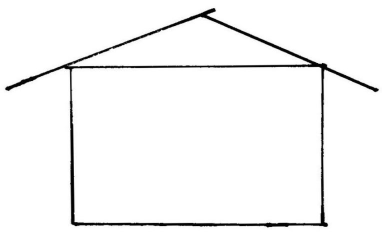
$300k → **$330k**

Congratulations, you're now a property investor, and landlord.

So our property is now valued at $330k, we have outlaid approximately $19,500 and we are raring to go for the next one. It is 12 months since we started, and we have been saving money since we began a year ago (havn't we?). All depending on our savings, and availability of cash from other areas, such as equity in our own house, we can now do the same again.

If we can't come up with any more cash just now, we just have to wait until our investment grows enough to access some of the equity. So assuming the average 10% growth rate again, the property will be worth $399,300 ($330k +33k = $363k + 36.3k = $399.3k) 2 years after we settled on it, we now refinance and use this equity as deposits.

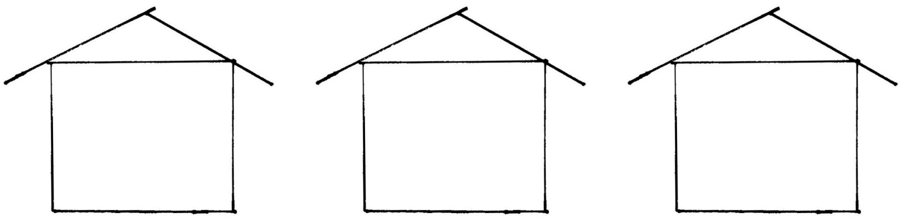
Our equity in the property is $399,300 less our loan which is $297,000 = $102,300 equity. This has taken 3 years so far, but not bad considering we didn't have to work for it.



Value $399,300
Loan $297,000

Equity $102,300

We now buy 2 investments off the plan with deposit bonds, for settlement in 18 months. We choose Victoria as the cash outlay will be less. The valuation and purchase price of each property we will say is $350,000. We need to come up with cash for two deposit bonds, approximately $7000, other costs and stamp duty approx. $5,000, so a total outlay of $12,000 for the two properties. Another phone call to our friend the mortgage broker, and we borrow this from the equity in the first property. The repayments increase a little, but we are now controlling another $700,000 of property.



So now we control $399,500 + $350,000 + $350,000 = $1,099,500 of appreciating assets..

We have a loan on the first property of $297,000 + $12,000 = $309,000.

Yes, within 3 years from starting, we control over 1 million dollars of investment property, an asset that is going to increase in value on average 10% per annum, which is $100,000 growth per annum (compounding each year) You don’t have to go out to work to earn it, it happens automatically. We have again used the service of our property sourcing company, and so have not spent countless hours on research.

Eighteen months later our 2 properties are built and we need to settle.

The combined value of our properties is now
$1,099,500 + 18 months growth at 10% p/a = $1,269,922

We can borrow 80% = $1,015,938
less existing loan = 309,000

= $ 706,938 which is enough to settle as the amount required is $700,000.

It’s now 4.5 years since we started, we control property valued at $1,269,922 with equity of $260,922 (and a loan of $1,009,000)

Now we can choose to wait, do nothing else, and in 5 years we will have equity in the property of over $1 million dollars………………….

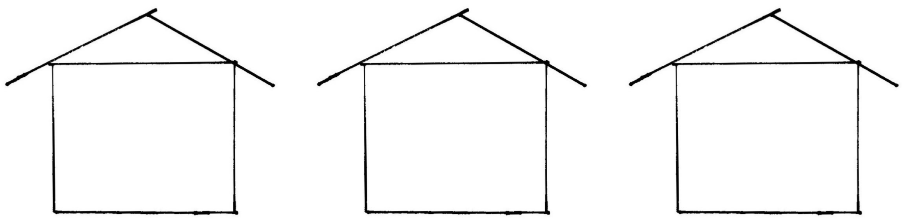
How is that possible….?

The Power of Compounding

$1,269,922 + 10%	= $1,396,914	5.5yrs
$1,396,914 + 10%	= $1,536,605	6.5yrs
$1,536,605 + 10%	= $1,690,266	7.5yrs
$1,690,266 + 10%	= $1,859,292	8.5yrs
$1,859,292 + 10%	= $2,045,221	9.5yrs

$2,045,221 less $1,009,000 loan = **$1,036,221 equity.**

The first property has now grown in value to around $743,000 and the second and third to $651,000 each.



$743,000 + $651,000 + $651,000

Property millionaire

Not only are we now a property millionaire, 9.5 years after we began, our wealth is now growing at a staggering $204,522 per annum compounding.
If you had started on this plan at age 20, you are a millionaire before 30.

Now you may be thinking these numbers sound a little far fetched….? Oh yeh, Keith, that could never happen?

Just ask anyone who has owned a house 10 years or longer, how much they paid for it, and how much is it valued at now. Take the purchase price, multiply by 1.1 then again by 1.1 etc (same as adding 10%), for ten years do it ten times etc, and see how the result compares to the value now. If the property is in a good growth area, you may find the value now is far higher than the result of your maths.
Remember, we are buying properties in areas targeted for high growth, and so these returns should be achievable.

Now I know for some of you this plan is a little too slow, you want to make the millions faster. To be able to buy more property faster, you need to be able to service the loans, and so need very good cashflow.

We can show you many strategies in our Wealth Homestudy course, by Jamie McIntyre, which can generate you massive cashflow. This cashflow can then be diverted back into property.

We have available a Free 3 hour DVD which outlines some amazing strategies, and details on how to access the Wealth Homestudy course, simply click here to order:

http://www.learntoberich.com.au/freedvd.html

We could have added more properties along the way during the 9.5 years to create a larger asset portfolio, once you have the base of a few properties growing for you, your options soon begin to expand.

The debt on the property is remaining at the same level, but our tenants are paying the interest, so there is no real need to pay it off. As the property continues growing in value, the debt begins to become insignificant. Later, you can always sell a property or two to pay off all the debt if you choose, and still keep some of the assets fully paid off producing a very nice income.

Imagine this.

Assuming we are now able to service the loans without any problem, by now rents have increased and the properties are most likely cashflow positive.

We could now, if we chose, take out some of the equity to live on for a while. For example, the properties are growing in value at $204,000 per annum compounding, we could take out $100,000 per annum (tax free) travel the world and the properties are still increasing our wealth.

When you draw equity out of your property, it isn't classified as income, so no tax is payable.

Now it's up to you

I hope this ebook has inspired you to take action, as I said at the beginning, here is a plan, it's up to you to take action and make it happen.

Summary of links

For Free property sourcing by Aviate Group:
http://www.aviategroup.com.au/Canberra

For finance, Investor Finance mortgage brokers (Free service):
http://www.investorfinance.com.au/autoaff.asp?ID=46

For a Free 3hour DVD, revealing amazing cashflow strategies, such as share renting for monthly cashflow:
http://www.learntoberich.com.au/freedvd.html

For more information on the author and to access other Free informative ebooks on other investment strategies, visit:

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