THE ESSENTIAL PROPERTY INVESTMENT BIBLE

EVERY ENTREPRENEURS GUIDE

PROPERTY INVESTMENT

Written by some of the world's smartest property investors

Edited by The Property Investor Magazine publisher
Kizzi Nkwocha

Every Entrepreneurs Guide: Property Investment

Research: James Miller, Helen Sykes, Peter Guthridge, Mark Gregory and Shawn Willis

Written by some of the world's greatest investment experts

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Originally published as Property Investment 2016.

This revised edition published by Athena and Mithra Publishing 2017

Sponsored by The Property Investor (www.tpimag.com)

Also by Mithra and Athena Publishing

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Michael Davoren, Wade Burns, Luke Egan, Frazer Fearnhead , Ian Ugarte, Dr Shane Geha, Wai Oo, Scott Kay, Rebecca Fogarty, Lillie Cawthorn, Marion Mays, Scott Pendlebury, Andrew Crossley, Charyn Youngson.

Real wealth comes from accumulation of assets, not trading assets.

Ian Ugarte

If you want any chance of financial independence or a secure financial future in the next 10 to 20 years' time, you need to invest today without wasting any time.

Wai Oo

Finally, always try to remember that selling property is not personal, it's business.

Wade Burns

The dichotomous effects of urban renewal and zoning on civic urban outcomes can only be realised and made effective if cities are ready to accept their urban failures and embrace change.

Dr Shane Geha

I believe peer to peer lending is more rewarding, less time consuming and considerably less risky than direct investment in property.

Frazer Fearnhead

The UK housing shortage presents a double-edged sword situation which may cause issues for some, but provides great opportunities for those who are able to invest in property development.

Luke Egan

Engaging a qualified property manager is often key in ensuring that your investment is a successful one.

Rebecca Fogarty

Gems Inside

Buy, Renovate, Stage and Sell for Profit

About Kizzi Nkwocha

Kizzi Nkwocha is the publisher of The Property Investor and My Entrepreneur Magazine. He made his mark in the UK as a publicist, journalist and social media pioneer.

As a widely respected and successful media consultant Nkwocha has represented a diverse range of clients including the King of Uganda, mistresses of President Clinton, Amnesty International, Pakistani cricket captain Wasim Akram, campaign group Jubilee 2000, Dragons Den businessman, Levi Roots and world record teenage sailor, Michael Perham.

Nkwocha has also become a well-known personality on both radio and television. He has been the focus of a Channel 4 documentary on publicity and has hosted his own talk show, London Line, on Sky TV.

He also co-presented a weekly current affairs program in Spain on Radio Onda Cero International and both radio and TV shows in Cyprus.

His books have included the fiction novel, Heavens Fire, the business guide books: Business, Business, Business!, Mind Your Own Business, Insiders Know-How: Public Relations and the international bestseller SocMed: Social Media For Business. His second fiction book, The Prophecy Of The Popes, is due out in January 2018. In 2011 his team won the SIPA award for social media. Find Kizzi on Instragram and Twitter.

An Introduction

Investing in property is a well-practiced strategy for financial security for many reasons. As an investor, you make decisions and have control over returns. Rental income may allow you to borrow then help you pay the interest on your mortgage. There may be tax benefits including tax deductions and depreciation allowances. You might add value to the property and increase its worth.

Real estate is possibly the most forgiving investment asset over time. Be prepared to hold and you should be confident you will see the investment rise in value. Capital growth is as aligned to long term investment as it is to supply and demand – but property selection is a big player.

The familiarity of 'bricks and mortar' is a very real reason why people see security in residential real estate; and let's face it, you never hear of houses 'going broke' do you? .

Buying real estate in any country comes with a myriad of conditions including regulations, guidelines, taxes, fees and charges. Every property investor must consult with appropriate specialists in each locality, because both the type and level of buying conditions can differ even by State or Territory within a country. For example, different fees may apply to principal place of residence and investment property purchases. If you live outside the country there may be specific conditions around the property you buy.

Property should be viewed as a long-term growth asset, and investors should think practically and focus on choosing a property that meets qualified selection criteria such as location and infrastructure.

The professionals you deal with – the sales agents and property managers - also need to be qualified through evidence of knowledge, experience, performance and membership of appropriate bodies. These agents should have a good working knowledge of all legislation relating to property sales and management as well as a basic understanding of finance matters, though finance and taxation experts should be sought for any detailed advice.

Property investment is not just for the wealthy. Enjoy the experience.

Michael Davoren

About the author

Managing Director and master franchise owner of RE/MAX Australia and RE/MAX New Zealand

Michael Davoren has been in real estate for around four decades and held Senior Management positions and Directorships with major real estate groups in Australia and New Zealand. Michael has also held leadership positions in the industry having been President of both the Real Estate Institute of Queensland and the Real Estate Institute of Australia. He was an Executive Board member of the Chicago-based International Consortium of Real Estate Associations for five years.

Michael became Managing Director of RE/MAX Australia in 2011 and registered owner of RE/MAX Australia and RE/MAX New Zealand in November 2013. The first 14 months under new ownership saw the RE/MAX Australia and RE/MAX New Zealand networks transformed with new technology, new training, new branding, new systems, new ownership, new leadership and new energies.

Michael has specialised in international relationships in real estate over many years and is currently very active in strengthening the RE/MAX Pacific Rim region, which is harnessing the enormous amount of real estate business flowing between the ten countries in the region where REMAX is represented.

RE/MAX is the No.1 real estate agency business in the world based on volume of sales and many other criteria. It is in some 90 countries, has over 6500 offices, and employs or contracts more than 90,000 people worldwide, including around 19,000 sales agents operating outside of Canada and the United States where it began in 1973, founded by Dave and Gail Liniger of Denver, Colorado.

Landed Property: A Journey Through The Times

In so many ways, land is still the world's most significant asset class. For centuries it represented the only true wealth of people: the Crown, nobility and the landed gentry all derived their near-plenary power from what they could sow, reap, extract and harness from the land. There were also the primary assets of livestock, cultivated crops, serfs, and soldiers, all requiring land availability in its various productive forms.

Landed estates have generated unrivalled income and influence for their owners through their location, form, size and capacity to produce, feed and house. Thus, the long-established economic capacity of land to generate wealth and power is not only historic, it is logical.

For centuries, property represented the only means of production in kingdoms, territories and colonies for the oligarchic elite who owned the established and conquered realms and all upon them. People were born on the land, worked on the land, grew up on the land and died on the land, but never owned any part of the asset.

It was not until the late 1700s that land became a tradeable commodity in Britain, Europe and the colonies and somewhat accessible to ordinary citizens. It was arguably the commercialisation of the steam engine and the advent of the railway that began to break the inextricable bond between people's place of employment and landed property. As factories that were located away from traditional estates began to produce goods and satisfy demand distally, so too did a large number of workers have to travel to work for the first time.

Cities not only grew but were subdivided into new areas with commercial districts, housing for the factory workers and housing sections for the

capitalists and managers. Social life had come to organise itself around the emergence and clash of new economic classes, segregated into new special zones mostly related to function or based on historical needs.

With the inevitable development of towns and cities, came further land-use change and new urban wealth. New settlement patterns of workers were inevitable due to the waves of rural dwellers who had come to reside nearer their employment, in new dormitory settings at the outskirts of burgeoning towns and cities.

At the base of much historical wealth therefore, whether industrial, feudal, regal or colonial, remained the primary tangible ingredient: the land itself. This was fundamentally different to other economic drivers because its supply was and remains inherently limited.

Land's limited supply, and its ability to produce income or capital for its owners, remains as relevant today as it was during the reign of the Tsars, The Ottomans, or William the Conqueror. The notion is that land holds value as a direct consequence of its use. This is central to the value equation today as it was for thousands of years gone past.

Translating this to today's Australian landscape, our cities such as Sydney, Melbourne and Brisbane continue to be shaped by land's physical attributes; delivering functionality, beauty and lodging, but also wealth and power to their millions of inhabitants.

And the shaping of cities has been with man throughout history. From the time that Alexander the Great built the greatest ancient metropolis on the shores of the Mediterranean in 331 BC, to Baron von Haussmann's iconoclastic modernisation of Paris in 1853, we as humans have long been defined by the places we inhabit.

Indeed, due to the shortage of land in inner city areas, a major task in metropolitan planning remains that of identifying new areas for future urban development at the edge of a city, and to manage processes that will bring this land into an urban state.

This becomes increasingly necessary as many people now prefer to live in new housing at the edge of the city and housing demand often cannot readily be accommodated in a city, nor can new office and entertainment precincts.

But in my view, the dichotomous effects of urban renewal and zoning on civic urban outcomes can only be realised and made effective if cities are ready to accept their urban failures and embrace change.

As Australian cities such as Sydney grow, the question of accommodating change functionally and sustainably becomes increasingly challenging. Within the complex labyrinth of designable possibilities, for decades many city planners have attempted to create more liveable cities. Everything has been attempted from decentralisation, multi-centralisation, consolidation and rebuilding, all of which have had some measure of success and failure.

Physically, the centre of a CBD as well as areas at the edge of a city have to be redefined against changing needs and circumstances in demographics, employment and housing. This is not a simple challenge. The movement back to the inner-city gentrification is also linked in many cases to migration trends and the propensity of new migrants to want to live closer to the main urban and city centres.

A study by the Milken Institute in 2000 identified immigration as one of the two most powerful demographic trends reshaping American cities. This further highlights the link and importance of immigration numbers to the

urban settlement patterns of America's changing civic landscape. This is also true for Australian cities.

However, space is generally lacking in most inner areas of large cities for many solutions to be effective. Access to employment, retail facilities, medical services and public transport are all essential but become difficult to retrofit due to gentrification and urban consolidation.

Nonetheless, consolidation in my opinion is still far better than sprawl in planning terms. Urban settlement patterns would reduce reliance on cars and better support public transport which is better for the environment.

As the population of our major cities continues to grow with increased migration, we need to ensure that our urban centres are accessible, liveable and importantly affordable. If we do not address these important issues, we will continue to witness people being forced to live on the ever-expanding extremities of our cities where land prices are cheaper. This not only results in longer commutes for residents, but the increased erosion of important agricultural farmland.

As our population grows, we must move to a more sustainable model by embracing high-density living and containing our sprawling cities. It's not easy but we need to adopt new and workable strategies to meet our ever-changing societal needs.

Property remains the world's most significant asset class. The rules of property investing, though highly complex and poorly explained, are often summed up quite simple as: Supply and Demand. But is it that simple? Thomas Carlyle, the famed Scottish essayist and mathematician once remarked that: "you can make even a parrot into a learned political economist – all he must learn are the two words Supply and Demand". So, isn't that true of all commodities, including property in Sydney today? It is

indeed, but if the intricacies of such a supply demand pattern are not well understood, property investment can prove to be a stagnant asset class even in the medium term.

The purchase price of an asset is critical. It is *not* true that any property in Sydney, purchased at any inflated price, will eventually make money. Perhaps eventually, but if the time period is greater than 20 years, then it is not within the ordinary gambit of the normal horizons of property investment. Location can also assist in achieving enhanced capital gain but is only significant if the asset can be held through at least one property cycle, without financial stress to the investor. Location and views allow a property to enjoy a point of difference or a uniqueness that may give it an opportunity to have "special demand" attached to it.

The other point that is critical is understanding whether the property is required primarily to deliver Capital Gain or Income. If it's Capital, then having it as a primary place of residence is ideal as it becomes a tax-free asset but that is only if financial serviceability is not an issue. If there is a large borrowing attached to the asset in this case, which is not tax deductible, then the asset owner may undergo financial stress but in basic terms and very generally, the most expensive asset in the best location, is the main way to go. If the property is able to create a large capital gain within one property cycle, equity is built into the asset tax free. Further borrowings may then be able to be financed.

If Income is the main play, then a less expensive purchase, perhaps even two houses rather than one, could create the income required to allow the asset to create value. A diversified geography can be helpful, but I often prefer assets that are close to each other or co-located. This is because they are easier to manage, service, repair and inspect and are subject to the variations of the same financial markets and cycles. Here having new assets with maximum tax depreciation allowances would be best as they are also

the easiest to maintain and run with minimal repair costs. Essentially however, the formula can work with any asset of any age.

Of course, both asset types will experience some form of Capital Appreciation over time, subject to the overall Australian economy not experiencing a protracted economic malaise, so the question is really more about the timing of the investment and the investment alternatives in the same market cycle. Most investors will think of divesting assets that have poor nett returns if they have not performed well in terms of income or capital gain over a 7-year cycle.

But often the best results are achieved by those who can "stick it out" through "thick and thin". We hear the old adage of "keep it and eventually the market will come". For Sydney that has certainly been true. It is not always true at all times of all market cycles but over the last ten, twenty or even thirty years that has been true. There is a very important but basic underpinning fact to this seemingly-optimistic assertion – population growth. Sydney has experienced strong and continuous population growth over the past 50 years. If population growth dwindles or becomes negative, most markets experience asset price deflation – such as Japan has seen in the past 30 years. So, at the end, for property prices in Sydney to grow, you need more people and the city to grow. Sydney added 70,000 people over the past 12 months alone and the growth pattern is continuing strongly.

That is all well and good I hear you say but how does anyone buy in a market with rising asset prices and huge buyer competition and still manage a reasonable entry price? It is difficult. Geographically, you must go further out and find areas that are still undervalued. This will seem quite counter-intuitive as the area and the asset will not immediately engender a purchaser with great confidence or a desire to invest but it is where the only real value proposition can be found in such exuberant markets. Otherwise the inflated purchase price will neither allow capital gain in a ten-year cycle, nor

reasonable returns from property rental income, as an investment asset. Remember if everyone said the same things and thought the same thoughts, there would be no market. Despite all this, we must always remember the basic rules of investment: location matters, access to public transport is ideal, views create uniqueness, worst house best street is good, and never buy any property you would not be happy to live in yourself.

Sydney today is one of the most expensive property markets in the world, but I can still remember when it was relatively affordable. It wasn't that long ago. Still, Sydney has just become an international city for the first time, so it is now subject to a greater number of factors relating to both supply and demand and we are also one of the most beautiful cities in the world by anyone's definition. So, if our population continues to increase, the long-term outlook will be very positive for property of all asset classes, including commercial, industrial and retail. It is really as Thomas Carlyle said about two words: Supply and Demand. But which supply and which demand, and how to acquire such a property for the right entry price, remains everyone's challenge.

Dr Shane Geha

About the author

Dr Shane Geha is the Managing Director and Founding Partner of EG Group, a multidisciplinary, Sydney-based property advisory, investment, and funds management company. Shane bears overall responsibility for all EG's rezoning projects. Shane has extensive rezoning experience and brings a combination of practical know-how and value creation skills to projects he is involved in.

His focus is working closely with clients on property uplift strategy and implementation and has worked on multiple rezoning projects including some of the largest land use changes in both size and value in Sydney and New South Wales.

With Shane at the helm, EG Advisory has completed more than 200 rezonings and 1,000 DAs have been completed over the past 16 years, with a 98% success rate including Little Bay, Riverstone, Tempe and Wonderland NSW – to name a few.

Shane was recently appointed as an Adjunct Professor at the University of New South Wales (UNSW) where he also completed his PhD in Planning on "Quantifying the Rezoning Effect" in 2013. Shane also lectures part-time at the University of Sydney in several Engineering Courses.