More Wealth from Residential Property

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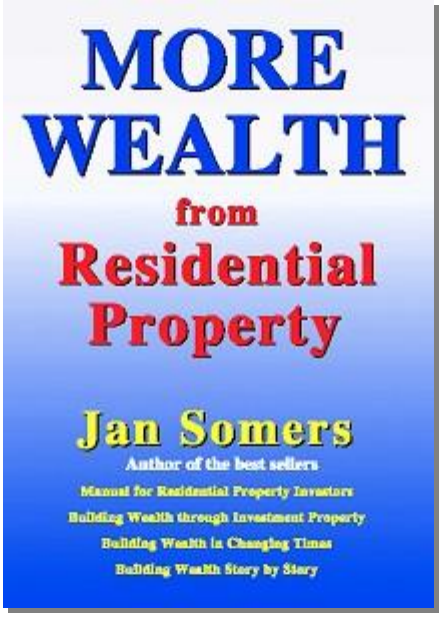
Introduction



This book shows you how to build more wealth than you ever thought possible through long-term investment in residential property. In essence this is achieved by diverting some of your current income into assets that will provide an income in retirement. But don't be mislead. It is not a get-rich-quick scheme, nor are the principles new - but it is the surest path to personal wealth I know. Here is a recipe, in fact, for a personal superannuation scheme that offers far better returns and much greater flexibility than any institutional superannuation.

As the ensuing chapters will explain, residential property is a low risk investment that consistently produces high returns over the long term. Not only this, but there are no complicated and constantly changing rules governing how you can eventually get your money. There are no lump sum regulations, no reasonable benefits limits and no age barriers - none of the straightjackets associated with formal institutional superannuation.

This is my fifth book on the subject of property investment and, while much has happened since the first one was written a decade ago, little has changed: my views are the same today as they were yesterday, as they will be tomorrow. While the basic recipe is still the same, however, many of the figures used in the earlier books are now outdated following large rises in property values and significant falls in interest rates. This new book not only updates and consolidates much of the information from two of its predecessors, ***Building Wealth through Investment Property*** and ***Building Wealth in Changing Times***, it contains much more material.

Something increasingly obvious is that people are wanting, but not getting, more information about investment in property. In search of help, many turn to a financial advisor, but are often confronted by a denigration of property and a sales pitch for managed funds. Why? Research by the Association of Independently Owned Financial Planners shows that:

Over 90% of the financial planning advice given to consumers is delivered by institutionally owned financial planning organisations.

Clearly, the majority of financial planners are not interested in assisting you to invest directly in property. They are really geared toward guiding you into indirect investments such as managed funds packaged by the large financial institutions who own and control their business. In my view, if you want to be a successful property investor, you should be seeking the advice of experienced, successful property investors. This book is the culmination of almost 30 years of research and experience in property investment, so you will be learning first hand how to build more wealth from residential property.

The philosophy

To build a property portfolio you need to formulate and stick with a consistent investment strategy. I didn't invent the formula outlined in this book. I don't have a franchise on it, and neither does anyone else. It is not new, but has been around for thousands of years. Yet many people do not embrace this strategy because they can not believe that something so simple can be so effective.

The formula is simply to buy income-producing residential property that is appropriately financed to achieve maximum tax benefits while you are working. As both cash flows and property values rise, you refinance so that your liabilities (your borrowings) increase with your assets, enabling you to build wealth by increasing your net worth. This will give you the opportunity to retire much earlier, and with more wealth, than you could otherwise. Then, if you wish, you can reduce your liabilities by selling a property or two.

Ultimately you will have a retirement package of residential investment properties that will continue to grow in value and produce a regular indexed income in the form of rent. In effect, you will be creating your very own pension and superannuation fund, but with returns that, in my family's experience and that of many others, will outperform all other investments over the long term.

This concept of 'buy and keep' is difficult for some people to accept because they believe the only way to make a profit is to buy and sell. But you don't have to sell to make a profit. By keeping the property you can borrow against the equity and invest in more property, putting your profit back to work.

Many property investors enter the market with a short-term view that is reinforced by some myopic media who report a myriad of short-lived crises to sell newspapers. Yet long-term investment in residential property is relatively unaffected by downturns in the economy, high interest rates, fuel crises, and high unemployment. This is demonstrated by the fact that in Australia for the past 100 years, the combined returns from capital growth and rental yields have averaged more than 15% per year compound. With gearing, in fact, those returns increase dramatically.

For short-term property traders, negotiating a bargain price, finding the best interest rate, and deciding when to buy and when to sell are extremely important. With long-term property investment, initial price, interest rates and timing are less significant because of the levelling effect of time. This means that the best time to invest in income-producing residential property is today. Time is always on your side.

Summary

The ensuing chapters show you some of the basic steps involved in achieving total financial security through residential investment property.

PART I - Deciding to build takes you through the very first steps. It discusses the importance of deciding to start a wealth building program and helps you estimate how much you'll need in retirement.

Chapter 1 discusses the concept of real wealth and helps you work out how wealthy, or poor, you are right now. It also gives you an inkling of how to go about building wealth in the future.

Chapter 2 shows you how to estimate how much money or how many properties you'll need before you can be financially independent.

Chapter 3 explains the dire consequences of deciding to do nothing and relying on government provisions to support you in retirement.

PART II - Planning to build looks at who will help you prepare a strategy for building wealth.

Chapter 4 discusses the real role of financial advisors, who they are and what they do. You will discover that all is not what it seems.

Chapter 5 examines the attitudes, information and skills you'll need to build wealth by the DIY approach, where you take responsibility for yourself.

PART III - Choosing the bricks lists the various options you have available to choose from as the basis for building wealth.

Chapter 6 lays out the pathways to wealth and discusses managed investments, in particular institutional superannuation, and why it will never make you wealthy.

Chapter 7 documents the history of capital growth and rental income from residential property over the past twenty years and compares the attributes of shares and property.

Chapter 8 describes the rationale of why the average investor should choose residential property rather than commercial property or vacant land. It also describes the array of residential properties available and suggests some criteria for choosing a suitable one.

PART IV - Laying the foundations looks at location and timing in relation to investment property.

Chapter 9 outlines criteria for choosing where to invest and makes some interesting comparisons between different cities and suburbs.

Chapter 10 describes why time and not timing is one of the keys to successful property investment.

PART V - Building the framework outlines the steps involved in building a portfolio of properties beginning with your own home.

Chapter 11 shows you how to get started by buying your first property. It is usually your own home but could even be an investment property.

Chapter 12 is the focal point of the book. After learning about the basics of residential property, I believe that most people would like to discover the recipe for building wealth, before getting bogged down in tax and finance matters. This chapter describes how an average couple can easily build a million dollar property portfolio in 10 to 15 years.

PART VI - Financing the project looks at the financial aspects of borrowing and buying investment property.

Chapter 13 examines the sources of finance with the aim of helping you make the best choice for your situation.

Chapter 14 provides you with a simple formula to enable you to work out how much you can borrow.

Chapter 15 helps you choose which loan is best and explores ways to make the most of your mortgages.

Chapter 16 examines the fees associated with a loan and looks at how interest is charged and what borrowing costs to expect. It explains why interest rates are not the only criterion for selecting a particular loan.

PART VII - Taxing the project explains the tax implications of investing in property.

Chapter 17 lists the tax deductions applicable to income-producing property to help you include everything to which you are entitled.

Chapter 18 explains the principle of negative gearing and shows you how to get immediate tax benefits by having your PAYG instalments reduced. It also looks at how the new tax scales, brought in with the Goods and Services Tax, have affected investors in rental property.

Chapter 19 details the costs of buying and selling property, and also explains how the Capital Gains Tax is now calculated.

PART IX - Maintaining the assets shows you how to perpetuate your wealth by carefully managing your property and finances. It also answers many of the 'what ifs' that can intrude on your thoughts and cause you to stray from your wealth building plans.

Chapter 20 shows you how to budget and manage your finances. Debt management plays an important role in wealth maintenance.

Chapter 21 explains how to manage your property and the tenants.

Chapter 22 answers the most commonly asked 'what ifs' concerning property investment.