The Property Puzzle

How to Develop a Plan to Achieve Financial Freedom through Property Investment

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Preface

Why every investor must read this book

Why is this book different from every other property book you have read?

Most property books advocate one investment strategy above others. Often, these property books are written by 'educators', that is, people who run seminars, or property professionals such as buyers' agents who buy property on behalf of clients.

Unlike every other property investment book you have read, rather than promote one method in favour of another, my aim is to undertake a completely independent and impartial financial planning assessment of the main property strategies to determine their strengths, weaknesses, risks and limitations.

In addition, I wanted to take prospective and experienced investors through the important steps in developing a property-based financial plan: developing projections, determining ownership structures, risk management (a critical step that's often overlooked), estate planning and many more topics that are not covered in most property books.

I grilled the experts...

To try to provide a completely impartial analysis of the various strategies and their potential strengths and weaknesses and some insight into what type of investor they are best suited to, I have interviewed experts from each 'property camp' (all authors themselves), grilling them on the issues my financial analyses came up with and asking them the questions I know all beginning and experienced investors would most like answered.

I intend to help you cut through the copious amounts of information about property investment strategies that are out there, so you can finally feel comfortable making that all-important decision on what may, or may not, work for you.

Until now, no one's looked at the numbers...

The robust financial analysis that I present in this book is the one critical thing that the vast majority of investors fail to undertake. This important step is overlooked, primarily because many people lack the financial savvy to 'crunch the numbers' on their own. Additionally, there are no real property software models designed specifically for financial planning. While there are property software packages available on the market, the fact is they simply don't allow the investor to integrate such comprehensive analysis with their personal cash flow and account for certain variables such as different ownership structures. To cover every possible angle, we developed our own software model to complete our analysis.

The financial planning angle...

The other key difference that makes this book more than just another 'how to' of property investing is that I wrote it with a finance background – as an accountant, financial planner and mortgage broker.

The truth is that the myriad 'financial planning' issues associated with property investment have always been overlooked. One thing traditional financial planning clients have benefited from (although these clients mainly invest in equities) is a structured approach to investing. When people seek advice from a good quality financial planner, the planner will sit down and determine how much they need to invest to meet their retirement goals. They will develop an investment strategy and help clients manage their cash flow. They will assess the clients' (investment) risks and help manage these risks via insurance policies and the like.

However, property investors have not benefited from the same level of tailored advice. An accountant will advise on certain tax matters, but won't necessarily know much about property investment strategies. Buyers' agents might know a lot about the property market in their local area, but aren't necessarily financially literate. Financial planners are often restricted from advising on direct property investments by their licensee. Basically, if you think you'll receive balanced advice from a financial planner – in other words, impartial advice on property and shares, being the two main growth assets – you probably should think again.

Add to this the fact that the vast majority of financial planning courses, that these advisers must complete to obtain their licence to practise, contain no content whatsoever on direct property investment. In other words, even if a planner's licensee allowed them to advise on property, it's likely they would know very little, if anything, about the fundamentals that make property investment strategies tick.

This book fills in the important gaps...

Essentially, this means that until this book hit the stands most property investors had nowhere to go for such holistic information. You could read about the bare bones of investment strategies from the 'property experts', or you could forgo the prospect of building a property portfolio entirely based on your financial planner's biased advice towards equities and the share market.

The key of this book is to discuss and clarify, in easy-to-follow terms, everything a property investor needs to do or understand to develop a financial plan. I hope to become your financial adviser of sorts, guiding you with the complete facts and, more importantly, figures you need to fully understand property strategies.

You will learn not just what each strategy is all about, but exactly how much property you will need to make this type of investment work for you in aspiring to reach your own financial goals, and all the variables you need to account for along the way, including cash-flow management.

Of course, the information in this book is general in nature. It is not tailored to your personal situation and, therefore, will probably not eliminate the need for you to seek some type of independent professional advice. However, it should give you a firm grasp of the issues you need to consider when developing a property-based financial plan and being armed with this information will help you identify good quality advisers. With a bit of knowledge and by asking a few pertinent questions, you should be able to 'test' the knowledge of your adviser.

The two big things 99% of property investors fail to do

In my experience, the two biggest things most property investors fail to do are:

1. Constructing a detailed plan to achieve certain financial (or retirement) goals and
2. Regularly reviewing that plan and the properties' performance.

As the saying goes; if you fail to plan, you plan to fail. How can you know where you are going if you have no idea how to get there? It's a bit like trying to find a new restaurant without the address or any directions.

To make it in property investment you must first understand why you are investing. What are your goals? How much money (income) do you need to reach those goals? What does that mean in terms of how many properties you need to own? And so on. It doesn't make sense to invest hundreds of thousands of dollars and take certain risks unless you know it's all going to be worthwhile.

Don't close your eyes and cross your fingers...

Failing to review your investment property's performance is another cardinal sin that many investors are guilty of. If you asked most property investors what implied capital growth rate their existing investment property has generated, most, if not all, wouldn't be able to tell you. However, a lot more people would be able to recall how much their super fund returned last year. Why is this so, particularly given that the majority of investment properties are worth more than most people's super? It makes absolutely no sense to invest in property and not review its performance every one to two years, maximum. You cannot and should not invest in any type of asset and then simply close your eyes, cross your fingers and hope for the best.

Another thing that always astounds me is when investors make excuses for their property's poor performance. The investor may have owned the property for five years, during which time it has achieved very little capital growth, yet I have heard people say things like 'It might turn around' and 'I don't want to sell now as I may not cover my full costs.'

Don't avoid the tough decisions...

Logically, if a property hasn't shown any indications that it will be a good investment within five years, it's likely that you have bought a dud asset. The only thing to do with such a real estate lemon is sell it as soon as you possibly can to the first person you meet dumb enough to buy it! Remember, most people can afford to hold only a finite number of properties. For example, due to financial capacity, maybe you can afford to hold four properties. If this is the case, you should want to hold the four highest quality properties on this earth. Therefore, as soon as you identify an under-performing property, you should replace it quick smart. Better still, take every possible step to try to buy the right property in the beginning (see the chapter on risk management).

Essentially, the sooner you can identify and offload an under-performing property, the better. You don't necessarily want to wait five years before you make that decision. Depending on the market, the location and type of property, most investors should be able to determine an investment property's potential (or lack thereof) after about two years.

This book will show you how to develop a plan and, more importantly, review the performance of this plan, so you avoid making these common and very costly mistakes!

Who am I?

No, this is not a *Sale of the Century* question. Rather, I think it's important to explain a little about my background and experience to you, the reader, because it is very relevant to the content of this book and the tools I intend to give all budding property investors.

I am a property investor myself – I practise what I preach and walk the talk. I bought my first property (my own home) when I was 24. While I realise that is not necessarily very young, in today's terms, with more and more people delaying their move into the property market, 24 seems pretty infantile. That was more than 10 years ago.

However, it wasn't really until founding my business, ProSolution Private Clients, in 2002, that I started to really get interested and involved in property investment – personally and professionally.

Being in the game every day means I have literally reviewed the financial performance of, and spoken to, thousands of property investors in the past eight years. It has given me great perspective, particularly as I have watched many people make a lot of mistakes, because they failed to plan financially. As well as this 'on the job' experience I have read many books about property investing and been to countless seminars, always seeking to maintain a fresh perspective and gain new ideas.

I have a graduate degree in commerce and many post-graduate qualifications in accounting, corporate finance, mortgage broking and financial planning. Trust me, I have spent far too many nights and weekends studying – and now writing books! Sad, isn't it?

This is my second book. My first, *The Smart Borrowers Handbook,* was published in 2008 and is all about loan structuring and financing issues for investors. Of course, I highly recommend it.

Thank you

The first person I need to thank is Bronwyn Davis, who helped me pull this book together. She worked tirelessly through many hours of interviews and notes and met every deadline (despite juggling family commitments). She also shared the vision of what we wanted to achieve with this book. I couldn't have done it without her.

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