STEPHEN ZAMYKAL

THE SECRETS OF THE LEVERAGE LOAN REVEALED

THE INVESTMENT PROPERTY PLAN

The 5 steps to becoming rich through property

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The Investment Property Plan

Proudly self-published in Australia by: Stephen Zamykal
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About the author

From a young age Stephen Zamykal had a fascination with numbers. This fascination led him to planning a career as an actuary – a professor of statistics.

But when he finished high school Stephen's life moved in another direction. He was drafted by Essendon to play AFL football, so he put his career in statistics on hold while spending five years with Essendon and North Melbourne.

With his footy career over, Stephen took off overseas for four years. After that he found himself back in Melbourne. He was 30 years old and broke, with only a backpack of clothes and no other assets to his name. Then there was the $8,000 credit card debt and the fact that he didn't have a job.

Only knowing that he wanted his own business – preferably something to do with numbers – Stephen became a partner in a mortgage broking company. Over 26 years, he went on to grow the company to become

one of the top five businesses of its kind in Australia. For more than two decades, the business has been in the top 1% within the mortgage broking industry.

In addition to his highly awarded mortgage broking business, Stephen was previously a partner in a financial planning company, a buyer advocacy consultancy and a property management business, but sold out of these businesses years ago. He is passionate about property and has built a multi-million-dollar property portfolio based on the concepts presented in this book.

Recently, Stephen set up My Mortgage Mentor to support and educate people by developing unique tools and financial exercises to help them through their wealth creation journey, so they can live their best possible financial life.

For free, confidential support, call 03 8602 6777
or visit our website at www.mymortgagementor.com.au

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Lastly, thank you to anyone who has purchased this book and for realising the importance of investing in your financial wellbeing.

Introduction

Most people have no financial plan. In fact, many don't even understand their current financial situation. As a mortgage broker for the past 26 years, I've known that for a while. When I conducted a survey for this book to find how knowledgeable people are when it comes to their own finances, I was shocked by the outcome. I sent the online survey to a wide range of people I'm affiliated with – staff in my office, business associates, clients, friends and family. I asked about how much money they have in superannuation and what impact the global financial crisis has had on their super accounts. Most people had no idea. What's more, I've found that most people don't even know what interest rate they are paying for their home loan!

Do you?

Hardly anyone I surveyed has ever sat down to document their financial future. Most people have vague ideas – *I want to pay off my home loan within the next five years... I want to save enough to send my kids to private school… I want to buy an investment property sometime in the future…* but ideas are

useless. A great idea for the next best-selling novel holds no value unless you write and publish the book. A plan to start a business selling online video cooking classes is fantastic, but unless you pull the camera out and start uploading videos, you will never make any money.

The issues

After 26 years of speaking with people about their finances, and in particular about purchasing investment properties, I've realised there are five key issues that keep cropping up:

1. Most people don't have a good understanding of their current or projected financial situation.
2. Most people don't know how to manage their finances.
3. Most people don't believe they can be financially free, so they don't plan for it.
4. Most people are scared of debt and therefore make ill-informed financial decisions or don't invest at all.
5. Those people who do invest often choose under-performing assets, hence minimising the return on their investments.

The solution

With these problems in mind I developed a five-step process to becoming a successful property investor. My aim was to make it simple and easy to follow because, as you probably know, there are enough complicated and convoluted guides to making money out there in the marketplace already.

This book is all about those five steps. In it, I take you through them one by one and explain them in detail.

What holds people back?

So what stops people taking that first vital step and following it through to the end? To me, it's a combination of a lack of education and an aversion to debt, plus the fact that most people don't map out a strategic plan based

on the reality of their financial situation. We are not taught at school about managing our finances. We are not taught about investing money to make money or about concepts as basic as compound interest. On top of that, there seems to be a cultural opposition to debt. That's understandable when our parents' generation rarely borrowed to invest and, in fact, it was never common practice for banks to lend money to people to invest like it is today. Also, debt is often spoken about in negative terms – the country's national debt is at record numbers, people are struggling to pay off credit card debts. The truth is, without debt 99 per cent of us would never own a home. Despite that, I understand it can be nerve-racking. We all got nervous about borrowing hundreds of thousands of dollars to buy our first home but we did it because we knew we had no choice. If we ever want to own a home, borrowing is the only way.

That kind of logical thinking doesn't so readily translate to investments despite the reality that if you ever want to be rich you will have to borrow to invest. Some people get rich through starting a business, but that often means taking out loans to expand and grow. Some people make a lot of money through a highly paid job. But without any financial plan for the future, that money will eventually run out and you'll be in the same boat as the majority of other people – relying on the aged pension and living a miserable retirement.

The answer is: you must learn to love debt!

Media negativity – ignore it and focus yourself

Since I began investing in property over 26 years ago, one thing has remained constant: the media will always bash the property market – in good times and bad. As an experienced investor, I laugh at it now; although, I'm sure it puts many people off investing, particularly within the property sector. Even when years of 20 per cent capital growth existed, or the 28.7 per cent growth that Western Australia experienced in 2006, all the media focused on was the market being 'overheated' or that 'the property bubble has to burst'. The media is still waiting for the bubble to burst. Not once did the media come out and ask, 'How well has the property market been going for the last 50–100 years?' Journalists are paid to sell newspapers and can over sensationalise stories to create headlines. Unfortunately, bad news sells. But this book will tell you the truth about the property market so you won't have to buy into all the media negativity.

Another example of the media influencing people is the flooding that occurred in Brisbane and around Queensland in late 2010 and early 2011. The media had me believe that 30–40 per cent of properties were affected in Queensland, but talking directly to local Queensland property buyers and other experts, they predicted the floods actually only affected less than 2 per cent of the Queensland market. It's interesting that many people still believe Queensland – and Brisbane in particular – is a risky place to invest because of the ongoing risk of flooding, but in fact Queensland continues to be a great place to invest if you choose your properties well.

I ran a seminar recently and asked the audience to tell me if the median house price had gone up or down in the last quarter. The consensus was that it had gone down, when in fact it had risen. What was more interesting is that I only knew this through working in the sector. I couldn't find it publicised anywhere in the general media. The media doesn't like to spread good news.

Just as the media is quick to jump on a 1 per cent drop in house prices, it is as reluctant to highlight the fact that property has risen 80 per cent in the past six to eight years in the majority of Australia. Remember, we are still up 79 per cent. Even if property dropped another 5 per cent we'd still be 75 per cent ahead.

Recently I read an article that China's growth is declining. The headline was 'China in Slowdown', which had me believe that China is being more affected by the world economy than I realised. However, on investigating the detail of the article more, the story was that China's growth rate was down from 7.7 per cent growth per annum to 7.6 per cent. The fact is 7.6 per cent growth in China is fantastic news for us all; even at 6 per cent it means China is in a great economic place. Now that I understand this, negative media talk about China doesn't worry me. The same goes for most negative stories I read in the paper now.

Understanding all the economic factors and numbers clears any confusion over why to invest.

Gain your own knowledge – get ready to invest without fear

You will make investment decisions more confidently if you are educated about what's happening around you. Erase your concerns and become a guru in the factors that can effect the elements of investing.

Did you know…

- In 2025 Australia had four banks ranked in the top 23 banks in the world; CBA ranked 20th, ANZ 21st, Westpac 22nd, NAB 23rd in the Global Finance World's Safest Banks ranking. The Global Finance rankings have been a recognised and trusted standard of creditworthiness for the entire financial world for more than 20 years. This makes Australia one of the most stable financial platforms in the world.
- Over the past 15 years China has built the equivalent of the whole of Europe within China and it will build it again in the next 15 years. This is great news for the world economy.
- As at 31st December 2025, the resident population of Australia (per the ABS) was 27,801,023. This is still growing at approximately:
    - one birth every one minute and 47 seconds
    - one death every three minutes and 36 seconds
    - a net gain of one international migration every two minutes and 42 seconds, leading to
    - an overall total population increase of one person every one minute and 31 seconds.
- Victoria is expected to add roughly 3.2 million people from today to 2051 — around 45% population growth. The government projects about 8.0 million of the 10.3 million will live in metropolitan Melbourne.
- The population of Sydney today is equivalent to Australia's entire population a century ago.
- In 2025 NSW had the highest population of all Australian states at 8.641 million; Victoria second at 7.122 million. Victoria added

the most people of any state — 117,300 people from 1/1/25 to 31/12/25.

- Melbourne's population over the past nine years has grown by 605,411 which is the equivalent of:
    - three Hobarts
    - one and a half Canberras
    - one Gold Coast
    - half of Adelaide.
- Hobart has the nation's second lowest rainfall (626 mm or 24 inches) of all Australian capital cities. Why do I bring this up? It just proves you need to do your homework – no one would have thought that Hobart is such a dry city. It highlights that doing research is a key ingredient in your investment strategy. Knowledge is power.
- Between 1982 and 1995, interest rates in Australia averaged 12.8 per cent.
- Since the start of 1996, interest rates in Australia have averaged 6.5 per cent.

I continue to invest in property with absolute confidence based on the following:

- Population growth continues to rise very consistently year on year.
- Property supply is unable to keep up with population growth.
- There is a huge property shortfall gap that will continue to widen. In 2025 population numbers were greater than available properties by 225,000, and with this gap expected to be 650,000 by 2040, an increased lack of property (not enough supply) will continue to push property prices up.
- Interest rates have never been lower in Australia and all indications point to rates staying at these low levels.
- Unemployment is very stable at a low level sitting at 4 to 5 per cent (the average since 1978 is 7 per cent).

- Owner-occupiers dominating the property market shields and protects property as an investment vehicle – the Aussie dream of owning a home lives on strongly.

The savvy investor is rubbing their hands together, with population growth still forging ahead at excellent rates, unemployment and interest rates still sitting well below the 30-year average. May I ask why the media is full of so much doom and gloom?

Ignore negative media talk and do your own due diligence. Every day presents great property buying opportunities.

Set yourself apart

There are two ways to ensure you don't end up part of the emerging population of 'poor' retirees: create a passive income stream for yourself (a way of making money without actually have to go to work to earn it) or build a portfolio of investments that you can potentially sell to fund part of your retirement. These investments might be shares-based, property-based or an investment in a business venture.

My strategy for investing in property, which I will share with you in this book, does both. It sets up passive income through rent, which will land in your bank account every month without you having to work for it, and it builds up a string of properties that will double in value every eight years or so, which has been the case over the past 50-plus years.

Back in 1966 my mother bought three large blocks of land in Werribee (30 km from Melbourne) for $500 each. Three years later she sold all three blocks for double the price at $1,000 per block. One hundred per cent growth in three years – that seems like savvy investing. Today she still kicks herself for not holding onto them. Close to five decades later, I worked out on today's land values in the same suburb, my mother would have made 12 per cent per annum capital growth every year for almost 50 years. Those blocks would now be worth around $400,000. Hindsight is a wonderful thing.

Accumulating good investments that perform as good assets means that, by the time you retire, you'll have an income-producing portfolio. Part of your strategy may be to sell part of your portfolio (if you wish) to fund the retirement lifestyle you've always wanted.

Setting goals

The other thing that holds people back is lack of direction. If you don't know where you're heading how can you possibly know when you've arrived? I've learnt that it's important to articulate want you want out of life and then map out a plan to get it.

Having goals energises your life. Not just financial goals but career goals, family goals, health and fitness goals and other plans to get what you want. Writing these goals down makes you accountable for them; giving yourself a timeframe further propels you towards your dreams.

The beauty of property investing

With more than 90 per cent of businesses failing in their first three years of operation, and the fact that only a very small percentage of people can make a living out of the sharemarket, property is the game in which most people are successful in creating wealth. More than 80 per cent of people on BRW's Rich List each year became rich through property. That tells me that property is the game to play to have the best chance of a financially free life. And it's not as difficult or out of reach as you might think. Here is the perfect reason why I am unable to look past property as an investment vehicle. These statistics on the median house prices tell the story alone. Here is how I have come to the conclusion property (in all its cycles, including the 1990s recession) still doubles approximately every eight years; it did so during the GFC period and COVID recently.

The following 25-year snapshot accompanies Table 1.1 on the following pages.

The 25-year snapshot

City	2000	2025	$ Growth	Total Growth	Multiplied By	Approx. CAGR
Adelaide	$135k	$1.094m	+$959k	+711%	8.11×	8.7% p.a.
Perth	$156k	$1.088m	+$932k	+596%	6.96×	8.1% p.a.
Brisbane	$170k	$1.171m	+$1.001m	+589%	6.89×	8.0% p.a.
Hobart	$118k	$767k	+$650k	+552%	6.52×	7.8% p.a.
Canberra	$181k	$1.140m	+$959k	+530%	6.30×	7.6% p.a.
Sydney	$287k	$1.760m	+$1.473m	+513%	6.13×	7.5% p.a.
Melbourne	$191k	$1.111m	+$920k	+482%	5.82×	7.3% p.a.
Darwin	$187k	$691k	+$504k	+270%	3.70×	5.4% p.a.

NOTE: CAGR stands for "Compound Annual Growth Rate".

Table 1.1 – Annual median house prices from 1971 to 2025

Year	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
1971	21.2	13.4		11.9	17.7	11.8		18.0
1972	23.7	15.0		13.2	17.5	12.6		20.3
1973	27.4	19.8	17.5	16.2	18.8	15.2		26.8
1974	31.8	25.5	21.5	22.2	18.8	20.5		32.0
1975	34.3	28.7	23.7	26.1	24.5	25.8		33.6
1976	36.8	32.9	26.2	29.8	33.0	31.5		35.1
1977	39.2	37.0	28.6	32.6	36.4	34.5		36.7
1978	43.2	37.6	29.9	33.1	38.5	34.0		37.3
1979	50.7	38.0	31.4	33.7	38.6	34.7		39.0
1980	68.8	39.5	35.4	36.0	40.3	36.2		44.6
1981	78.9	44.0	45.3	39.1	43.8	37.1		57.7
1982	79.4	46.7	55.1	42.8	48.2	40.3		59.0
1983	81.4	52.5	55.5	47.9	49.0	42.5		68.1
1984	85.9	65.0	58.9	61.2	48.1	44.7		84.2
1985	88.3	75.2	61.5	72.2	52.0	55.5		90.6
1986	98.3	82.0	63.0	73.5	58.0	56.7	87.5	91.1
1987	120.0	89.5	63.5	74.5	61.2	63.4	81.0	90.1
1988	141.0	109.0	71.0	80.4	78.0	67.9	86.0	101.2
1989	170.8	132.0	96.0	90.4	102.5	77.3	90.7	115.0
1990	194.0	131.0	113.0	97.2	101.1	82.0	101.5	120.7
1991	182.0	127.0	120.0	103.9	99.5	89.6	111.5	136.5
1992	183.3	125.0	129.0	108.3	102.5	95.8	126.1	155.2
1993	188.0	126.0	136.5	111.2	112.7	104.2	150.5	159.3
1994	192.3	130.0	143.0	113.5	123.1	110.5	157.8	160.8
1995	196.7	129.0	147.0	111.5	126.7	106.7	165.3	155.5
1996	211.1	131.0	148.0	110.0	126.6	108.0	164.2	152.3
1997	233.2	142.0	150.0	113.5	134.0	108.7	176.5	152.7
1998	248.7	155.0	159.5	118.6	141.0	107.2	173.5	155.5
1999	272.5	175.0	61.0	127.0	147.5	112.2	179.3	161.5
2000	287.0	191.0	170.0	135.0	156.2	117.7	186.8	180.8
2001	322.5	225.0	178.7	150.0	168.0	120.5	188.0	206.2
2002	387.5	258.0	205.0	180.0	189.2	137.1	202.2	234.1
2003	454.2	276.0	249.0	225.0	205.0	172.5	211.3	293.6
2004	505.0	368.0	295.0	250.0	270.0	252.0	256.5	350.9
2005	525.5	360.0	311.9	272.3	318.8	269.0	296.0	359.0

Year	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
2006	520.0	377.5	330.0	285.0	442.0	290.0	385.0	380.0
2007	534.0	420.0	376.3	321.0	480.2	312.7	399.5	432.7
2008	540.2	433.0	411.2	362.7	451.9	325.7	425.2	441.2
2009	560.2	465.0	424.7	367.5	476.5	342.3	534.7	466.0
2010	617.0	550.0	457.5	407.5	503.7	374.0	551.0	507.5
2011	621.7	540.3	435.1	405.1	486.5	370.0	514.9	520.1
2012	642.0	535.0	431.9	395.0	482.3	370.0	570.0	494.1
2013	670	516.7	449.7	399.2	530.2	336.2	554.7	505.8
2014	738.5	522.6	456.2	411.7	529.1	350.3	575.8	556.9
2015	863.9	569.5	473.2	424.7	529.6	355.0	580.0	591.8
2016	907.6	614.5	498.3	442.0	518.2	371.7	540.0	616.2
2017	989.7	704.8	522.0	455.5	507.7	401.3	510.9	670.5
2018	954.5	734.0	534.5	469.8	498.5	453.0	504.0	702.1
2019	913.0	712.5	540.2	478.1	485.7	489.6	478.5	706.5
2020	964.5	733.7	554.2	493.0	494.3	537.2	488.7	745.1
2021	1.222.5	931.7	678.2	577.1	544.7	672.7	567.7	930.5
2022	1.291.1	922.0	777.5	669.5	563.7	740.5	586.7	1.017.7
2023	1.595.3	1.047.2	888.2	875.0	742.3	706.7	640.8	1.024.2
2024	1.645.4	1.039.4	1.016.1	992.1	913.0	712.8	651.7	1.065.1
2025	1.759.9	1.111.0	1.171.2	1.094.2	1.087.7	767.4	690.8	1.139.9

Sources and notes:

SYD 1970 - 1979 from Applied Economics (1991); 1980 - 2003 are from NSW VG / Department of Housing data.

MEL 1970 - 79 are Productivity Commission data; 1980 - 2003 are Victorian VG data.

BRIS 1973 - 79 are mean prices from Abelson (1982) factored down by 8% to fir REIA median data in 1980 and 1981; 1980 - 85, REIA data; 1986 - 2003, Queensland VG data.

ADEL 1971 - 79 are mean values from Abelson (1981) Applied Economics (1991) reduced by 8% for medians; 1980 - 2003 are from SA VG.

PER 1970 - 89, based on REIA data, 1990 - 2003, average or quarterly data from the Department oif Land.

HOB 1971 - 81 are mean values (Abelson, 1982) reduced by 8%; 1982 - 83 are interpolated; 1984 - 90, CBA data spliced to 1991 - 2003 average quarterly REIA data.

DAR Average of quarterly medians from REIA.

CAN 1971 - 80 are mean values from Abelson (1982) reduced by 9% for medians; 1981 - 2003 are average of quarterly REIA medians.

2004-2012 REIA

Historical 2000–2022 figures: ANU long-run capital-city median house-price dataset. Final 2025 figures: Domain December 2025 House Price Report.

I know you've heard this over and over again, and it's easy to become cynical, but it's true that most people can become multimillionaires through investing in property. Even in Melbourne's down market phase in 2012, I made a 162 per cent return on money invested in a well-bought property within 18 months. This was during a time when every property commentator was full of doom and gloom. But the truth is, if you buy right, you will always make money in residential property (and don't always listen to the media!).

But that doesn't mean everyone will make millions. Of course they won't. Just because you can, doesn't mean you will. Financially, all it takes is working with your borrowing power, but psychologically it takes a lot more. It takes a willingness to learn, act and persevere. You must learn the intricacies of borrowing money and choosing the best properties for long-term capital growth; you must act to actually locate the properties, buy them and fill them with good tenants; and you have to persevere with your strategy – buying the next property and the next – learning and acting, getting better and smarter with each purchase.

And then you have to wait.

You need to give the property market time to increase in value so you can realise the gains of your investments. If you buy well, your properties will double in value at least every eight years and your, say, five $500,000 properties will all be worth a million each.

And you will be a multimillionaire.

Let me show you how.

Exercises
There are 13 wealth building exercises to complete as you progress through this book. These exercises are designed to help you improve your understanding of your current situation and the goals you hope to achieve, as well as how to get them.
To complete the exercises go to the My Mortgage Mentor website at www.mymortgagementor.com.au *and join for free.*
You will be issued a personal secure login and password, so you can save all of your answers as you work through the book. The exercises are highly informative and I encourage you to take part.

Step 1: Plan your strategy

Every journey begins with a single step. The destination is often known but the path to reaching that destination is not always laid out. Or even considered.

You know what it's like. You set out in your car with a vague idea of how to get to your destination. Someone has explained it to you and you think you understand, but when you hit a roadblock you get stuck. You take wrong turns, get flustered when landmarks you thought would appear in front of you have gone and you're left floundering with the street directory or madly punching away at Google Maps, cursing yourself for not buying that GPS.

You should have had a plan. You shouldn't have assumed. You should have confirmed exactly how you were going to get to your destination before you climbed into the car.

You have a long financial journey in front of you. Consider this book your GPS.

1

Now and your future

Life moves fast. And, as consumers in a Western society, we spend a lot of time and energy trying to keep up. Work, study, family – we all have our own commitments. Plus, many of us feel more and more pressure to get ahead. We're studying more to get a better job, putting in more hours at the office to get a promotion, trying to earn more money to keep up with the neighbours.

It's like living life on a treadmill. We just keep running but don't seem to get very far. Maybe the mortgage is coming down a little, but you still have 20 years to go. The kids are growing up and their costs are skyrocketing, so there goes those savings. Everyone else is going to Europe this year – better save for that too. The car's getting a little long in the tooth. Time to trade up.

Making the money to achieve all these things takes time and effort. Who wants to look back at their life when they're 60 and realise they spent the last 40 years at the office, or kissing their kids goodnight but never spending any real time with them?

So what's the answer? Well, there are two. Either you and your family can ignore all the outside pressure and live within your means, which will lead to relying on the aged pension when you retire, or you can work towards becoming financially free.

Financial freedom means choices. It allows you to retire when you want. It allows time to spend your days doing what you want to do.

For a lot of people it all seems too hard. For others, planning a secure financial future is simply not on their radar – they're young, none of their friends are investing, their parents never did it and they live a comfortable life. They think they will be fine.

But stop for a second and ask yourself: *What do I want out of my life?*

That's probably not too hard to answer when you really think about it. Then ask: *How will I get it?*

That question is a lot harder. How will you make the kind of money in your lifetime to achieve what you want for you and your family? Save like crazy? Sit at home on weekends and holidays because eating out and vacations are not in your budget? That's not living.

I'm not saying I'm against prioritising and saving money where you can; in fact, I talk a lot about it in Chapter 2. But you need to enjoy life. I don't want to depress you, but what if you're not around to enjoy the benefits of all that saving?

So that brings us back to my first question to ask yourself: *What do I want out of my life?*

Let's not just think about it, let's write it down. Create a bucket list. Do it now.

Creating your bucket list

My bucket list
Go online to the My Mortgage Mentor website at www.mymortgagementor.com.au *to complete and save your own bucket list.*

Go to the website and list 20 things you want to achieve in the next 10 years. Got more? Make it a list of 50. Extend the list to include your whole lifetime. What do you want to do before you die? Keep that list in a visible place and tick it off as you go. It will invigorate you; it will motivate you. It could be the most important thing you ever do.

27 years ago whilst living in London, I promised myself that after my 4 year overseas adventure concluded, I would travel annually to the hot European summer – somewhere warm to escape the cold southern Aussie winter. This annual journey in July or August is number one on my bucket list, and every year for 26 years I have ticked that off. It is an unconditional part of my life that remains a high priority. No matter how busy I am at work or where I feel I'm at with my finances, I make sure my wife and I buy those plane tickets. People often tell me how lucky I am to go overseas every year. But they're wrong. It's not luck, it's hard work.

When I was 30 I had nothing to my name except a hefty credit card debt. I created myself a business opportunity, worked hard, educated myself, invested and as such I'm in the position to be able to go overseas every year. Again, it's not luck that got me here. I had to make some tough decisions, and take my fair share of risks. But it's been worth it.

Creating a bucket list will change your life and ensure you do what you have always wanted to do. I guarantee it.

How do you spend your time?

Do you know how you spend your days? How much time you spend working, travelling from place to place, shopping, exercising, eating, watching TV, engaging in social media and sleeping? It's a really interesting exercise to do for yourself. Most people are surprised by the results. They tend to find they 'waste' a lot of time – sitting in traffic, lounging on the couch, walking around the shops.

It's important to have balance in your life – you need to have 'wind down' time, socialise with friends (in person, not on Facebook!) and relax with your family, but could you spend a bit of that spare time each week preparing for your financial future? You could spend some of that time

educating yourself about investing – listening to podcasts while you prepare your dinner, read an investment magazine while you're on the train, search the internet for properties in your lunch break, expand on your bucket list while you're sitting at traffic lights.

Here's a little activity you can complete right here in the book to work out how you are spending your time. Note there is 168 hours per week.

Where you spend your time?	**Hours spent per week**
Sleeping	
Working	
Travelling (to and from work), picking kids up (to and from school, sport, etc.)	
Eating breakfast, lunch and dinner, cooking, buying groceries	
Cleaning, showering, grooming, paying bills, buying clothes, etc. (assisting your own children if you have them)	
Fun activities – socialising, hobbies, holidaying, watching TV	
Total	**168 hours per week**

For me, doing this activity highlighted how important it is to get your life balance right. How did it pan out for you? Investing will lead to you eventually receiving a constant, passive income stream. That will mean you will have to spend less time working and more time doing the things you love. Not everyone wants to retire – I know I would get bored – but how good would it be to have that option? If you removed the time you spend at work from the above table you would free up 25–30 per cent more time in your life.

Now is the time to start planning how that can become a reality for you.

Where are you now?

Before you can begin planning how to get where you want to go, you need to be clear about the starting point. You need to understand where you are today.

This requires a detailed analysis of your current financial situation – what you own and what you owe, how much you earn and how much you spend. This will give you an indication of your capacity to save and what is left over to divert into investments.

What do you want your life to look like in the future?

This is where your bucket list comes in. A bucket list can include anything, from having dinner with your mum and dad weekly, to playing golf off a single-figure handicap, skydiving, taking up Thai cooking lessons, being a DJ for a night, travelling to Alaska or running a marathon. Make your list and begin working through it. It will be such a rewarding exercise. Document your achievements and put them up somewhere so you see them daily. It's amazing how looking at your list every day will motivate you. We all say, 'Life is way too short', so why not live it doing what you love?

Earmark a few to knock off within the next six months.

What are your obstacles?

Anything worth achieving in life is worth fighting for. That fight will differ depending on who we are and what it is we want to achieve. Attaining financial freedom through property investing takes time, patience and smart buying. But we will each have our own obstacles that will threaten our dreams becoming a reality. Some of these obstacles might include the following.

- **Lack of money -** You might not feel you have enough savings or earn enough income to invest in property. Maybe you want to save for your kids' education and don't think you can save and invest.

- **Partner not on board -** I've never met anyone who doesn't want to improve their financial situation and secure their future, but what if your partner doesn't feel comfortable investing?
- **Debt -** A fear of debt hampers many people from taking the plunge into any kind of big investment. Accumulating some good debt is the only way to get ahead.
- **Lifestyle -** Living for today is something that our culture seems to embrace more and more with every generation. We want everything now. Are you already relying too much on your credit card or living beyond your means?
- **Fear of making bad choices -** Being successful in property investing relies strongly on buying the right properties. If you don't know how to spot them, how will you be successful?
- **Lack of financial knowledge -** Success is also heavily influenced by how you set up your loans. Are they set up in a way that allows you to keep buying more? Or have you bought the first property and completely exhausted your borrowing potential for the next two years?

All these obstacles can be overcome. The first step is acknowledging that they are there and that you need to do something about them.

What are your obstacles?
Go online to the My Mortgage Mentor website at www.mymortgagementor.com.au *to complete the exercise to help identify your obstacles.*

The next step is hatching a plan to meet them head on.

2

Know your numbers

As I discussed in the introduction, most people have no idea about their own financial situation. Ask 10 people what the interest rate on their home loan is and I bet only one or two could tell you. Ask someone how much super they have and most people couldn't guess within $5,000, if not $10,000.

Then there are more considerations: How much is your home worth? How much is it insured for? Do you have life insurance? Income protection? How much of both?

What it comes down to is that most people don't know their numbers.

When do you want to retire?

Many people don't start thinking about their retirement until they are close to reaching it. People often fantasise about retiring young and really enjoying the second half of their adult lives. They plan to work for the first 30 years and play for the last 30. That sounds great but how realistic is it?

You might retire at 50 or 55 but how will you afford to live for the 30 years that follow? Superannuation and the pension won't kick in for a few years and, without any investments or substantial savings, what will you use to keep you afloat? Even if you do have enough money to keep you going, will you be able to afford to enjoy life? Go on holidays? Or just scrape by?

The first step in developing any financial plan is working out when you want to retire. If you're 40 now and want to retire when you're 55, that gives you 15 years to set yourself up. If you're 30 and want to retire at 60, you've got 30 years.

This is an important consideration because a 15-year plan and a 30-year plan will look quite different.

Work out the age you think you'll live to

This is not an easy ask, I know. The age we hope to live to and the age we actually think we'll live to can be two different things.

You need to think about this to provide a starting point for working out how much money you will need to sustain the lifestyle you want from the time you retire until the time you meet your maker.

According to the World Bank the average life expectancy of an Australian in 2010 was 81.7 years. That's not bad; in 1970 it was 71. In 2026 it's 83.

But you are not average. You need to work out this number for yourself, and there are a couple of ways you can do it (without consulting a clairvoyant!). First, you can think about your genetics. How long did your grandparents live? What did they die from? Were they lifestyle-related diseases (which you can do something about) or were they something we have less control over, such as brain tumour? If either or both of your parents have passed on, you might be able to add this information to the equation too.

Second, what is your lifestyle like? Are you a healthy person who eats well and gets plenty of exercise and rest? Or are you a stressed-out workaholic who lives on a diet of cigarettes, coffee and booze? Most of us would sit somewhere in-between, but being realistic about these things will help you put a number on your likely expiry date.

Figure out your 'net equity value' – What are you worth?

This is another process that's worthwhile going through to help understand where you're at financially. It's a process of literally writing down all of your current assets and liabilities and working out, if you sold everything today, what would the net result be in money terms. In short, net equity value means 'What are you worth?'

My 'Net Worth' is?
Go online to the My Mortgage Mentor website at www.mymortgagementor.com.au *to complete this exercise to work out what you are worth.*

Working out your net worth involves listing all your assets and then deducting all your liabilities, which will give you your net worth position.

In the assets column you might have your home, a car, cash savings and super (and maybe some investment properties). Your liabilities might include a home loan, credit card debt and a personal debt for a car.

Are you surprised at what you see when you do this exercise? Most people are. The point of the exercise will become clearer as you read on.

This leads to Exercise 4, working out your cashflow position, your 'Revenue less expenses.'

Cash flow on your current spending habits

To accurately work out how much money you will need to retire, you will first need to figure out how much you spend now (assuming you intend to maintain the lifestyle your current income affords you).

Some people are great savers and some are spenders. I know too many people who have the attitude that if it's in the bank, it's there to be spent. And if there's not enough in the bank, wack it on the credit card.

The exercise of working out how much you're spending could be simple or complicated, depending on how you spend. If you use your credit card for all your purchases (including bills), it's as easy as pulling out

your past few statements and taking an average monthly figure. To this, add your rent or mortgage payments and any other amounts of cash you spend each month (you might need your savings account statement for that one).

If you don't use a credit card, your savings account statement should give you the information you need.

For most people, I imagine the expenditure figure will be between $3,000 and $6,000 a month. Multiply that by 12 months and you'll work out how much you need to live for a year.

Your cashflow position
Go online to the My Mortgage Mentor website at www.mymortgagementor.com.au *to complete this exercise and work out your current cash flow position.*

Case studies

On a few occasions in this book I am going use two sample situations to explain some of the examples and scenarios. One is the case study of a single woman named Julie; the other is a couple named Tom and Cathy. These two sets of investors are in very different economic situations, are at different life stages and have different goals for the future. The case studies help to give a broader scope to the examples and hopefully you will be able to relate to one of them and apply it to your own situation or goals.

Julie

Julie is a single woman aged 32. She lives in a two-bedroom unit that she bought eight years ago for $300,000. It is now valued at

$600,000 and she has a mortgage of $200,000. She doesn't know if she'll ever get married so is planning her financial future based on a single income.

Julie works as an office manager and currently earns $79,000 p.a.

Julie's financial goals for the future are to buy three investment properties and be in a position where she can retire by age 50.

Julie has $130,000 in investment assets (super and shares).

Tom and Cathy

Tom and Cathy are a middle-aged couple (both 44), with two children in primary school. The family bought a house seven years ago for $400,000 and now it's worth $800,000. Their current mortgage sits at $300,000 and they have a combined income of $130,000.

Tom and Cathy's financial goals for the future are to buy five investment properties and to both be retired by age 60.

They have another $200,000 in investment assets.

Determine your retirement gap

Let's now go back to the assets and liabilities list you made. The point of the exercise was to work out how long your money would last if you sold all your big assets and cleared your liabilities. Most of us would not want to give up our home, so remove that from the asset column. What's the net asset figure look like now? Once you retire, how long could you survive on that money? 10 years? What if you plan to retire at 60 and live for another 20 years? For most people the figures won't add up.

Obviously the aged pension comes into this somewhere as well, but how many pensioners do you see living the kind of lifestyle you aspire to?

The below table represents the two scenarios depicted in our ongoing case studies for Julie and Tom and Cathy. It shows their projected retirement gaps based on their goals and current income.

Julie		
A	Current age	32
B	Planned retirement age	55
C	Life expectancy	90
D	Income required per annum while retired	$60,000 p.a.
E	(x) years in retirement (C – B)	35
F	(=) total lump sum needed for retirement (D x E = F)	$2,100,000
G	(+) investment assets (super and shares; don't include home value in this)	$130,000
H	(–) less (all home loans and investment loans)	$200,000
I	(=) net assets (assets less liabilities (with home loan included) so home loan is gone when retired (G – H = I)	($70,000)
J	(=) the asset gap in retirement (investment assets still to accumulate by your retirement date) (F – I = J)	$2,170,000
K	(÷) years remaining at work left to accumulate assets up to your retirement date (B – A = K)	23
L	(=) while working, assets to accumulate per annum to reach your 'asset gap' (J / K = L)	$94,347 p.a.

Tom and Cathy				
A	Current age	44	44	
B	Planned retirement age	60	60	
C	Life expectancy	85	85	
D	Income required per annum while retired	$50,000 p.a.	$50,000 p.a.	$100,000
E	(x) years in retirement (C – B)	25	25	25
F	(=) total lump sum needed for retirement (D x E = F)	$1,250,000	$1,250,000	$2,500,000
G	(+) investment assets (super and shares; don't include home value in this)	$100,000	$100,000	$200,000
H	(–) less (all home loans and investment loans)			$300,000
I	(=) net assets (assets less liabilities (with home loan included) so home loan is gone when retired (G – H = I)			($100,000)
J	(=) the asset gap in retirement (investment assets still to accumulate by your retirement date) (F – I = J)			$2,600,000
K	(÷) years remaining at work left to accumulate assets up to your retirement date (B – A = K)			16
L	(=) while working, assets to accumulate per annum to reach your 'asset gap' (J / K = L)			$162,500 p.a.

Determine your 'retirement gap'
Go to the My Mortgage Mentor website to complete this task at www.mymortgagementor.com.au

Ensure your superannuation return on investment is maximised

Going back to your assets list, how many of those assets will increase in value over time? Your house will (especially if you maintain it well and add value where you can), your car won't (in fact, it will keep losing value), and your superannuation will, assuming you keep contributing to it (or your employer does) and it doesn't get chewed up by fees and bad investments.

Super funds work in a similar way to how most insurance plans work: a person pays a certain amount for a certain length of time under a specific payment scheme. This money is then invested and the person (hopefully) receives a return on that investment (ROI). However, in a superannuation fund, the person can only access their benefits after a certain date. The employer is the one who contributes to this fund. If you are self-employed, you are your own employer so, if you chose to, you can contribute to your own super.

Most super funds give you the choice of how that money is invested according to risk level (high risk, low risk). If it is not performing well, consider changing the split of investments (e.g. invest a higher percentage in a high-risk category) or consider changing funds. Ask your accountant or financial planner to give you some advice if you're not sure what to do. Alternatively, think about setting up a self-managed super fund to give you more control (see Chapter 6).

You should always know your superannuation balance and the returns it is making for you – make it a habit to check this regularly.

Look at your return on investment percentages regularly. One per cent per annum compounding can mean millions for some people.

Review your key numbers annually

So now you're on top of your super and making sure your ROI is as good as it can be, there's value in looking at all the other areas where you spend money routinely. Are you spending (or losing) money without any more gain?

Here are some areas worthy of an annual audit:

- **Interest rates -** Do you know how much you spend in interest every month? It's bound to be a sizable amount. Could you be getting a better deal with another bank or lender? Rates go up and down constantly and your bank might not be as generous as others when it comes to Reserve Bank cash rate cuts. Remember to weigh up other fees the lender is charging to make sure you're comparing apples with apples. A mortgage broker's help can be invaluable in this area. Check out the interest rates on your credit cards too. How much are those frequent flyer points really worth if you're paying 22 per cent p.a. interest every month? But really, you should be aiming to pay your card down to zero every month to avoid paying any interest at all.
- **Insurance policies -** How many policies do you have? Building insurance for your home, contents insurance, car insurance, health insurance, life insurance? The premiums add up. If you can save $20 a month on five policies, that's $1,200 a year you could be channelling off into your investments. Spending a couple of hours a year on this can save you thousands.
- **Utility bills -** Sick of those guys knocking on your door to offer you a better deal on your electricity? So am I. But shop around a bit and you're bound to find a better deal that suits the way you use gas, electricity and your phone/internet. Find out which companies broker the best deals.

Know all your financial numbers; build a plan around your goals and don't deviate from the journey you choose.

Implement a cash flow program

If you have trouble staying on top of a budget, it might be in your interest to go back to Exercise 4 – Cash Flow Position to work out how much you spend each month and make it an ongoing resource. Set yourself a monthly budget and track all your spending. Not only will this mean you stay aware of what's going in and what's coming out, you'll probably find that you actually spend less. Being accountable to a cashflow tool for everything you spend makes you think twice before buying that extra pair of shoes or buying takeaway for the third time in a week.

Using such a cashflow tool can also help you identify areas where you can make savings. You can experiment with plugging in different numbers and seeing how it's affecting your overall budget. So, for example, if you changed your credit card from a 22 per cent p.a. card to a 17 per cent p.a. card, how much would you save in a year? If you cancelled that gym membership that you never use and take up running, how much will that save?

If you want to elevate your monitoring to the next level, there are some excellent software programs you can buy or subscribe to that automatically download every transaction straight from your bank, credit card and loan statements. Technology is certainly allowing us to fast-track some normally tedious tasks. The fact that you can have a web-based program record every cent that goes in and out of all your bank accounts each night is great news for people wanting to get on top of their finances.

My Mortgage Mentor has taken this a step further, setting up a strategically tailored solution for members that allows up-to-the-minute live readings of your current financial position – bank account by bank account – laid out in a clear profit and loss statement that's broken down into revenue and expense categories. The program allows you to track all debits and

credits and spending history from your daily spending. It's all there so you can analyse your cash flow and income versus expenses at any time.

If you're interested in finding out more information about these online programs, subscribe to the My Mortgage Mentor website at *www.mymortgagementor.com.au*.

3

Implement the plan and build your life map

One of the key ingredients to the process I lay out in this book is having a plan in place. Before we begin on the actual plan, it is important to understand the type of investor you are. Are you a risk-taker or are you risk averse? Your plan needs to be built around how aggressive you want to be in pursuing your financial goals.

What is your risk profile?

Accumulating millions of dollars of debt is not for the faint-hearted. Do you take risks or do you have a more conservative personality when it comes to spending money?

When investing, it is important that you consider the level of risk as well as the return on an investment in view of your circumstances and investment goals. Risk means different things to different people. For some, investment risk means the likelihood of a loss of capital, while for others it is the level of volatility of an investment, or the risk of an asset

not producing enough to live on.

Understanding your propensity for risk is something that will help both you and your financial advisers to devise a plan that suits you.

There is no point in maxing out your borrowing capacity and plunging yourself into further debt if it means you lie awake every night worrying about it. You need to be comfortable with what you are doing and that requires a few things to fall into line: motivation, education and planning.

Determine your 'risk profile'
Complete the risk profile questionnaire on the My Mortgage Mentor website at www.mymortgagementor.com.au

A plan is just a piece of paper until you start implementing it. The next step in your journey to building wealth out of property is to map out your future in a way that is visual, easy to see at a glance and will keep you motivated.

It's time to build a life map.

The process to building your life map

The idea of a life map is to capture the essence of your financial life on a single page. It's a form of mind mapping where a whole lot of thoughts, plans and ideas come together in one place for easy referencing and cross-referencing. Think of it as the seatbelt that keeps you firmly in place along the sometimes rocky road of investing.

The advantages of a life map are that:

- You get a clearer picture of where you are in your financial life.
- You get a better understanding of where you want to get to.
- You have something to show your financial adviser or mortgage broker when you sit down to get professional advice on your investment goals and plans – and they can see exactly where their expertise fits in.

- It helps you monitor your progress.
- It can help simplify sometimes complicated financial matters.

Document the values you live for and who and what you want to reward

Realising the benefits that the gradual growth in the property market brings is a long-term proposition. You have to be patient, you have to keep monitoring, improving and buying. Sometimes the promise of money alone is not enough to keep some people motivated through the peaks and troughs of the property cycle.

To help keep you on track through these times – and to take the initial plunge and buy that first property – it often helps to write down your values and what having money will mean you can achieve in your life.

A life map is about more than just cold, hard financial realities. It incorporates the values, relationships and processes that are important considerations on your financial voyage.

Build your goals into a documented plan

Developing a life map begins with a blank page (or screen if you prefer to work on a computer). In the middle write who the map is for. This might be you as a single person, for a couple, or for a family.

Next, create floating boxes with the following titles:

- Major Assets
- Ideal Investment Strategy
- Values / Legacy
- 'A' Team of Advisers
- Key Relationships
- Interests and Hobbies

- Goals

    - Short Term (1-2 years)
    - Medium Term (3-5 years)
    - Long Term (5 years plus)

Figure 3.1 – Example of a life map

Build your 'life map'

Go online to the My Mortgage Mentor website at www.mymortgagementor.com.au *to complete the questions referring to your life map. You can join APC and have a life map created for you. Go to the website to find out more.*

Your life map is constructed around the following areas.

Goals

In this box you might include some short- and long-term goals. For example:

Short-term goals

- Pay down mortgage, take control of my money
- Overseas holiday, start family, change jobs
- Buy first home or first investment property

Long-term goals

- Have multiple properties for retirement
- Contribute more to superannuation
- Retire early, provide for children

For each, consider:

- when
- how much
- why.

Consider also whether they are time-based or dollar-based goals.

Major assets

This section is pretty straightforward: Go back to the list you made earlier in Exercise 3 and list the big-ticket items. This will most probably include your home, the balance of your super fund and any investments such as properties or shares.

Ideal investment strategy

This section calls for points about the way you would prefer to invest. Do you want to have a diverse portfolio in order to spread your risk? Will your strategy require long-term or shorter term investments (this will depend on how long you have to retirement and other investing goals).

'A' team of advisers

List the key professionals who will help devise and implement your strategy. These people will become indispensable and should include a financial planner, mortgage broker, tax accountant, property manager and buyer advocate. List them by name or company.

It's alright if you don't yet have a full team, however, as you work through this book, you will learn more about the value that each of these people can have in your life.

Interests and hobbies

All work and no play can make for a very unhappy life. When considering your life map, revisit your bucket list. Think about the fun things you want to achieve as well. What are your hobbies? Fishing? Decorating? Is it important for you to be able to take a trip every year or two? What are your interests that cost money? Restoring cars? Collecting first editions of books? Whatever you enjoy spending money on, these things should form part of your map and your budget.

Also think about ways you like to spend your time that don't cost anything, such as spending time with family or friends.

Key relationships

Think about the key relationships in your life. You might have a spouse and/or children, or parents you want to be able to support in their old age. Some of my clients plan their investment strategy around these

relationships; for example, I have a number of clients who aim to buy one investment property for each of their children and one for themselves.

Consider how these relationships will impact on your financial decisions.

Many people with children want to provide for their future. For many parents this means paying for a good education; for others it means investing on their behalf so they will have a nest egg within which to begin life when they leave home. Some people want to provide for their grandchildren by starting a trust or bank account in their name to pay for their education or by putting money aside every week so they can buy a car or travel the world when they are old enough.

Whatever your reasons, these are important considerations in any financial plan and should work their way onto your life map.

Values / legacy

For some of us, our desire to provide for others goes beyond our own family. You might want to build the kind of wealth that will allow you to set up a charitable organisation, build up communities in third-world countries or set up a fund for cancer research. Perhaps a certain educational institution or healthcare facility was particularly good to you and you want to give back so they can provide for others as they did for you. Maybe you want to set up a scholarship for Aboriginal sportspeople. Whatever your passion in life, it might be all the motivation you need to build wealth and pass it on so you can contribute after you pass away.

Add these considerations to your life map.

What game are you playing?

So you have your plan: make money. The next step is working out how. What game are you currently playing? Are you an employee? A business owner? How do you plan to earn an income for the rest of your life? Will you invest in gold? In the sharemarket? Live off royalties from a bestselling book or chart-topping song? Property? (Yes, property!)

Being a number-cruncher at heart, I investigated all the ways I could make a passive income and not have to worry about money in my retirement. Property has done the best job for me. Even in downturn markets when

the media and others were saying that property was going sideways, I still made good money. If you are a savvy property buyer, property will always provide great returns over the long term.

Tables 3.1 to 3.3 show an example of how I made a 162 per cent return on money between September 2010 and June 2012, invested on a house purchased in Melbourne on 21 September, 2010 (without any renovations) when many were hesitant to invest in property.

Table 3.1 – Initial outlay

YARRAVILLE PROPERTY - CASE STUDY		
Purchase Price (21 Sept 2010)		$506,250.00
Deposit Paid - 10%	($50,625.00)	
Loan Amount - 90% LVR		$455,625.00
Property Stamp Duty	($25,445.00)	
Transfer Registration Fee	($1,355.00)	
Mortgage Insurance	($6,581.71)	
Legal Fees	($162.50)	
Mortgage Registration Fee	($100.00)	
Settlement Fee	($100.00)	
Total Additional Expenses	($33,744.31)	
Funds Used	**($84,369.31)**	

Table 3.2 – Total money invested during the 21 month period

YARRAVILLE PROPERTY - CASE STUDY		
Loan 90% of $506,250 = $455,625		
Monthly Interest Paid (assume 7%) = $2,657.81pcm *NOTE: Interest rate now 5.45%*	($55,814.00)	Since Settlement
Expenses Paid on Property		
Repairs on Hot Water Service, new Clothes Line	($879.00)	
Rates	($1,174.00)	
Water	($428.00)	
	($58,295.00)	
Monthly Rental Income Received = $1,861.90pcm	$39,099.90	Since Settlement
Income minus Expenses	($19,195.00)	
Income Tax Refund (46.5%)	$8,925.72	
Extra funds put towards the property since settlement	($10,269.28)	
Total Money Invested	($94,638.59)	

Table 3.3 – Return on investment

YARRAVILLE PROPERTY - CASE STUDY		
Clients Return on Investment		
Bank Valuation = June 2012 (New Value)	$660,000.00	
Purchase Price	($506,250.00)	
Gain/Profit made		$153,750.00
Money Invested		
- Deposit 10%	($50,625.00)	
- Purchase Costs	($33,744.31)	
- Holding Costs	($10,269.28)	
Total Money Invested		$94,638.59
ROI (Return On Investment)		162%

The third of the three tables tells the real story: we bought the property in September 2010 for $506,250 (plus costs) then, in less than two years (in June 2012), the bank valued it at $660,000. That's an amazing return on investment in any market, but in Melbourne's struggling property environment at the time, it really highlights the value of buying well.

No renovations were done on this property. If the $94,638 of funds invested over the two years (which includes paying the interest on the loan), was invested in a bank at 5 per cent over the same period, you would have made $9,699. This is one of the secrets to building wealth and using leverage.

Assuming all returns are the same or similar, leverage is the reason nothing comes close to property as an investment vehicle.

Property as an investment

When thinking about where to invest your money, the obvious questions about security and return on investment come first to mind. If the banks are offering you 5 per cent interest, shares are returning you 8 per cent, but a property can return you 10 per cent, then the answer seems obvious. It is all about return on investment. For me, every time I think about this question, property seems the safest option. See some figures below regarding the capital growth of shares versus property over the last 10 and 25 years.

Table 3.4 – What property and shares have returned over the past 10 and 25 years

	Residential Property	Australian Shares	Difference
10 years' growth p.a.	10.1%	8.4%	1.7%
25 years' growth p.a.	11.6%	10.8%	0.8%

Source: Russell Investments, Long-term investing report

Also, property gives you greater leverage. For instance, assume shares and property both returned 9 per cent per annum. A $50,000 deposit will buy you a $400,000 property. $50,000 invested with a 60 per cent margin loan allows you to buy $75,000 extra in shares, increasing a $50,000 portfolio to $125,000. For the same amount of funds invested ($50,000), would you rather a $400,000 asset growing for you at 9 per cent per annum or a $125,000 asset growing for you at 9 per cent per annum?

The answer is a simple one: a $400,000 asset will compound so much quicker than $125,000. Look what has happened in the table below, assuming a 9 per cent growth on both assets. The shares are worth $295,920 in 10 years compared with the property in 10 years being worth $946,945. That is an investment difference of $651,025 over the same 10 year period. Now look at the 25 year timeframe and property is worth $3,449,232 compared with the shares of $1,007,885. Property again has a superior value by $2,371,347. And again, this highlights the power of leverage.

Table 3.5 – The power of leverage – property versus shares

Example: Assuming same 9% growth for both asset classes, with $50,000 to go towards both	**Property** (assume 9% growth	**Shares** (assume 9% growth	**Difference**
10 years' growth p.a.	9%	9%	0%
25 years' growth p.a.	9%	9%	0%
With leverage: A $50,000 deposit with loans gets you assets worth	$400,000 property	$125,000 shares	$275,000
Assume 9% growth p.a. over 10 years, your asset is now worth	$946,945	$295,920	$651,025
Assume 9% growth p.a. over 25 years, your asset is now worth	$3,449,232	$1,077,885	$2,371,347

Acquire the biggest dollar value appreciating assets you can while using the smallest amount of funds to acquire it.

Property continues to be a great investment vehicle for the majority of people who invest in the right properties at the right price. More will be discussed about this in Chapters 7 and 8. When you look at the source of wealth among those appearing on the 'rich lists' each year, around 80 per cent of those top earners have made their fortune through property. The numbers stack up for me in more ways than one, hence why I have chosen property as the game I play.

On the other hand, only about 1–2 per cent of people can make a living out of trading shares. The accountants I deal with concur that the vast majority of people find it very difficult to trade and profit from shares consistently. I personally invested in two different shares at a young age, and I lost every cent on both shares. Both companies I invested in (on the advice of professional brokers) no longer exist today. Shares can be fantastic for a savvy investor, but you really need to know what you're doing if you hope to become wealthy through shares alone. I believe in

diversifying and shares should be part of your strategy. One thing I really like about property is you will never own a property that at a future date will de-value to zero! I can sit here and say, in eight years time, 99 per cent (if not 100 per cent) of properties will be worth more than what they are worth today. Go back to the median house price growth table (Table 1.1), and I challenge you to find any eight-year block where the figures at the end of the block are less than the figures at the beginning of the block. For me this is a comforting thought when it comes to investing in property. The same can't be said for shares.

These are extremely important considerations in your strategy. As an employee, your income is often limited to what the company is willing to pay you. Some employment contracts, however, have commission built in or annual bonuses. Still, you need to be realistic about your earning potential. On top of earning a salaried income, you need to look at investing in property or shares, or any other investment vehicle to build your wealth; saving your income is one of the slower methods for becoming rich. I don't know anyone who has become rich purely from being an employee and saving their wage in a bank.

Most of us work for someone else. And, as I said, that can limit your income. You will therefore have to think of a plan B for building real wealth.

The power of compounding is hugely underrated in what can be achieved quickly.

Income follows assets

The key to building real wealth is accumulating assets. Income follows assets. If you invest in the sharemarket, those shares (which are assets) will pay dividends. If you own as business, it will (hopefully) deliver profits. In the property game, you will receive income through rent.

But you have to own the assets to derive income from them. So, the first consideration in building wealth is acquiring assets.

Income follows assets, so acquire as many appreciating assets as you can.

Engage your 'A' team

As I mentioned before, knowledge is a vital ingredient to property investing, but it equally applies to any investment strategy. I strongly advise you to become as educated as possible in any area of investment in which you choose to dabble. But you can't be an expert in everything. It's just not feasible. Have you seen the reams of tax law changes that accountants have to keep up with every year? It's onerous.

That's why you need an 'A' team behind you for advice, support and motivation.

Everyone needs a good solicitor, accountant and financial planner. Then, depending on your game, you will need a few extras. If shares are one of your things, you'll need a good broker. In business, a mentor is crucial.

In the property game, this list is a bit longer. You should be thinking about finding a good buyer advocate, a mortgage broker who is tapped into the market, a savvy property manager, a quantity surveyor and a reliable handyman. To take it a step further, you could benefit from a clever, well-priced architect and a council contact if you are developing property.

For information about finding local experts to help you meet your financial goals, visit the My Mortgage Mentor website at *www.mymortgagementor.com.au*.

Build a professional team of people around you who own their own businesses – they are more likely to be around for your full journey.

Step 2: Fund your properties

Setting up your loans so you can maximise the advantage of lending criteria is an essential element of any great property investment strategy. You have the opportunity to save piles of money on interest and maximise your borrowing potential while remaining in an unrestricted and flexible loan structure.

The loan strategy I outline in this section of the book will allow you to purchase premium investment properties without spending a cent of your own money. Think about it: an investment property without having to compromise your lifestyle. That sounds good, but who pays for it?

The bank does.

Getting the bank to pay for an investment property that you will eventually own outright takes a good understanding of how banks work and the lending criteria they apply. You will learn about this in Chapter 4. In Chapter 5, I take you through the leverage loan – the secret ingredient in the strategy that will lead to your financial independence and the kind of retirement that most people only dream about.

Chapter 6 looks at buying property through a self-managed superannuation fund – another great strategy for acquiring assets that will help see you on the road to financial freedom.

4

How to fund your property portfolio

Of everyone I know who owns investment properties, they have all acquired them via one of two methods: through inheritance or by taking out a loan. Since the first method doesn't add up to a robust or dependable strategy, most of us have to turn to a bank or other lender to provide the finances.

Which lender you sign with and what conditions you set can make a huge difference to how much you will be able to borrow and to how long it takes you to pay off the property.

Getting the deposit for your first property

Before you can get a loan approval in place to buy your first property, your mortgage broker will need to know how much deposit you can contribute to your property purchase. This will also be an important factor in determining the budget you set yourself for your final purchase price. All property investors need to have their deposit ready before they

can buy. This means having access to the funds sitting in your account, so you are ready to pounce when you find the right property. For an existing home owner, in order to have your deposit ready before you buy you will need to secure an initial loan before you go property shopping.

There are several ways you could get your deposit:

- save it
- borrow it from a friend or relative
- receive it as a gift (usually from family)
- obtain a personal loan to assist with all or part of your deposit (not a recommended option)
- use a credit card to fund all or part of your deposit (not a recommended option)
- join forces with someone else who already has a deposit
- use equity in an existing property, and borrow against this (my recommended option).

The most common method I recommend to investors is the last option; however, you do need to own a property already. This involves setting up a 'leverage loan' to cover your deposit, transaction costs (stamp duty, legal fees etc.) and the shortfall between what you receive in rent and what you have to pay back in mortgage repayments (more about this in the next chapter).

You will need at least 5 per cent of the purchase price of the property you buy, plus transaction costs.

What if you don't have any equity?

Not everyone has an existing property with which to draw equity to begin funding a property portfolio. You might have recently purchased your first property and haven't been able to build any equity yet. Or you might be renting and don't plan to buy a property to live in, preferring a strategy that looks at buying properties for investment purposes only – some people move around a lot for work or prefer the flexibility of renting. Whatever your reasons, you can still start a property portfolio without having equity.

How to buy without a deposit of your own

If you can't come up with a deposit on your own, or will struggle to save the deposit you need, there are steps you can take to get a loan and get yourself into the property market. Borrowing money from a private source, such as family, is one option. If you are lucky enough, family might gift you the funds or the odd lender will allow funds from a personal loan to act as your deposit, although the latter is not a strategy I would normally encourage.

However you get your deposit, be wary of how lenders will view it. When banks assess you for a loan they always look at income first. If your income is substantial the next thing they'll consider is your ability to save. If your bank account shows minimal savings over the past six months except for a one-off injection of say, $20,000, they'll immediately recognise it as a gift and not genuine savings. Without equity in your home, the majority of banks will require 5 per cent of the purchase price to be saved over six months or more. So, you need to be able to show you can save and/or make loan repayments. Otherwise, you will have to go to a lender that allows non-genuine savings.

You'll also have to do the maths on your repayments. You will be the one who's responsible for funding the repayments from the rent the property earns and, most probably, some extra from your own wallet to pay the shortfall. You will need to cover these costs until the property has become cash flow positive or achieved enough capital growth so you can apply for a leverage loan, which is explained more in Chapter 5.

Understanding the banks

Banks, like all businesses, exist to make a profit. For any business that deals in money, the aim is to maximise profits while minimising risk. Risk, in the case of the banks, amounts to where they invest their money. If they put their funds into your property investment, they want to make sure they're going to get it back – and then some. They only want to invest in low-risk ventures that will make a return – like residential property. That's why home loan rates are lower than for personal loans, which can be used for holidays, cars, boats, furniture and other things that depreciate and really have no ongoing monetary value – they certainly won't increase in value.

If a borrower defaults on a personal loan, the bank won't get all its money back. Some items, like cars, can be sold, but almost never at a price higher than the value of the loan. Banks can never recoup their money on loans for purchases like holidays.

Banks take a lot more than just your income and equity into consideration when assessing home loans. Their lending criteria is based on a complicated matrix of variables, percentages and numbers that they punch into a software program that determines your level of risk and ultimately decides whether your loan will be approved.

Ensure you choose a bank that maximises your borrowing power

All banks and other lenders have their own rules, regulations and processes for approving loans. Just because one lender won't approve a loan for the amount you want doesn't mean another won't. For example, some lenders will allow 100 per cent of your overtime income, while others will only allow 50 per cent; some won't recognise overtime as income at all.

Work allowances and company cars are another grey area. Some lenders will take into account having a company car as a method of saving money so they will look on it favourably. Some lenders won't look at it at all.

Some banks will assess your credit card monthly payments based on 3 per cent of the credit card limit while others will assess you on 5 per cent of the limit. Knowing which bank does what can be the difference between a lender saying yes or no to your loan.

Another factor that can vary considerably from one lender to another is child maintenance income and family payments. Some banks will take this income into account at 100 per cent, others at 70–80 per cent; a few will value it at 50 per cent and other lenders won't subscribe any value to it at all.

A good mortgage broker will be able to fill you in on the intricacies of all these lending quirks as it relates to your own situation.

Don't be sold on interest rates alone

Interest rates are only one part of the lending equation. Although they are arguably one of the most important parts, they are not the be all and end all. You need to also consider application fees and the benefits that one lender might offer over another, such as those outlined above.

At the time of writing, rates were hovering in the mid 5 per cents, with fixed rates lower than this. The banks are hungry for business. There has never been a better time to check your interest rate and loan structure and see if you can better your situation financially.

Loan structure check and interest rate challenge
Go online to the My Mortgage Mentor website at www.mymortgagementor.com.au *to check the health of your loans and see if your interest rate is still competitive.*

Set up a 100 per cent offset account

Choose a bank that allows you to offset your savings against your loan. A 100 per cent offset is a savings account that is linked to your home loan account. As the term suggests, any money sitting in this linked savings account is offset against the amount owing on the home loan, and interest is calculated on the loan balance less funds held in the offset account.

Let me illustrate it with an example. Assume you have a $300,000 loan, with $20,000 sitting in your offset savings account. The bank will only charge you interest on $280,000, being the $300,000 less the $20,000 sitting in your offset account. One huge benefit of the offset account is the money sitting in your offset savings account is working for you at home loan interest rates. So if you mortgage is sitting at 6 per cent, the account is offsetting the mortgage at the full 6 per cent interest rate.

Consider a flexible fixed-rate loan

In times of rising interest rates, fixed loans can sometimes look pretty attractive. They can also be attractive to someone who wants to budget accurately – to know that for every month for the duration of the loan

(often one, two or five years), they will know exactly what they will be paying and that fluctuating interest rates won't affect them.

There is one lender that I have several loans with that will allow clients to re-fix their loans during a fixed period. I was in a fixed loan at 7 per cent at a time when variable and fixed rates had dropped to about 6 per cent. Even though I had two years left on the fixed loan at 7 per cent, this lender allowed me to re-fix the loan for two years at 5.95 per cent. A good mortgage broker can alert you to these great deals and options.

Choose a lender than takes into account the best percentage of your rental income

Another quirk of lending is that some banks only recognise a percentage of rental income rather than the whole amount. Make sure your lender recognises a high percentage (70–100 per cent) of your rental income.

Choose a lender that will allow generous add-backs

Your taxable income alone isn't the same as the actual income that you have at your disposal to cover your existing commitments plus the proposed repayments for your new mortgage. Lenders will often 'add back' any expenses you have incurred that have reduced your taxable income.

Some examples of add backs are:

- **Depreciation -** Depreciation is a tax deduction but not a day-to-day cash expense. Some lenders will therefore add it back to your taxable income; however, the amount of the allowance varies depending on the nature of the asset being depreciated.
- **Interest -** If you have a business loan or investment loan, then it is likely that you have tax deductions for the interest you have paid. Some lenders will add this back.
- **Investment property expenses -** Depreciation on your properties, management fees, repairs and other rental property deductions such as negative gearing (see box on next page) are usually added back.

- **Additional superannuation -** If you have made lump sum or regular voluntary super contributions in excess of your minimum statute requirements then these extra amounts can be added back in some cases, depending on the lender.
- **Company car -** Expenses for cars that are used for both business and personal travel have most likely already been deducted for tax. Lenders won't add it back but they will often add in an extra $3,000–$6,000 in income to compensate if it is the only vehicle within your family.
- **Trust distributions -** If you have your business in a discretionary trust and have chosen to distribute income to some of your family members then in most cases this can be added back. This often requires a letter from your accountant to confirm the beneficiaries are not financially dependent on this income.

Ensure your lender will at least allow depreciation and interest add-backs on your investment debt.

Negative gearing explained

Negative gearing is a form of financial leverage used by property investors to help minimise tax. The tax benefit comes about when the income from a rental property (the rent paid by the tenant) does not cover the costs associated with owning and maintaining that property (including mortgage payments, agent's fees, council rates, landlords insurance and so on).

All those costs are deducted from your end-of-year taxable income. The tax advantage is therefore not realised until you lodge your tax return.

5

The 16 steps to mastering the leverage loan

As I've said, loan structure is one of the most important aspects of successful property investing. My success – and the success of many clients – has come from setting up a three-loan structure when investing in property. The first loan is my home loan (the loan on my principal place of residence), the second is a 'leverage loan', which I use to pay the deposit (and costs) for my investment properties, and the third is the purchase loan – the loan I use to buy the investment property on settlement day.

The key to this strategy is the leverage loan. Not only does this loan pay for my deposits and purchasing costs (conveyancing fees, stamp duty etc.) but – and this is its most important role – it pays the shortfall between the rent I receive from my tenants and the mortgage repayments. This means *I never have to use any of my own money to finance my properties.*

Sound unbelievable? This chapter explains how it works.

How the leverage loan works

A leverage loan works just like any other interest-only loan. Although similar, it is usually not a line of credit because a line of credit often attracts a higher interest rate. A leverage loan starts with a zero balance and you draw money out of it as you need it, rather than starting with a lump sum.

In the majority of cases the leverage loan works by setting up three loans when you purchase an investment property. The first loan is your existing property loan that you already hold. This is Loan 1. This existing loan is usually tied to a new loan – Loan 2, which is the leverage loan. One property secures these first two loans and this property must have equity in it. The leverage loan (Loan 2) will cover your deposit and transaction costs (stamp duty, legal fees etc.), plus all the ongoing costs associated with holding the property. The third loan, the purchase loan, will cover whatever is owed on settlement (i.e. the sale price minus the deposit). For example, if you purchase a property for $400,000 and the deposit required is 10 per cent ($40,000), the third loan (the purchase loan) will be for $360,000 ($400,000 minus 10 per cent).

As I've mentioned, the leverage loan is the second loan you set up for your investment property (Loan 2). It starts with a set limit depending on how much equity you have in your home. You won't start paying anything for it until you start using it (i.e. until you pay the deposit — and then you only pay interest on the money you have actually used, not the figure that has been set as the maximum).

I know this sounds complicated so let me explain it with an example.

Say you're buying an investment property for $400,000. With an interest-only loan you would be paying $26,098 a year in interest (at 6 per cent). In the first year of the loan, every month the rental income from the investment property goes into the leverage loan and your loan repayments and expenses come out. This will leave a shortfall of $573 a month, which you won't have to pay straightaway – it will accumulate within the leverage loan account.

At the end of the first year of the loan (based on the $400,000 example) your bank account will show a list of debits (money going out: loan repayments and other property-related expenses) and credits (money

coming in: rent). When you lodge your tax return you will get some tax relief for depreciation and interest, leaving a shortfall of about $6,875 (see Table 5.1a, the column on the right under year number 1). You don't pay anything out of your own pocket – the shortfall is paid from the leverage loan as you go.

Table 5.1a – The Leverage Loan

Year	Property Value 9% Growth pa	Total Loans = Leverage Loan 2 (5% Deposit + Purchase Costs) Loan 3 = 95% of Purchase Price + Mort Insurance	Equity Gained	Repayments on Loans at 6%	Expenses (Holding Costs at 1% of Purch price) with 3% inflation rise	Rental Income (4% return) = starts at $308/wk	Tax Benefits	$ out of pocket (Repayments + Exps - Rent Inc - Tax Benefits)	Interest on Money out of Pocket	Leverage Loan used/gain (-ve = money used/+ve = money gained)	Running Balance of Leverage Loan (-ve = money used /+ve = money gained)
	9%	($41,674) << Loan 2 (Leverage Loan)		6%	1%	4%	0-2%		6%	Loan 2	
	Purchase Price	(393,292) << Loan 3 (Purchase Loan)									
NOW	$400,000	($434,966)	($34,966)								
1	$436,000	($441,841)	($5,841)	($26,098)	($4,000)	$16,000	$7,612	($6,486)	($389)	($6,875)	($6,875)
2	$475,240	($448,116)	$27,124	($26,510)	($4,120)	$17,440	$7,271	($5,919)	($355)	($6,274)	($13,150)
3	$518,012	($453,681)	$64,330	($26,887)	($4,244)	$19,010	$6,870	($5,251)	($315)	($5,566)	($18,715)
4	$564,633	($458,419)	$106,214	($27,221)	($4,371)	$20,720	$6,402	($4,470)	($268)	($4,738)	($23,453)
5	$615,450	($462,196)	$153,253	($27,505)	($4,502)	$22,585	$5,858	($3,564)	($214)	($3,777)	($27,230)
6	$670,840	($464,867)	$205,973	($27,732)	($4,637)	$24,618	$5,232	($2,519)	($151)	($2,670)	($29,901)
7	$731,216	($466,268)	$264,948	($27,892)	($4,776)	$26,834	$4,513	($1,322)	($79)	($1,401)	($31,302)
8	$797,025	($466,219)	$330,806	($27,976)	($4,919)	$29,249	$3,693	$46	$3	$48	($31,253)
9	$868,757	($464,523)	$404,234	($27,973)	($5,067)	$31,881	$2,760	$1,600	$96	$1,696	($29,557)
10	**$946,945**	($460,959)	**$485,987**	($27,871)	($5,219)	$34,750	$1,703	$3,362	$202	$3,564	**($25,993)**
				($273,666)	**($45,856)**	**$243,087**	**$51,913**	**($24,552)**	**($1,471)**	**($25,993)**	

NOTE:	1› The Maximum Point used in Leverage Loan is Yr 7 at $31,302
	2 › Property Value in Year 10 = $946,945 up from $400,000
	3 › Net Equity in Yr 10 = $485,987

Equity Gained	**$485,987**
Leverage Loan Funds Used to Hold the Property	**($25,993)**
Profit/Equity Gain + Income Gain	**$459,994**

Table 5.1b – The Leverage Loan

Year	Property Value 9% Growth pa	Total Loans = Leverage Loan 2 (5% Deposit + Purchase Costs) Loan 3 = 95% of Purchase Price + Mort Insurance	Equity Gained	Repayments on Loans at 6%	Expenses (Holding Costs at 1% of Purch price) with 3% inflation rise	Rental Income (4% return) = starts at $308/wk	Tax Benefits	Profit from Rental Income - Exps - Repayments - Tax	Interest Income received on property being cashflow positive	Leverage Loan Profit	Running Balance of Leverage Loan Profit
	9%	($41,674) << Loan 2 (Leverage Loan)		6%	1%	4%	0-2%		6%	Loan 2	
	Purchase Price	($393,292) << Loan 3 (Purchase Loan)									
NOW	$400,000	($434,966)	($34,966)								
11	$1,032,171	($455,285)	$576,886	($27,658)	($5,376)	$37,878	$508	$5,353	$321	$5,674	($20,319)
12	$1,125,066	($447,234)	$677,832	($27,317)	($5,537)	$41,287	($837)	$7,596	$456	$8,051	($12,268)
13	$1,226,322	($436,511)	$789,811	($26,834)	($5,703)	$45,003	($2,350)	$10,116	$607	$10,723	($1,545)
14	$1,336,691	($422,791)	$913,899	($26,191)	($5,874)	$49,053	($4,046)	$12,943	$777	$13,719	$12,175
15	$1,456,993	($405,719)	$1,051,274	($25,367)	($6,050)	$53,468	($5,944)	$16,106	$966	$17,072	$29,247
16	$1,588,122	($384,900)	$1,203,222	($24,343)	($6,232)	$58,280	($8,064)	$19,640	$1,178	$20,819	$50,066
17	$1,731,053	($359,903)	$1,371,151	($23,094)	($6,419)	$63,525	($10,430)	$23,583	$1,415	$24,997	$75,063
18	$1,866,848	($330,903)	$1,556,597	($21,594)	($6,611)	$69,242	($13,064)	$27,973	$1,678	$29,651	$104,715
19	$2,056,665	($295,424)	$1,761,240	($19,815)	($6,810)	$75,474	($15,993)	$32,856	$1,971	$34,827	$139,542
20	**$2,241,764**	($254,848)	**$1,986,916**	($17,725)	($7,014)	$82,267	($19,248)	$38,279	$2,297	$40,576	**$180,118**
				($513,604)	**($107,481)**	**$818,562**	**($27,554)**	**$169,923**	**$10,195**	**$180,118**	

NOTE:	1› The Property over 20 years had reduced your Leverage Loan by $180,118
	2 › Property Value in Year 20 = $2,241,764 up from $400,000
	3 › Net Equity in Yr 20 = $1,986,916

Equity Gained	**$1,986,916**
Leverage Loan Profit	**$180,118**
Profit/Equity Gain + Income Gain	**$2,166,034**

Table 5.1c – The Leverage Loan

Year	Property Value 9% Growth pa	Total Loans = Leverage Loan 2 (5% Deposit + Purchase Costs) Loan 3 = 95% of Purchase Price + Mort Insurance	Equity Gained	Repayments on Loans at 6%	Expenses (Holding Costs at 1% of Purch price) with 3% inflation rise	Rental Income (4% return) = starts at $308/wk	Tax Benefits	Profit from Rental Income - Exps - Repayments - Tax	Interest Income received on property being cash flow positive	Leverage Loan Profit	Running Balance Profit
	9%	($41,674) << Loan 2 (Leverage Loan)		6%	1%	4%	0-2%		6%	Loan 2	
	Purchase Price	($393,292) << Loan 3 (Purchase Loan)									
NOW	$400,000	($434,966)	($34,966)								
21	$2,443,523	($207,893)	$2,235,630	($15,291)	($7,224)	$89,671	($22,858)	$44,297	$2,658	$46,955	$227,073
22	$2,663,440	($153,869)	$2,509,571	($12,474)	($7,441)	$97,741	($26,860)	$50,966	$3,058	$54,024	$281,097
23	$2,903,150	($92,017)	$2,811,133	($9,232)	($7,664)	$106,538	($31,290)	$58,351	$3,501	$61,852	$342,949
24	$3,164,433	$0	$3,164,433	($5,521)	($7,894)	$116,126	($36,191)	$66,519	$3,991	$70,510	$413,459
25	$3,449,232	$0	$3,449,232	$0	($8,131)	$126,577	($42,092)	$76,354	$4,581	$80,935	$494,394
26	$3,759,663	$0	$3,759,663	$0	($8,375)	$137,969	($46,273)	$83,321	$4,999	$88,321	$582,715
27	$4,098,033	$0	$4,098,033	$0	($8,626)	$150,387	($50,835)	$90,925	$5,456	$96,381	$679,095
28	$4,466,856	$0	$4,466,856	$0	($8,885)	$163,921	($55,814)	$99,223	$5,953	$105,176	$784,271
29	$4,868,873	$0	$4,868,873	$0	($9,152)	$178,674	($61,246)	$108,277	$6,497	$114,773	$899,044
30	**$5,307,071**	$0	**$5,307,071**	$0	($9,426)	$194,755	($67,173)	$118,155	$7,089	$125,245	$1,024,289
				($556,122)	**($190,302)**	**$2,180,921**	**($468,186)**	**$966,311**	**$57,979**	**$1,024,289**	

NOTE:	1› The Property over 30 years had reduced your Leverage Loan by $1,024,289
	2 › Property Value in Year 30 = $5,307,071 up from $400,000
	3 › Net Equity in Yr 30 = $5,307,071

Equity Gained	**$5,307,071**
Leverage Loan Profit	**$1,024,289**
Profit/Equity Gain + Income Gain	**$6,331,361**

Assuming you have bought well, your rental income should return 4 per cent of the value of the property. The most recent property I bought had a 27.5 per cent rent rise within a 12-month period, which the tenant was happy to pay.

According to the media, we are in really bad financial times. With the majority of investment properties being units, here are some recent figures released on the percentage rise on weekly rental returns around the country – comparing the year-on-year unit growth from 2012 with the latest 2026 figures for both units and houses.

Table 5.2 – Rental return increases on units and houses: 2012 vs 2026

Location	2012 Units % rise	2026 Units % rise	2026 Houses % rise
Perth	30.5%	3.7%	8.1%
Sydney	15.5%	4.0%	6.3%
Brisbane	14.2%	5.7%	10.0%
Melbourne	13.8%	5.0%	6.7%
Darwin	12.2%	18.2%	11.8%
ACT (Canberra)	10.2%	1.5%	2.9%
Hobart	9.2%	15.6%	10.2%
Adelaide	5.3%	4.4%	3.1%

Sources: 2012 Units – Residex, as per article in Property Observer, 4th October 2012. 2026 Units and 2026 Houses – SQM Research, 12-Month Asking Rent Growth Summary.

Not bad for really poor economic times. Investors around the country can't wait to see what happens when the economy improves significantly.

Now back to the leverage loan. The principal of your loan, however, won't increase. Because rent is going to go up annually, and is approximately 4 per cent of the property's market value, generally in the second year you will have less of a shortfall to fund, and it will continue to drop in years three, four, five and so on until your property becomes positively geared. This is the point at which the property becomes cash flow positive and,

by about year nine or ten your $400,000 property will be worth more than $800,000. By year 11 it will be worth more than $1 million and will be generating income, which could be used, if you wish, to pay down the loan.

This is good. But the story gets better.

Following this pattern throughout the ensuring years, rising rents will ensure you have both loans paid off in full in around 25 years. If you don't put up the rent every year in line with market values you are costing yourself money. Now, you will have no debt on a property worth $3.5 million that is generating a huge rental income per year without spending a cent on loan repayments.

Don't believe me? Look at the Table 5.1a, b, c on the previous pages, regarding the leverage loan numbers.

What's more, the scenario depicted in this example assumes that it will actually take nine years for the property to become cash flow positive but it is possible to achieve that years earlier if you choose your investment properties really carefully. Some properties have been known to become cash flow positive in as little as three years.

The 16 steps to mastering the leverage loan system

To someone not used to dealing with banks and lending, the leverage loan system might seem a little complicated at first. To simplify the whole process I have broken it down into 16 easy-to-follow steps, which includes everything from the preparatory stages through purchasing your first property to planning for the future.

Step 1 = Engage a leverage loan expert to be part of your professional 'A' team

One of the most important parts of using the leverage loan strategy is having an experienced mortgage broker working with you. They will guide you through structuring your loan because the leverage loan is not a product the bank will necessarily know about. Or, if they do, they certainly won't call it that.

Some of the benefits of using a reputable mortgage broker who understands the leverage loan system are:

- **Knowledge -** You will gain insider knowledge on all the benefits of the leverage loan strategy.
- **Larger range -** They can provide you a wide range of loan options and choice – through a wide range of lenders.
- **They save you time -** brokers will have software that will quickly narrow down the better options, with cost and rate comparisons all at their fingertips.
- **Correct loan structuring -** the right consultant will be able to structure your loans following the leverage loan system.
- **No stress -** all the hard work is done for you; you can just watch your portfolio grow.
- **Unbiased advice -** reputable mortgage brokers work with broking companies that are being paid the same commission from every lender (you must ask this question upfront – you want your broker putting your best interests first). If a broker is paid more from a certain lender, chances are they will be persuaded to use that lender to increase their own income-earning capacity.

Getting this right will help you maximise your chances of building a long healthy financial future. Using one bank alone is a dangerous practice because you won't get the full spectrum of choice, niches and competition benefits. Mortgage brokers have lenders constantly fighting to win their business, and so the lender competition helps with gaining excellent interest rates and packages.

Step 2 = Implement your property plan – know how many properties will get you to your final outcome

In the opening chapters of this book I asked you to consider how much money you would need to accumulate to live the retirement lifestyle you've always imagined for as long as you might be around to enjoy it. You would've ended up with a number.

Time for a little more maths. If you're only investing in property, how many properties, at what value, will it take you to get to that target number? As a minimum I would assume most people need $2.5 million in net assets (excluding their home) to look to retire on $100,000 per annum.

If you had five investment properties worth $500,000 each, owned outright with no loans against the properties while receiving a 4 per cent rental return on each property, you will have $100,000 in rental income per annum lining your pockets.

It is that simple. Build the plan, implement the strategy I will show you, and the journey will unfold and deliver you the outcome.

It is worthwhile thinking about this before you apply for Loan 2 (the leverage loan). Knowing how many properties you plan to buy will help ascertain the size this loan needs to be. Completing Exercises 1–7 will have helped you get more familiar with your 'numbers'.

Step 3 = Start the leverage loan process based on your property position

Everyone falls into one of these three categories. Please work out which category you are in, and follow the process to go to step 4 of mastering the leverage loan.

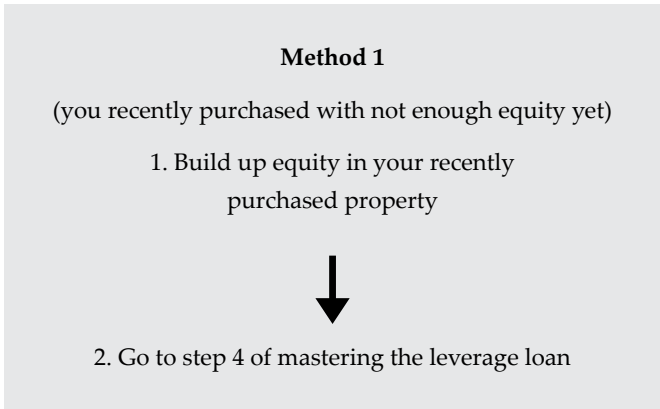
Property position 1+	You have enough equity in one or more properties.
Property position 1	You recently purchased your first property and don't yet have enough equity to buy property number 2.
Property position 0	You do not own a property.

If you are in property position 1+, you can go straight to step 4.

This opens up the question: What is enough or not enough equity? The simple way to answer this question is when you have at least a 5 per cent deposit and costs to buy an investment property – let's say $40,000 to $50,000 at a minimum.

If you are in property position 1, you need to follow method 1 (see Figure 5.1), and build up enough equity to move to step 4.

Figure 5.1 – The first method for applying the leverage loan system when you are in property position 1 and are not ready to engage the leverage loan system immediately



If you are in property position 0 (you don't own a property) you will need to follow method 2 (see Figure 5.2). Once you have built up equity in your property you can go to step 4 of mastering the leverage loan.

Figure 5.2 – The second method for applying the leverage loan system when you are in property position 0 and are not ready to engage the leverage loan system immediately

Step 4 = Work out your 'borrowing power'

Before you can begin to look seriously at identifying a property to buy as an investment, you first need to know how much you can borrow. There are online calculators you can use to figure out a ballpark figure but it's best to sit down with an experienced mortgage broker and get a much more detailed analysis of your options.

Before you visit your broker, you will need to pull together some

information to help them assess your financial situation. At a minimum you will need to provide the last two payslips for each applicant or, if any of the applicants are self-employed, the last two years' personal and business tax returns.

To make a full assessment and get the ball rolling on an application, your broker will also need:

- savings evidence or proof of equity in existing properties owned
    - latest six months of bank statements and/or term deposits and/or share certificates showing evidence of savings
    - rates notice to prove you own any other properties
- personal identification (100 points of ID)
    - passport (70) or birth certificate (70)
    - drivers license (40)
    - credit card (25)
    - Medicare card (25)
    - rates notice (25)
- other documents
    - last six months of home loan statements (if applicable)
    - last six months of personal loan statements (if applicable)
    - latest credit card statements (if applicable)
    - latest rates notice and/or certificate of title (only of properties owned)
    - invoice or tenancy agreement from real estate agent confirming rental income (if you own investment properties).

Exactly how much you will be able to borrow will depend mostly on the lender's impression of your ability to service the debt. In other words, when they calculate everything that comes in (income) minus everything

that goes out (existing loans, credit cards, etc.), is there enough left over to pay them back every month? Plus, the banks being the conservative beasts they are will also factor in a buffer in case interest rates rise.

What's my borrowing power?
To find out what your own borrowing power is, visit the My Mortgage Mentor website at www.mymortgagementor.com.au *and complete the questionnaire.*

There are other contributing factors that will affect how much you can borrow, such as your deposit or equity, but serviceability in the key.

Step 5 = Organise to have your properties valued (the ones with equity in them)

Have one, some or all of your properties valued so you can use their equity to borrow. My advice is every one to two years you should be valuing all of your properties to see how much equity you have built in that timeframe.

To be able to use equity in an existing property, your mortgage broker will arrange a bank valuation to be done on your existing property or properties, so the lender can determine how much equity you have. That will establish the value of the leverage loan you can obtain.

Order a property valuation and/or comparable sales report
If you want to order either of these reports go online to the My Mortgage Mentor website at
www.mymortgagementor.com.au

The property valuation process

A qualified valuer will undertake an inspection to determine the property's current market value. Improvements are measured and comparable evidence is analysed. This is prescribed by strict criteria and standards set down by the API (Australian Property Institute). A property's unique attributes will also be taken into account, such as:

- location
- building structure and condition
- building/structural faults
- standard of presentation, the layout, fixtures and fittings
- access, such as for vehicle access and vehicle accommodation
- planning restrictions and local council zoning.

The valuer will combine these aspects along with recent comparable sales in the surrounding area and prevailing market conditions to produce a valuation report. All lenders usually have a panel of valuers that they engage to conduct the valuations on the bank's behalf.

It's very important to ensure your valuation comes in at the highest value possible, so you want to make sure the property is looking its best for the valuation process. If you have lawns, have them mowed; if paint is coming off any walls, have it painted. Presenting your property in its most favourable light will give it the best opportunity of being valued higher compared with a poorly presented property.

Keep your own 'good' comparable sales of your properties to aid the valuer

More important in my eyes is the comparable sales that you can supply to the valuer. Let me tell you about an example of how I ensured a good valuation was done on a certain property I had valued. The property being valued was a double-storey six-bedroom house on approximately 600 square metres of land. The property was purchased for $1.2 million. Down the road about six months later, a nice single-storey three-bedroom house on approximately 300 square metres of land (so half the land size) sold for $1.295 million. Immediately I rubbed my hands together thinking,

if a three-bedroom house half the size sold for $1.295 million, what does that now make the six-bedroom house with around double the land size worth? Remember it was bought for $1.2 million.

Without hesitation, I immediately ordered a valuation on the six-bedroom house. When the valuer turned up, I had printed out a colour copy of the property that recently sold for $1.295 million. The valuer did his work, leaving the property with the comparable sale in his hand. Days later when the valuation came through, the six-bedroom property was valued at $1.6 million. This is a classic example of being on top of the property valuation game. You can keep the valuers honest by doing your part in the comparable sale process – by doing some of the homework for the valuer. It's difficult for a valuer to value a six-bedroom property with more land at a value lower than a three-bedroom property that is located around the corner. The six-bedroom property was valued at $1.6 million, which was a massive equity jump in a six-month period from the $1.2 million purchase price. Property markets can move quickly, and often you can benefit yourself by jumping on a 'good' comparable sale.

Keep your own records of 'good' comparable property sales to supply to property valuers, as evidence to influence the valuation in a positive way. This will often boost the valuation amount on your property.

Step 6 = Loan 1 / Set a ceiling to your existing loan(s) and restructure all your loans to be interest only

Most people who want to implement the leverage loan strategy have a home loan with outstanding debt on a property they live in. However, if you don't have this but you do have an investment property, it works the same way. Assuming you have a home loan with some equity, the first thing I would recommend is setting a ceiling on your existing home loan debt.

Leverage Loan Rule No. 1 = You need to separate home loan debt (bad debt) and investment loan debt (good debt).

I always refer to home loan debt as bad debt as it is not tax deductible – the purpose of this debt is 'personal use'. Any investment debt I refer to as 'good' debt because it is usually tax deductible – it is used for investment purposes. You will need to clarify this with your accountant; however, laws do promote investing in property with the luxury of claiming the tax on all the interest paid on your investment property(s).

So here are some examples of things that I classify as bad debt:

- any home loan debt
- car loans that are used for personal use
- a personal loan you take out for a personal holiday
- credit cards used to fund large personal purchases such as a bike or boat.

Good debt includes:

- a $450,000 loan to fund a well-targeted investment property
- a personal loan to fund some of the deposit going towards an investment property
- a loan used to renovate or add other value to an investment property.

Good debt should be embraced. The more good debt you take on, the more wealthy you will be.

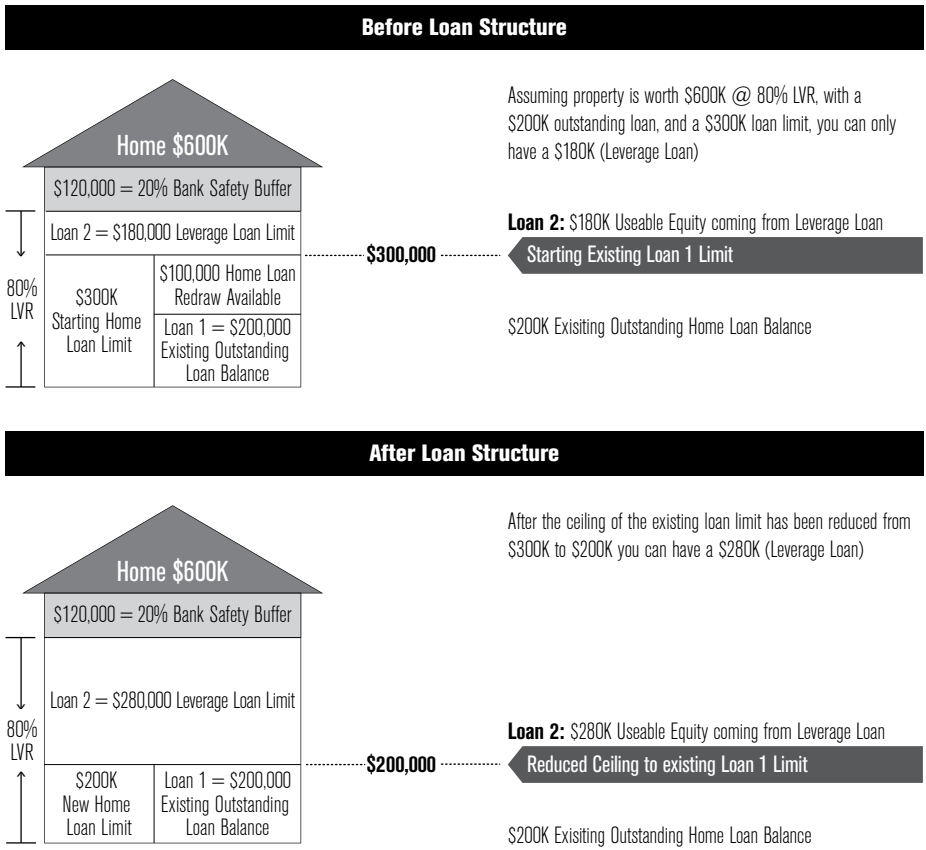
The theory I tend to follow when classifying a loan as 'good debt' or 'bad debt' is this: If the loan will be used to help you to invest (with the plan of deriving an income from the investment) then this loan is good debt. If your purpose is to use the funds for personal use, the debt is 'bad debt' because it is not tax deductible. Using these funds to buy a home that you will live in, or make improvements to your existing home is seen as personal usage. Again, to clarify anything to do with tax deductions, consult your accountant for up-to-date advice.

You can use the Contact Us form on the My Mortgage Mentor website (*www.mymortgagementor.com.au)* to request to have an expert contact you for advice.

Now you are clear about home loan debt being bad debt, the aim is to put a ceiling on your home loan because we want you to keep your home loan debt as low as possible.

Let's look at an example. If you started with a home loan limit of $300,000 but you have now paid your loan down to $200,000, in an interest only loan you will have $100,000 sitting in your home loan redraw. Money in personal redraw should not be used for investment purposes. So to keep your accountant happy, and to structure your loan in the most strategic way, you should drop the ceiling on your existing home loan limit from $300,000 to $200,000.

Figure 5.3 – Set a ceiling on your existing loans



An unused home loan limit is a waste of equity. Ensure the loan is interest-only. If your home loan has redraw of more than $20,000, I recommend eliminating anything above this amount to bring it back to $20,000. This will maximise your useable equity on the investment leverage loan, being Loan 2. One question to ask yourself is this: How much 'personal buffer' do you want in your home loan (Loan 1)? I suggest $20,000 as a maximum redraw, but you may want more. This buffer redraw amount on the home loan is the spare funds for unanticipated personal spending and emergency expenses should you need it. If you are a good saver and you earn more income that you spend, then you may want to eliminate this redraw entirely because you will accumulate more funds as each pay packet hits your bank account.

The majority of people have a home loan with equity; however, you can set up Loan 1 as an investment loan secured by an investment property with equity.

Leverage Loan Rule No. 2 = All your loans must be interest-only loans.

Why interest-only loans are the loans of choice

Many people equate interest-only loans with investment properties because the owner wants to minimise the loan repayments. I agree. But I take it one step further. I encourage my clients to only ever take out interest-only loans – even to buy their own home.

Most people understand how interest-only loans work: You only make the interest payments that have been calculated based on the principal loan amount outstanding. This means the repayments are lower than with a principal-and-interest loan but your actual loan amount doesn't decrease if you pay only the minimum with an interest-only loan. So, if your loan is $500,000 assuming interest rates at 6 per cent and the monthly (interest-only) repayments are $2,500, after five years you will have paid $150,000 but still have a principal loan of $500,000.

But, in reality, the gains you set to make far outweigh the costs. Allow me to explain.

Let's stick with the $500,000 loan example. Your minimum repayment on a principal-and-interest loan might be around $3,000 a month. On an interest-only loan it might be $2,500. Let's say you want to get the loan down quicker and commit to paying $3,500 each month.

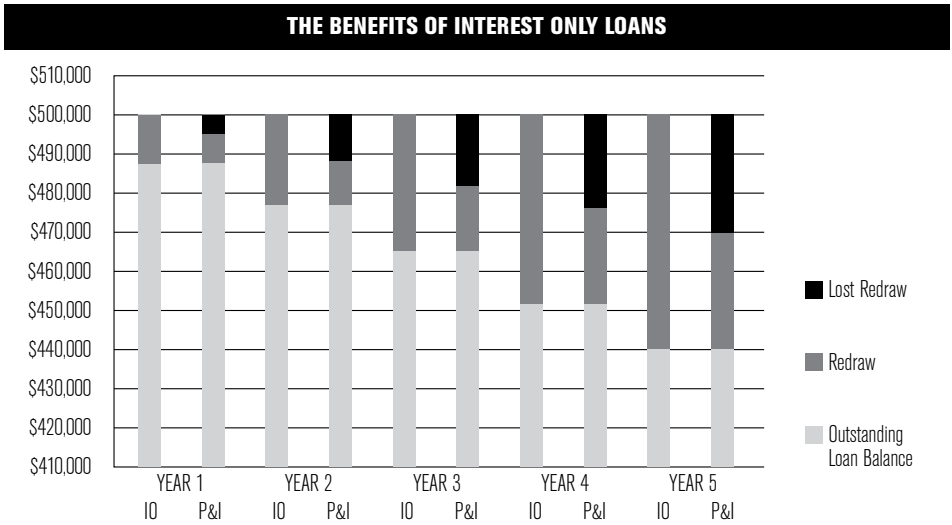
The example in Figure 5.4 shows what would happen over five years if you pay $3,500 a month off a principal-and-interest loan compared with an interest-only loan.

If you were in an interest-only loan and chose to contribute $3,500 per month to increase your savings, at the end of the five years, you could

redraw all of the $60,000 extra you have contributed. In this example, the $60,000 is the $3,500 we have chosen to pay, less the $2,500, which is your minimum monthly repayment. Being in the interest-only loan over five years (60 months) multiplied by $1,000 is $60,000 of redraw you will have.

However, if you were in a principal-and-interest loan and you chose to contribute $3,500 per month, in five years, all you could redraw is $30,000. See Figure 5.4 and the numbers in Table 5.3 to follow how this works.

Figure 5.4 – The benefits of interest-only loans



Source: Mortgage Choice Software (MCS)

With an interest-only loan the lender will hold on to any extra money you contribute and allow you to redraw that money. In our example, if you are paying $3,500 a month on a $2,500 interest-only arrangement, that extra amount will be $1,000 a month. For a principal-and-interest loan, that extra money is $500 a month (which is the difference between the $3,500 you are paying and the $3,000 you are required to pay). The bank uses it and never gives you access to the principal part of your repayments – it is no longer available to you. In other words, the lender owns your principal reductions. In interest-only loans you are the owner of the principal component of your repayments and are able to redraw on them whenever you like.

So, under an interest-only scenario, this extra cash ($1,000 a month) builds up in your account. After a year you will have $12,000 ready to go. If the loan was a principal-and-interest loan, you'd have $6,000 to draw on, the bank locks away your other $6,000 in principal and invests that themselves.

Every day you are in a principal-and-interest loan, you are losing redraw. Change to an interest-only structure immediately.

This is one of the strategies that will enable you to purchase more property than you thought possible. The greatest benefit of an interest-only loan (apart from the obvious that it costs less in repayments each month) is that is gives you choices.

The vital difference between principal-and-interest loans and interest-only loans is that with principal-and-interest loans you are forced to pay some of the principal off, whereas you can choose to pay back the principal and redraw all your own equity in the case of an interest-only loan. With a principal-and-interest loan the bank owns your principal amounts paid and reduces your loan limit daily.

With the majority of people sticking to paying their minimum principal-and-interest loan repayment monthly, the borrower actually never has any redraw in their loan. The bank is cashing in on your principal reductions!

Table 5.3 – Interest-only loans versus principal-and-interest loans

Interest only				
End of year	**Loan limit**	**Outstanding loan balance**	**Redraw**	**Lost redraw**
1	$500,000	$488,000	$12,000	$0
2	$500,000	$476,000	$24,000	$0
3	$500,000	$464,000	$36,000	$0
4	$500,000	$452,000	$48,000	$0
5	$500,000	$440,000	$60,000	$0

Principal and interest				
End of year	**Loan limit**	**Outstanding loan balance**	**Redraw**	**Lost redraw**
1	$494,000	$488,000	$6,000	$6,000
2	$488,000	$476,000	$12,000	$12,000
3	$482,000	$464,000	$18,000	$18,000
4	$476,000	$452,000	$24,000	$24,000
5	$470,000	$440,000	$30,000	$30,000

As a property investor, having access to $60,000 due to being on an interest-only loan versus only $30,000 if you had a principal-and-interest loan, is the difference between being able to buy the next investment property or not. The interest-only loan investor has a $60,000 deposit ready to go and buy that property, but by having a principal-and-interest loan and access to only $30,000, your only strategy may be to buy a property at a dramatically reduced purchase price.

The leverage loan must be part of your property wealth-building strategy if you are serious about becoming rich from property.

The six benefits of why all your loans must be interest-only loans:

Interest-only loans are far superior to principal-and-interest home loans for six main reasons:

1. An interest-only loan works exactly the same as a principal-and-interest loan – if you pay the same monthly amount as recommended on the principal-and-interest loan. Why would you go for a principal-and-interest loan if you can have the same loan methodology through interest-only, with all the extra features as mentioned throughout this book? You always have the choice and flexibility to still pay principal-

and-interest or interest-only. However, if ever required, you can drop your repayments to the interest-only amount. Let's say you lost your job, or something else unforseen happened to impact on your financial situation. Maybe you or your partner has a baby. You have the choice to pay less for one month, nine months or, in fact, five years. There's nothing better than having the choice!

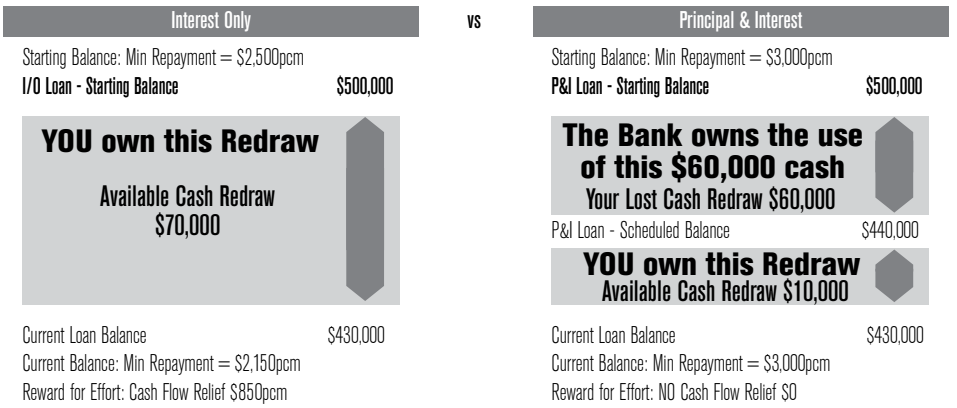
2. With interest-only you own the redraw of your principal part of your repayment – with a principal-and-interest loan the bank take away (and never give you access to) the principal part of your minimum repayments; this is lost forever on a principal-and-interest loan. This is crazy if you ask me. The bank owns your principal reductions. Why let the bank own something that you should own? Interest-only makes you the owner of the principal part of your repayments.

3. With interest only, your loan limit never drops, giving you more choices by giving you more redraw dollars. If your loan, which started at $500,000 is interest-only, in years ahead, let's say your outstanding loan balance is down to $430,000, you can redraw your full $70,000 (up to your limit of $500,000) and go and buy an investment property using the $70,000 as your deposit from the redraw. With principal-and-interest, your principal is forced to reduce from day one. The bank forces your principal to drop. Assume in years ahead the bank requires your loan to be down to $440,000 as your loan amount, due to the principal reduction the banks enforce, and your loan balance is actually down to $430,000, you only have redraw up to $440,000, which means redraw of $10,000. With principal-and-interest the bank have taken away the $60,000 of your principal already paid off, call it lost redraw. The difference is, with interest-only you can get your hands on $70,000 redraw (your funds) versus $10,000 redraw (your funds) with principal-and-interest. I certainly know what I would prefer to have access to. Some time in the future you may want to buy an investment property, buy a car or go on an overseas trip. If you have access to $70,000 instead of $10,000 it gives you more choices. If your loan was principal-and-interest, your redraw of $10,000 is not enough deposit to allow you to buy an investment property; however, if you had an interest-only loan the $70,000 available redraw is enough deposit to allow you the option to potentially buy another property.

4. An interest-only loan is the more strategic loan for tax reasons. If you have outstanding home loan debt (which I call bad debt because it is not tax deductible), you want to put every extra cent you can towards your home loan because you want to reduce non-tax-deductible debt as soon as you can. When you have a home loan and an investment loan, your strategy should be to only pay the minimum interest-only amount off your investment loan (investment loans are good debt because the interest on these loans are tax deductible), and you will receive tax benefits when you lodge your tax return. The best tax method to make your dollar work for you can exist when you have two loans: a home loan and an investment loan. The common strategy is to leave your investment loan as high as possible without paying off any principal so, in this case, you will need an interest-only loan so you don't pay any principal off the investment loan. By doing this, you will gain the maximum tax benefit from having kept the investment loan high while you quickly reduce your home loan. Any extra money you have should be used to pay off your home loan. When you have a home loan and an investment loan, don't use any of your extra money to pay down your investment loan, as your home loan is bad debt and needs to be reduced as quickly as possible.
5. Paying interest-only also gives increased borrowing power when going to buy your next property. If your repayments, for example, are at 6 per cent on a $500,000 interest-only loan, they are $2,500 per month instead of $3,000 per month for principal-and-interest. The difference is $500 per month. When you go back to the bank to borrow more money for your next property, the banks look at your commitments per month when working out how much you can borrow. If you have interest-only payments, as a minimum you are required to pay $2,500, even though you may be paying $3,000 (which is the principal-and-interest amount). However, the bank will allow you to borrow more, if you are set up like this, with your loans being interest-only. This can be the difference between a bank saying yes, we will approve your loan, and no, you are unable to afford to buy another property.
6. You receive 'reward for effort', with an interest-only loan. While on interest-only, your repayment drops every month, fortnight or week, as you pay your loan down. While on principal-and-interest the loan

repayment stays the same for 30 years. For example, assuming your loan is down to $430,000 outstanding for either a principal-and-interest or an interest-only loan, your minimum repayment with interest-only will be approximately $2,150 per month versus $3,000 per month for principal-and-interest. This is cashflow relief of $850 per month.

Figure 5.5 – Why all loans must be interest only



Financially, an interest-only loan is more flexible for all the above reasons. You can always pay as much extra as you like, whenever you like. It must be noted that interest-only loans attract the same interest rate as principal-and-interest loans on standard variable and fixed loan structures, so you are not penalised in terms of your interest rate.

One final point I need to stress about most interest-only loans is that if the loan is a standard variable, the interest only period is usually limited to five years. After this time, the loan will automatically revert to a principal-and-interest loan. To stop this from happening, you will need to go back to your mortgage broker, who will arrange another interest-only period with the lender—usually another five years. This re-structuring usually takes place at the end of each five year period, after five, 10, 15, 20 and 25 years. However, you can take out a 30 year interest-only loan, called a line of credit, provided that you take out this type of loan from day one.

Interest-only loans have to be the only loans you use in your investment strategy, even for your home loan.

Step 7 = Loan 2 / Set up and obtain the maximum size 'leverage loan' you can secure

After you have set the ceiling on the limit of your home loan (or it can be your investment loan) you will use the market value (as determined by a valuation company) and decide if you want to borrow up to 80 per cent or 90 per cent loan to valuation ratio (which is explained further in step 8). The valuation report is supplied to your mortgage broker to determine how much equity you have with a particular lender.

Whenever you approach a lender about a loan, the lender will look principally at two things: your income and your deposit/equity. To be able to set up a leverage loan, you will need equity in a property, along with an income to support your position. They will want to know, firstly, if you earn enough (through work, investments etc.) to cover the repayments on the loan you are applying for. Secondly, they will want to know what kind of deposit or equity you can use to give them some comfort that you have contributed some 'hurt' money. So, if you are unable to meet your repayments the bank will recover its money because you have paid some portion towards the property.

This is why the valuation figure on your property is so important. Having equity in property bypasses the lenders need for you to show you have a deposit saved. It is a matter of understanding how you can best use this equity to your advantage. Understanding actual equity versus useable equity is essential in determining the actual size leverage loan you can secure for yourself.

Knowing the value of your property(s) will allow you to set up the leverage loan (Loan 2) to the maximum amount the bank will fund. In most cases borrowing up to 80 per cent loan to valuation ratio (LVR) is sufficient and the strategy most people want to employ with the leverage loan, which is usually secured by the home. By going up to 80 per cent LVR as a maximum, you avoid paying mortgage insurance costs on this loan. However, in some cases you can choose to go up to 90 per cent, your

individual strategy will determine this. Securing the largest leverage loan you can now will give you greater flexibility to be able to buy multiple properties in the future. Based on your strategy, getting money now, may be better than waiting for a rainy day, as you never know what can happen. Bank policies change, you may lose your job. While you can get the money, get it. Remember that great saying, a bird in hand is worth two in the bush. The leverage loan is used to cover your deposit and purchase costs, along with covering the shortfall between your loan repayments and expenses compared with the rental income coming in.

Going back to the example used in step 6, you have two choices regarding what leverage loan size you want.

Assuming your home in the example we have been using is worth $600,000 and you have a home loan outstanding of $200,000, you could have a leverage loan at either:

80% LVR = $600,000 x 80% = $480,000 less $200,000 home loan = $280,000 leverage loan

90% LVR = $600,000 x 90% = $540,000 less $200,000 home loan = $340,000 leverage loan

Now I'll explain how you can go about deciding which option to take and why step 8 is the most important step in the whole process of mastering the leverage loan.

Step 8 = Decide on your loan-to-valuation ratio strategy for existing and future properties

Commonly known as LVR, the Loan-to-Valuation Ratio is a calculation used to determine the risk of a transaction — in the bank's view. Below 80 percent is seen as low risk, however banks will lend up to 90 per cent of the value of your home or investment property when looking to draw equity from your properties.

Understanding LVR and useable equity

This ratio is what is referred to as your LVR.

$$\text{LVR} = \frac{\text{Loan amount}}{\text{Value of the property (or) new purchase price}}$$

Let's look at our working example. Assuming you own a property worth $600,000, with an existing loan of $200,000 against that property, your LVR would be:

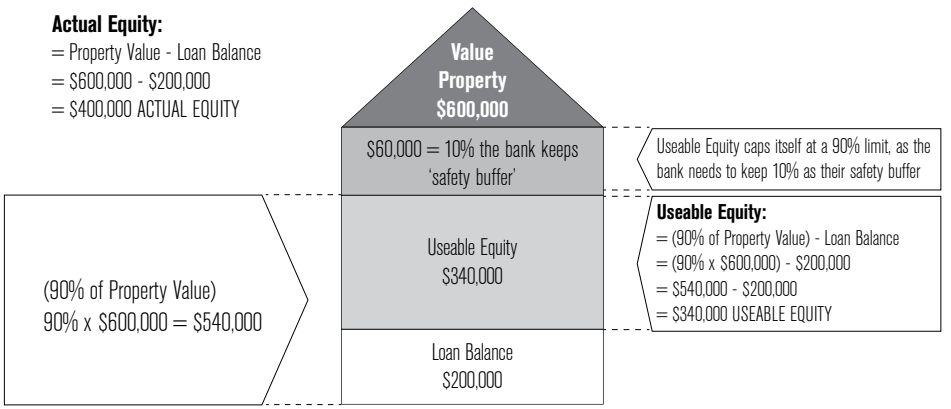
$$\frac{\$200{,}000}{\$600{,}000} = 33.33\% \text{ LVR}$$

This puts you in a good position to use your equity and borrow more so you can take advantage of your options.

I use the term 'useable equity' for the purpose of how much money an investor can borrow from a lender. Please don't confuse this with the term equity.

Figure 5.6 illustrates useable equity versus actual equity.

Figure 5.6 – Useable equity



Calculate your 'useable equity'

Go online to the My Mortgage Mentor website at www.mymortgagementor.com.au *so you can work out your useable equity.*

Accessing equity and the theory behind useable equity can be applied to all properties, whether it's your home or an investment property. In the case of properties you have only recently bought, there might not be much there, but over time you will gain more and more equity. If you have an existing property it is important to have your mortgage broker analyse whether your current loan is competitive and structured correctly to enable the next purchase. For most people, the first property purchase is usually their home. However, you can use any investment property(s) to draw equity from, so you can set up and secure a leverage loan to start your investment strategy. This will allow you to have your deposit ready for your next purchase, along with a buffer that will sit within the leverage loan for the repayment shortfall.

At this point, you need to work out what LVR you will chose for your loan. Every loan has a LVR. As explained in understanding useable equity, the LVR is the loan amount divided by the market value of the property in question or the purchase price of a new property just purchased. With the leverage loan system, you need to make two decisions with your LVR.

> Question 1. What LVR will you go up to, on your existing property that will hold your leverage loan?
>
> Question 2. What LVR will you purchase the next investment property at?

Most people with equity in their property will borrow up to 80 per cent of the value of the property. If you are a little short on how much you either need or would like to have in your leverage loan, you can borrow up to 90 per cent LVR to give you extra funds and a greater buffer.

These two decisions will affect your leverage loan workability in the short and long term so you should keep that in mind when deciding.

Let's refer back to the example used at Table 5.2.

Assume you had a property (let's use your home) worth $600,000, with a $200,000 loan against it. You now have a decision to make.

Knowing you have useable equity of up to 90 per cent of $600,000, that equates to a loan amount of $540,000 (less the $200,000 existing loan that you already have). That will give you a leverage loan of $340,000, as detailed at Table 5.1a, b and c.

Depending on your long-term strategy, my advice would vary situation to situation.

In this case, with $300,000-plus in useable equity, your long-term strategy would have a big say in the LVR you choose. One option would be to borrow up to 80 per cent of the existing property value. In this case that would be 80 per cent of $600,000 = $480,000. Then you minus the loan amount of $200,000, leaving you with $280,000 to be the leverage loan amount.

Let's assume an 80 per cent LVR on your existing property, you would set it up as follows:

Loan 1 (the existing loan) = $200,000

Loan 2 (the leverage loan) = $280,000 (being the $480,000 less the $200,000 loan).

You could choose a lower LVR, but I would recommend at least going up to 80 per cent as a minimum in all cases, as this will give you the maximum leverage loan size without paying mortgage insurance.

This is where taking out an interest-only loan is critical to your strategy, so you don't pay interest on the money you are not using. You don't pay interest on having a higher loan limit. Look at a leverage loan like having a credit card with a limit. You can have a $20,000 credit card limit, but if you spend nothing on that credit card you don't pay any interest on that credit card. It is the same with a leverage loan. The beauty of the leverage loan is you only pay interest on what you spend. If you don't spend any of the leverage loan, you won't be charged any interest. In this case, the leverage loan will not affect your cashflow while it sits there not being used, or while you shop around for your property.

When you are refinancing or topping up an existing loan with your current lender, 90 per cent times the property valuation amount (done by a certified valuer) is the maximum amount the lender will allow you to borrow up to. So, in the case of the $600,000 property value, the most as a refinancer or existing client of that lender you can borrow is $540,000 (90 per cent x $600,000).

At a 90 per cent LVR on your existing property, you would set up as follows:

Loan 1 (the existing loan) = $200,000

Loan 2 (the leverage loan) = $340,000 (being the $540,000 less the $200,000 loan).

Figure 5.7 shows how the leverage loan works based on buying a $400,000 property.

Figure 5.7 – The leverage loan based on buying a $400,000 investment property

Example of Buying an Invesment Property at $400,000 at 95% LVR		
Purchase Price or Value $	$400,000	$400,000 = Purchase Price
COSTS		
Property Stamp Duty	$20,174	$34,966 = Costs at 95% LVR
Mortgage Insurance (approx)	$13,292	
Bank & Legal Fees	$1,500	
Purchase Price + Total Costs	$434,966	
Less 5% Deposit needed	($20,000)	$41,674 = Contribution Needed
Less Costs excluding Mort Ins	($21,674)	
Purchase Loan 3	$393,292	$393,292 = Purchase Loan 3
Purchase Loan 3 LVR 95%	$380,000	
+ Mortgage Insurance	$13,292	

Embrace mortgage insurance

Mortgage insurance is an insurance policy that compensates lenders for losses due to the default of a mortgage loan. Mortgage insurance works in the reverse of how we consider normal insurance should work. We usually take out insurance to protect ourselves – in case we have a car accident or our home is burgled, for example. We pay premiums every month to financially shield ourselves from the potential of something going wrong and it costing us bucket loads to fix it.

Mortgage insurance (often referred to as lender's mortgage insurance or LMI) is a sum you pay to your bank or other lender to protect *them*. In reality, it offers you no protection at all. It protects the lender in case you default on your loan repayments.

For most lenders, mortgage insurance will need to be paid if you want to borrow more than 80 per cent of the value of the property you want to purchase. In the past, many lenders would allow you to borrow up to 100 per cent of the value (sometimes more when you included transactions costs) but those opportunities seem to have disappeared now. The most a bank will lend you these days is around 98 to 99 per cent (95 per cent plus approximately 3–4 per cent in mortgage insurance, which the bank adds to your loan).

Mortgage insurance protects the lender against the default of higher risk loans. In the lenders eye, a high-risk loan is one where the LVR is above 80 per cent. There may be one or two lenders that buck that trend to win your mortgage business, and offer 85 per cent with no mortgage insurance, but this is very much the minority.

If your deposit is small (5–20 per cent) you will most likely have to pay mortgage insurance, but this can actually work in your favour. Only contributing a 5 or 10 per cent deposit on new investment purchases (and therefore paying mortgage insurance) will make your leverage loan funds last much longer. Implementing this strategy will allow you to have more deposits available to buy more investment properties. Paying mortgage insurance is a small cost to bear to enable you to buy more properties sooner.

Here's another reason why I say embrace mortgage insurance: it allows you to borrow a large amount of money with a very little deposit, making

the chance to buy investment properties more accessible. Yes, it will cost you some extra money, but it means you can afford properties that you otherwise wouldn't be able to and, once capital growth is realised, it will pay for itself. In the long run, with a well-chosen property, mortgage insurance is definitely a worthwhile cost to bear.

Mortgage insurance premiums vary according to the amount borrowed and the size of your deposit. It is charged on a sliding scale of up to 0 to 4.3 per cent of the purchase price and is levied as a one-off insurance premium at the time of settlement. You can pay the fee upfront or many lenders allow you to package up the cost of the insurance into your loan.

Mortgage insurance premiums are calculated on the insured loan amount, multiplied by the insurer's rate (expressed as a percentage), at the applicable LVR (see Table 5.4 under step 10 for a sample of mortgage insurance premiums).

Mortgage insurance is tax deductible over five years.

Embrace mortgage insurance, it will let you buy properties worth more, faster.

A final word on LVR

As I've mentioned, when assessing your loan application, banks will apply LVR. It helps them decide how much deposit they will require from you to secure the loan.

The 'value' of the property you want to buy is independently valued by the lender but is almost always valued at the purchase price as soon as you purchase.

Once upon a time – in the early 2000s – you could borrow 100 per cent of a property's purchase price (or even more if you borrowed to cover transaction costs as well); however, following the global financial crisis (GFC) and the near collapse of the American banking sector that followed, banks are more cautious.

For commercial property and some types of apartment-style housing it can be 65–75 per cent. For residential property, some banks will lend up to 95 per cent of the purchase price, plus costs. The higher the LVR the more risk from the lender's perspective, the higher your mortgage insurance cost.

It is important to remember that LVR is not set in stone. It can change depending on the lender and the *type* of property in question.

Australian lenders, on the whole, are pretty conservative. That's one of the reasons our banks and other lending institutions emerged pretty much unscathed through the GFC while some of America's biggest banks faced financial ruin and had to rely on the government to bail them out. A bank's willingness to lend you money to buy a property is therefore a pretty good gauge of their confidence in property as an appreciating asset.

If a bank will only lend you 50–70 per cent of the value of a property, such as is the case for most student accommodation, that's an indication that their confidence in that asset as an investment is about half of what it would be for, say, an established house in an established street. Where a bank will lend up to 95 per cent, it always makes sure the loan is insured.

Step 9 = Choose your next investment property purchase price

Now you know your borrowing power (your loan amounts for Loan 1 and Loan 2), all you need to decide on now is your next investment property purchase price, and for many people this is already in the plan, which was determined in step 2.

Each individual is different and has a different strategy, but this purchase price should be documented when you are devising your plan. When you plan well, it's amazing how much easier things fall into place. You are heading in a known direction.

Choosing the next investment property purchase price is an easy step.

Step 10 = Factor in all your property purchasing costs and holding costs

When purchasing property, you need to be aware of all the following costs:

- bank application fees of $0–$800
- conveyancing/solicitor costs of $600–$1500
- government stamp duty
  go to *www.mymortgagementor.com.au/calculators*
- mortgage insurance (see Tables 5.4 and 5.5), this is a one-off cost, payable at the commencement of any loan above 80% LVR.

Table 5.4 – Mortgage insurance premiums

LVR band	Loan amount		
	Up to $300,000	$300,001 to $600,000	$600,001 to $1m
80.01% to 81%	0.46%	0.54%	0.74%
81.01% to 82%	0.46%	0.54%	0.74%
82.01% to 83%	0.63%	0.81%	1.04%
83.01% to 84%	0.63%	0.81%	1.04%
85.01% to 85%	0.83%	1.02%	1.29%
85.01% to 86%	0.86%	1.03%	1.29%
86.01% to 87%	0.99%	1.21%	1.55%
87.01% to 88%	0.99%	1.21%	1.55%
88.01% to 89%	1.26%	1.65%	2.08%
89.01% to 90%	1.36%	1.77%	2.23%
90.01% to 91%	1.96%	2.55%	3.41%
91.01% to 92%	1.96%	2.55%	3.41%
92.01% to 93%	2.20%	2.87%	3.67%
93.01% to 94%	2.20%	2.87%	4.04%
94.01% to 95%	2.43%	3.18%	4.26%

Source: QBE ImiADVANTAGETM (Note: this is one specific lender and is indiciative of roughly what you could pay. These rates are subject to change.)

Table 5.5 – Stamp duty on mortgage insurance across Australia

State	Stamp duty rate
QLD – first mortgages for owner-occupied purchase or construction	5.00%
QLD – all other loan purposes including investment or business purposes, refinancing, additional loans or topping up	7.50%
ACT	8.00%
NSW	9.00%
VIC, WA, NT, TAS	10.00%
SA	11.00%

Here is an example of how you can work out your mortgage insurance cost. Let's assume a $400,000 purchase price, at 95% LVR.

Example;	$400,000	Purchase Price
	x 95%	LVR
	$380,000	Loan Amount
	x 3.18%	(Refer to Table 5.4 – Mortgage Insurance Premiums)
	$12,084	
	+(10% x 12,084)	(Which is Vic Stamp Duty on the Mortgage Insurance – Refer to Table 5.5)
	$13,292	Mortgage Insurance Cost (refer to line 1 of Table 5.6)

I have used Victoria for the property purchasing costing examples below (Tables 5.6 - 5.8) because it has the highest stamp duty in Australia. This, therefore, is a worst case scenario for anyone looking to purchase property anywhere is Australia.

Table 5.6 – 5 per cent deposit plus costs (95 per cent LVR)

Purchase Price	5% deposit	Stamp duty (Vic.)	Legal and bank fees	YOUR TOTAL CONTRIBUTION	Purchase Loan 3	Mortgage Insurance (is added to your Purchase Loan 3)	Total Purchase Loan 3 (plus Mort Ins)
$400,000	$20,000	$20,174	$1,500	$41,674	$380,000	$13,292	$393,292
$450,000	$22,500	$23,305	$1,500	$47,305	$427,500	$14,954	$442,454
$500,000	$25,000	$26,420	$1,500	$52,920	$475,000	$16,517	$491,517
$550,000	$27,500	$29,428	$1,500	$58,428	$522,500	$18,277	$540,777
$600,000	$30,000	$32,420	$1,500	$63,920	$570,000	$19,939	$589,939

Table 5.7 – 10 per cent deposit plus costs (90 per cent LVR)

Purchase Price	10% deposit	Stamp duty (Vic.)	Legal and bank fees	YOUR TOTAL CONTRIBUTION	Purchase Loan 3	Mortgage Insurance (is added to your Purchase Loan 3)	Total Purchase Loan 3 (plus Mort Ins)
$400,000	$40,000	$20,174	$1,500	$61,674	$360,000	$7,009	$367,009
$450,000	$45,000	$23,305	$1,500	$69,805	$405,000	$7,886	$412,886
$500,000	$50,000	$26,420	$1,500	$77,920	$450,000	$8,762	$458,762
$550,000	$55,000	$29,428	$1,500	$85,928	$495,000	$9,638	$504,638
$600,000	$60,000	$32,420	$1,500	$93,920	$540,000	$10,514	$550,514

Table 5.8 – 20 per cent deposit plus costs (80 per cent LVR)

Purchase Price	20% deposit	Stamp duty (Vic.)	Legal and bank fees	YOUR TOTAL CONTRIBUTION	Mortgage Insurance n/a at 80%	Purchase Loan 3
$400,000	$80,000	$20,174	$1,500	$101,674	$0	$320,000
$450,000	$90,000	$23,305	$1,500	$114,805	$0	$360,000
$500,000	$100,000	$26,420	$1,500	$127,920	$0	$400,000
$550,000	$110,000	$29,428	$1,500	$140,928	$0	$440,000
$600,000	$120,000	$32,420	$1,500	$153,920	$0	$480,000

Step 11 = Calculate the leverage loan buffer you need based on your strategy

This is where the leverage loan calculations come into play.

As I've already talked about, the leverage loan is there to cover any difference between what you pay out to hold onto your investment property and what rental income comes in. Working out how much leverage loan buffer and costs you need depends on a few factors:

- the deposit amount of the investment property you buy through this system
- the predicated shortfall of income versus expenses each month (take into account the property manager's fee and a little extra for maintenance, body corporate fees etc.).

The next step will be to multiply that monthly shortfall by the number of months you think you'll need to cover it, remembering that you should get a decent tax return each year (because, on paper, you are technically losing money on the property so you can negative gear), which should be deposited back into the leverage loan.

Step 12 = Loan 3 / Choose a 'purchase loan' and obtain a pre-approval for Loan 3 before you buy

The next step in mastering the leverage loan is to obtain pre-approval for Loan 3 – for the balance of the property's purchase price. Loan 3 (the 'purchase loan') can be sourced at a different lender to Loan 1 and Loan 2, as the new property will act as its own separate security for Loan 3. Loan 1 and Loan 2 are secured against the existing property, be it a home or investment property. This existing property may already have a loan with another lender. If your existing loan's interest rate is still competitive, the loan can stay at the existing lender. Your broker will help you analyse this.

Four reasons why you should never 'cross-secure' any of your properties

Using the equity in your home is an effective way to leverage your property investment. One thing you definitely don't want to do, however, is to borrow 100 per cent of your investment property's value by securing it against your home. This links it in with your existing home loan, making

the loan one large combined mortgage by mixing investment and home loan debts. This is a structure we would never recommend.

This is called 'cross-securitising' (or 'cross-collateralising') and, while it allows you to borrow 100 per cent of the property price (plus costs), in effect, it links the finances of both properties together. This is a bad idea for investors for a few reasons:

1. Tying your mortgages together means you lock yourself into using only one bank, which means you could be missing out on better interest rates from a more competitive lender.
2. If this one bank changes its lending policies or has a high assessment rate (meaning it will not lend you as high a sum as other lenders), you may not be able to borrow enough to continue buying properties and you will need to change banks, which will be very costly once your portfolio is all cross-secured with one lender.
3. If you ever want to sell the investment property or your home, you can't without reducing the loan back down to 80 per cent LVR of the property you are going to keep – and you will probably have to pay loan variation fees. That is the case even if it is secured against another investment property.
4. If you are cross-secured, every time you want to grab some equity from your property portfolio, you will need to have every property in your portfolio valued. If they are not cross-secured, you will only need to value the property that you are planning to draw equity from. Often you will have to wear the cost of the valuations depending on the lender you are with.

Leverage Loan Rule No. 3 = Never cross-secure any of your properties.

Step 13 = Be deposit-ready, with your leverage loan funds available

Make sure the leverage loan you set up in step 7 is settled with funds available in your bank account. It will take a few weeks for the lender to do your property valuation, approve your leverage loan, send you the

legal documents to be signed and have your funds sitting in your bank account. Ensure your broker or leverage loan consultant is right on top of this. You want to be ready at auction with your cheque book in hand.

Use the smallest deposit you can to buy property

A standard deposit for a house is 10 per cent, payable on signing the contract of sale. I always recommend that my clients negotiate the lowest deposit possible. You will still be paying the same amount for the property but paying less upfront means you will have more in reserve sitting in your leverage loan, which will strengthen your position when you go to buy the next property and the one after that.

Step 14 = Buy your investment property

I talk a lot more about this in the following chapters, but buying an investment property is a decision you don't want to get wrong, so my theory is, pay a professional to do it for you. Yes, the fees are quite substantial, but from experience buyer advocates do an excellent job, and do save you money in many ways. It is also a time-consuming task that will be taken out of your hands.

Step 15 = Wait one to two years, build equity, revisit your plan, monitor and/or top-up the leverage loan

You will need to wait one to two years for each property to build equity. Property prices fluctuate according to a cycle (see Chapter 8), but buying well will see you have lots more good times than bad. As history shows, property has doubled every eight years in the last 50 or more years.

You should ideally be updating and revisiting your property plan every year. Things do change and life can be very dynamic. Remember, your plan is in place to be changed. Your income will keep going up, in some cases it may drop, life will throw up its challenges, and that's why you have a plan, so you can tick off all the things you want to account for. This includes having insurances in place for anything that may go wrong (see Chapter 11).

Part of this strategy says that whatever tax benefits that you gain from your investment property should be pumped back into your leverage loan. This means you will always have money 'in the kitty' to cover the

shortfall between income and holding costs and other unanticipated cash drains like interest rate rises or unexpected repairs.

Every one to two years, your properties should give you extra equity to draw upon so you can top up your leverage loan as required.

Step 16 = Repeat steps 4–15 for your all your future investment property purchases

6

Buying property through your own super fund

Recent Federal Government changes in June 2026 have significantly altered the rules around using an SMSF to borrow to purchase residential property, with new limited recourse borrowing arrangements (LRBAs) for residential property being prohibited. Importantly, these changes do not prevent an SMSF from borrowing to purchase commercial property, so commercial property remains an option for eligible SMSF investors.

As a result, all of the information that follows relates specifically to purchasing commercial property through your SMSF. This strategy has quickly attracted greater interest following the Government changes, particularly among business owners and investors looking at alternative ways to use their superannuation to build long-term wealth.

In 2012, superannuation in Australia exceeded $1.3 trillion. In 2026 this amount is approx. $4.8 trillion – almost four times what it was in 2012. With one of the most advanced retirement savings schemes in the world, the Australian superannuation landscape has changed considerably over

the past 10 years. Now making up more than 30 per cent of this total pool of retirement savings are self-managed superannuation funds (SMSFs), the fastest growing sector of all superannuation.

An SMSF is a small superannuation fund established for between one and four members. Setting one up for yourself and/or your family allows more investment choice than other superannuation fund options, and gives its members the ability to decide how and where they want their retirement savings to be invested.

According to the latest ATO statistics:

- 646,000+ SMSFs were operating in Australia as at March 2025.
- They had almost 1.2 million members.
- SMSFs controlled an estimated $1.01 trillion in assets – yep, trillion, making this a seriously significant part of Australia's retirement savings system.
- Around 26% of SMSF money was invested in listed shares, while another 16% was held in cash and term deposits.
- 85% of SMSF members are aged 45 or older, showing how heavily SMSFs are used by people approaching or already in retirement.
- ATO annual statistics show the average SMSF held approximately $1.55 million in assets, while the average balance per member was around $835,000.
- Non-residential (commercial) property represented around 10% of SMSF assets – making it one of the largest individual SMSF asset categories.
- Over the five years covered by the ATO's annual analysis, SMSF assets grew by 39%, while the number of SMSFs grew by 11%.
- Around 65% of SMSFs have been operating for more than 10 years, so this isn't some new niche investment structure – it's a well-established part of Australia's super system.

SMSFs now control more than $1 trillion in assets across almost 1.2 million Australians – and commercial property already represents around 10% of SMSF assets.

In this chapter I will explain the benefits of controlling your own super fund and, ultimately, using the money to buy an investment property.

Superannuation assessment
Go online to the My Mortgage Mentor website www.mymortgagementor.com.au *to complete your superannuation review.*

Understand what an SMSF can do for you

The benefits of establishing and running an SMSF include:

- **Control –** You have more choice over the type of assets you can invest in with an SMSF and can choose where, when and how you want to invest.
- **Flexibility –** While most Australians will have their money invested across traditional managed funds, SMSFs can invest in direct shares, term deposits, properties and collectables. Collectables in SMSFs include assets like coins, stamps, jewellery, artefacts, antiques, medallions, rare books/manuscripts and memorabilia. Artwork, motor vehicles, memberships of sporting/social clubs, recreational boats and wine/spirits also come under collectables for SMSF rules too.
- **Protection –** SMSFs provide an effective structure to protect members' assets in the event of legal action.
- **Leverage –** One of the most popular reasons for starting an SMSF is the ability to use debt within the fund to buy an asset. This is explained later in this chapter but provides a fantastic opportunity for those wanting to fast track their wealth accumulation to achieve their goals.

How much money do you need in super to set up an SMSF?

You can have as little as $200,000 in super to make setting up an SMSF worthwhile. It's better that you manage your money, rather than having

it sit in a managed fund that you have no control over.

If the sharemarket is declining, or not the right place to hold your superannuation funds, why would you hold your super in shares or managed funds? I'm a firm believer in controlling your own super.

A good financial planner will have access to some excellent investment opportunities to make you money. One investment fund I'm aware of has delivered 100 per cent returns in the past two years. You need to align yourself with a financial planner who can put you in front of these type of investment returns. It can make a huge difference to your investment nest egg or SMSF.

Even if you had your super in a bank during the late 2000s while the sharemarket was in decline, in most cases you would have come out better off than having your share portfolio drop more than 20 per cent, as happened to many people who left everything in the sharemarket.

The 8 steps of setting up an SMSF

Establishing and running an SMSF is not right for everyone. The first step is to sit down with your financial planner and review your financial plan, which will be based on your goals and objectives. If you determine that an SMSF is appropriate for your situation, incorporate it into your plan.

Next you will need to speak with your accountant. Your accountant will establish your superannuation structures, in particular the superannuation trust and corporate and/or individual trustee/s (as required for any borrowing within your SMSF). A name will need to be registered and a bank account established in the SMSF's name. Your current superannuation funds will then need to be rolled into the SMSF bank account to begin your investment plan. Your financial planner can help you with these steps.

From there, you will contact your mortgage broker about finding a lender to finance your purchase, and then look for a well-located property to buy, based on the principles outlined in this book.

Table 6.1 provides a step-by-step timeframe for establishing then buying property through your SMSF.

Table 6.1 – The 8 steps to setting up and buying a property through an SMSF

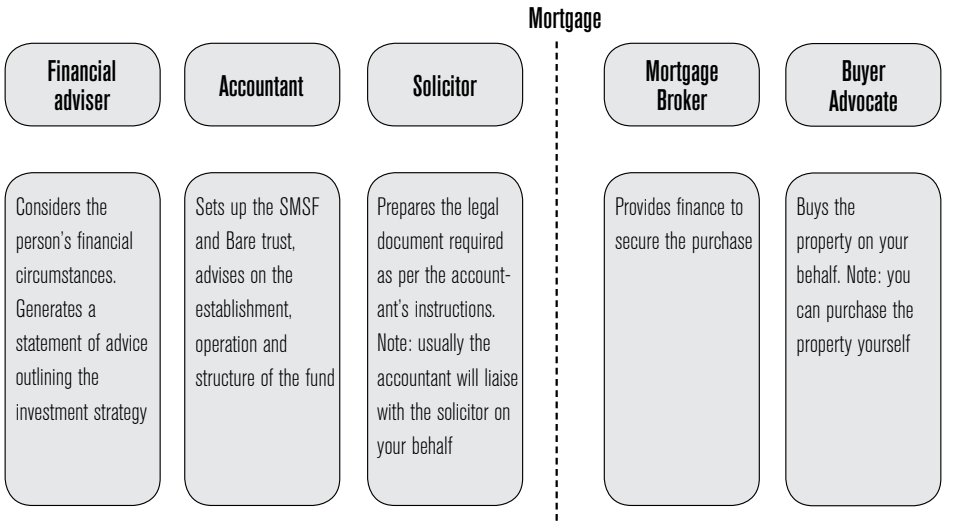
STEPS	WHO IS RESPONSIBLE	TIMING
Step 1: Financial plan See a Financial Planner to discuss the suitability of setting up and running your own Self Managed Super Fund (SMSF)	Financial Planner	
Step 2: Set up your SMSF with 4 entities See your Accountant to establish an SMSF and organise the following four entities: i) SMSF Trust ii) Corporate Trustee of the SMSF iii) Holding (Bare) Trust iv) Corporate Trustee of the Holding (Bare) Trust	Accountant	2-4 weeks
Step 3: Open Up an SMSF Bank Account Choose the bank	You/ Financial Planner	
Step 4: Roll over your existing super funds into your SMSF bank account Consolidate all your super accounts into one SMSF bank account	You/ Financial Planner	
Step 5: Direct your Super contributions into your SMSF bank account If applicable get your employer to start paying your super contributions into your SMSF bank account	You	4-6 weeks
Step 6: Organise SMSF finance See your Mortgage Broker to obtain loan Pre-Approval up to your property buying limit	Bank/ Mortgage Broker	
Step 7: Property selection and purchase Engage a Buyer Advocate if you need assistance to buy your property	You/ Buyer Advocate	2 weeks +
Step 8: Direct the property rental payments into the same bank account as your super contributions	You	Once property settled

The cost of establishing an SMSF can vary depending on the number of members involved and the process you go through to get there. Speak with your financial planner and accountant about their fees, which will usually be in the thousands. Consider this an investment in your investments!

Pay peanuts and you get monkeys. Pay for professional advice and ensure you have experts working for you so you get the kind of results you couldn't achieve trying to do it yourself.

Figure 6.1 outlines who needs to be involved in the process.

Figure 6.1 – Who is involved in the transaction?



What are the tax benefits of an SMSF?

There are a number of tax advantages and benefits in starting and running your own SMSF. In comparison with other ownership structures, an SMSF is taxed at a lower rate in both the accumulation and pension phases. During a super fund's accumulation phase, the tax rate of 15 per cent is half that of the tax rate of a company. This low rate means contributions into a fund are usually taxed at a lower rate than the same income earned outside a fund. It also means a lower tax rate for the actual investments in a super fund. Individual tax rates for income earned over $18,200 are now also taxed at a higher rate than the tax rate within super. Once a super fund has been converted to the pension phase, the tax rate drops to zero per cent, allowing any further growth or income in a fund to be effectively tax free. The low rate of tax for SMSFs in the accumulation phase and the zero per cent tax rate in the pension phase mean maximising the use of a super fund should be a part of every financial plan (see Table 6.2).

Table 6.2 – The tax benefits of an SMSF, for tax year 2025/26

Compare the tax rates			
Individual	**Company**	**Super fund**	**Pension**
$18,201–$37,000 = 19%	25%	15%	0%
$37,001–$80,000 = 32.5%	25%	15%	0%
$80,001–$180,000 = 37%	25%	15%	0%
$180,001 plus = 45%	25%	15%	0%

Buying property through an SMSF

Investing in property is, I think, the best way to use the funds in your SMSF. Borrowing within an SMSF is far from a straightforward exercise because each lender has different criteria:

- Some require corporate trustees for the SMSF, others don't.
- Lenders can charge significant fees for legal review and loan establishment fees.

- Interest rates can vary by as much as 2 per cent.
- Loan terms very from 10 to 30 years.

The documents required to set up an SMSF, however, tend to be similar and include:

- a superannuation trust deed
- a security deed between the super trustee and property trustee
- written confirmation from a financial planner that a statement of advice or a written advice from an accountant has been provided
- an application form, financials etc as per normal lending applications.

Lending serviceability will be assessed on a number of factors including:

- existing, proven recurring income to the SMSF
- future superannuation contributions based on past contributions to current or previous fund(s)
- proposed rental income.

LVRs range from 70 to 80 per cent depending on the lender.

Diagrams of how the 8 step process to establish your SMSF to buy a property works

Step 1 – Financial Plan

This involves seeing your financial planner and discussing the suitability of setting up and running your own SMSF.

Step 2 – Set up your SMSF with 4 entities

See your accountant to establish an SMSF and organise the following four entities:

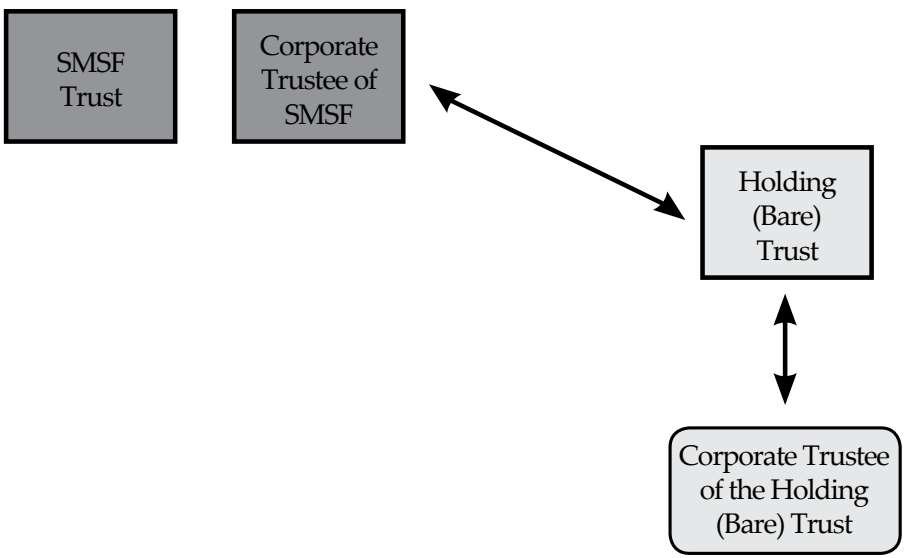
i) SMSF Trust

ii) Corporate Trustee of the SMSF

iii) Holding (Bare) Trust

iv) Corporate Trustee of the Holding (Bare) Trust

Figure 6.2a – The four entities your accountant will establish in setting up your SMSF



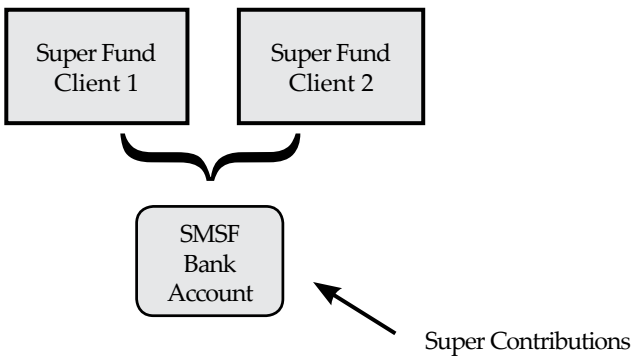
Step 3 – Open an SMSF Bank Account

Once your accountant has set up the structure, you can then go to your preferred bank and open up the bank account.

Step 4 – Roll over your existing super funds into your SMSF bank account

With the SMSF set up and the bank account open, you can then organise to roll your existing super funds into your SMSF. I recommend you work with your financial planner in organising the rollovers as you will need to ensure you don't lose any insurance cover that you may have with your existing funds.

Figure 6.2b – Consolidating all your super accounts into one SMSF bank account



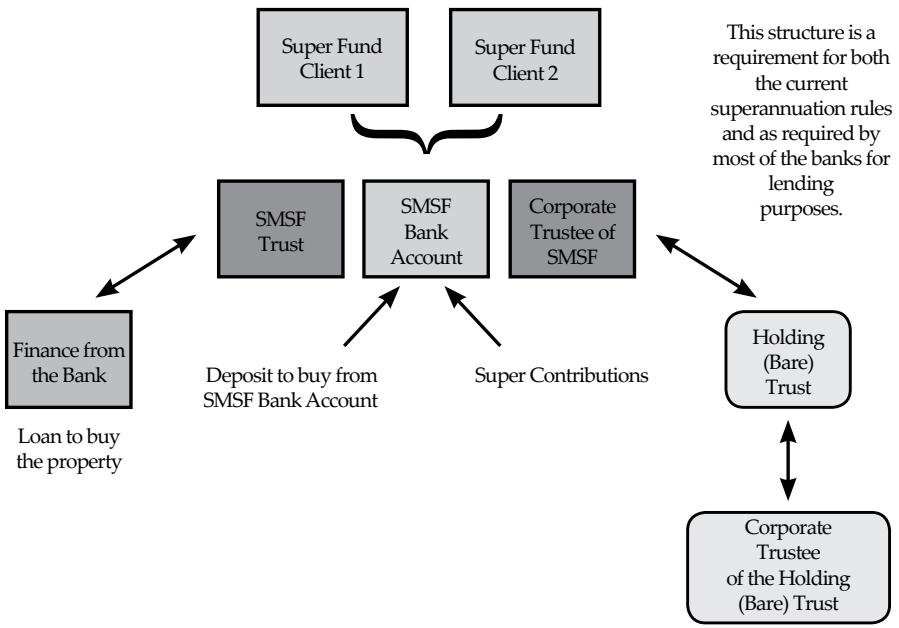
Step 5 – Direct your Super contributions into your SMSF bank account

You can also get your employer/s to start paying your superannuation contributions into your SMSF bank account.

Step 6 – Organise SMSF finance

After establishing the complete SMSF structure you will need to speak to your mortgage broker to help in organising your finance with the most appropriate bank/lender. You will need to establish your SMSF borrowing power. One requirement is to have enough funds as a deposit in your SMSF to buy the property at the price range you desire. The mortgage broker will go over all aspects of borrowing through an SMSF and will secure your loan pre approval before you buy.

Figure 6.2c – The SMSF structure most banks require to lend to purchase property in the SMSF



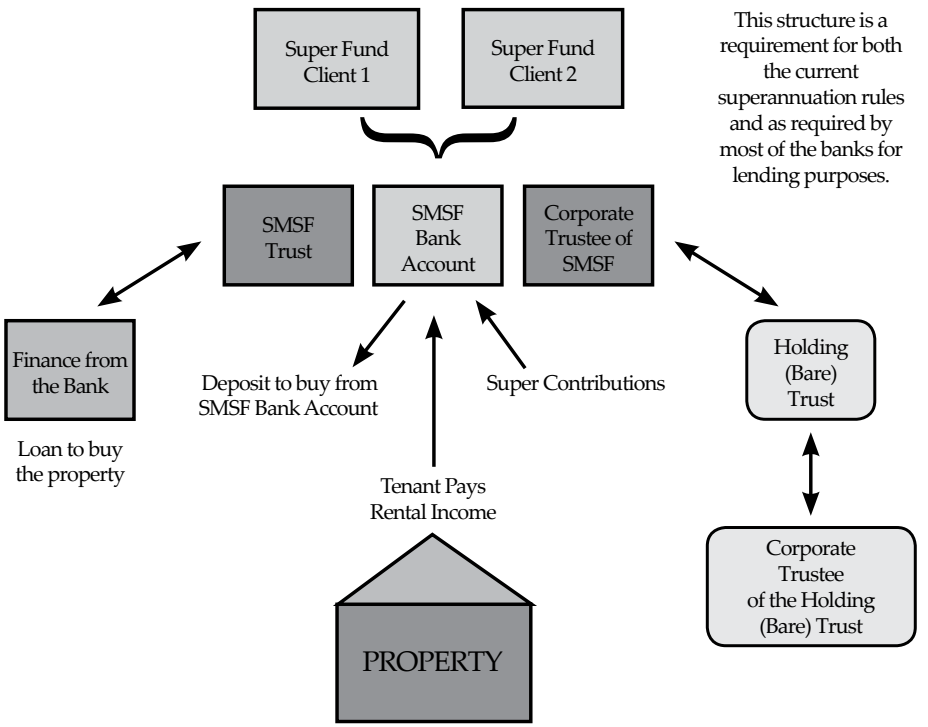
Step 7 – Property selection and purchase

The final step after establishing your finance is to find your property! This is where a buyer advocate will be of great value to you.

Step 8 – Direct the property rental payments into the same bank account as your super contributions

Once you have purchased a property within your SMSF, the rental income from your tenants is paid into the same bank account as your superannuation contributions – helping you to pay down your loan even quicker!

Figure 6.2d – Depicts the whole process when a SMSF purchases property



Choose your strategy – three options

There are three options I tend to give clients when talking about investing in property through an SMSF. They are:

- a residential property purchase
- a commercial property purchase
- a retirement home strategy

I'll explain how each work.

Option 1: Residential property purchase

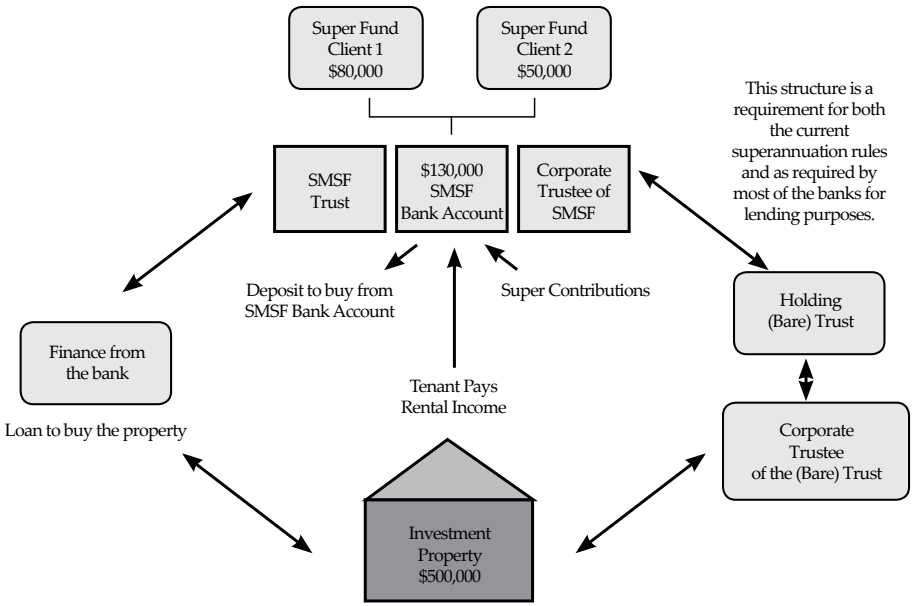
For many members of an SMSF, buying a property with their retirement funds will provide them with peace of mind during their working years (the accumulation phase) and the ability to sell their property for their retirement (the pension phase). One of the most common options with purchasing a property via an SMSF is to purchase a residential investment property.

The SMSF will require a separate bare trust (a trust where the beneficiary has a right to both income and capital and may direct both to be put into his own name) and a corporate or individual trustee on top of the basic SMSF structure (this may vary based on lender requirements) as outlined below. Also, the property will need to be held at 'arm's length', that is, the members cannot use or gain any benefit from this property while it is in superannuation.

While the members are working, their superannuation contributions can be directed to their SMSF bank account and any rental from the property will also be paid into this account. Your mortgage broker will be able to establish the most appropriate loan for your SMSF and how the loan repayments are funded. The majority of SMSF loans are funded at 70–80 per cent LVR but it does vary from lender to lender.

Figure 6.3 provides a basic outline of how buying a residential property can work with an SMSF.

Figure 6.3 – Buying a residential property through an SMSF



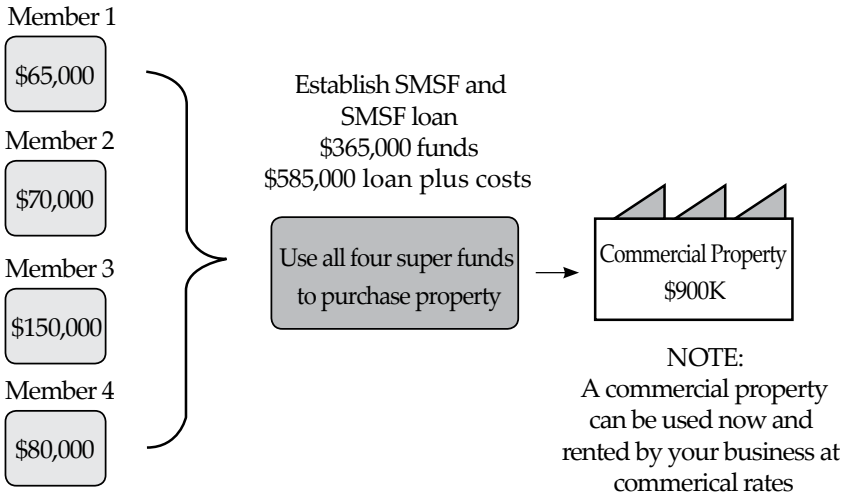
Option 2: Commercial property purchase

Another popular option for an SMSF is for business associates or family members to combine their funds and purchase a commercial property. Unlike a residential property investment that cannot be used by a member until retirement, a commercial property is able to be used by members who run a business and wish to lease the premises from their SMSF for the business operations.

In an SMSF that has a number of members it is important to consider the goals and timeframes of each member to ensure different retirement dates are considered and sufficient planning is taken. The key issue will be what will happen to the property if some or all of the members retire and how the property will be managed.

Figure 6.4 gives a basic example of how purchasing a commercial property looks in an SMSF.

Figure 6.4 – Buying a commercial property through an SMSF



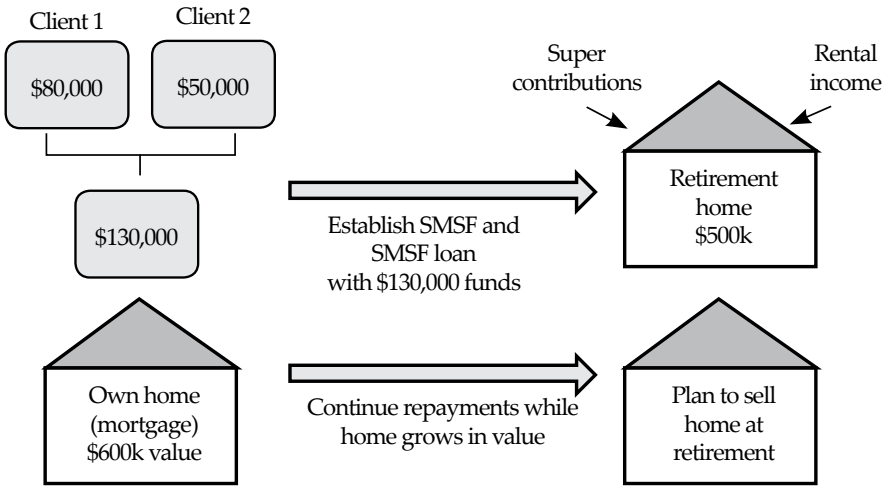
Option 3: Retirement home strategy

While a residential property is not able to be used as a home or holiday house while it is owned by an SMSF, if members want to use the property after retirement, they may be able to convert their SMSF property into their retirement home and have their current residence act as their source of retirement funds.

Most superannuation members will use their superannuation accumulated until retirement as a source of funding in their later years. With the retirement home strategy, the family home becomes the source of retirement funding and the property in the SMSF becomes the future home.

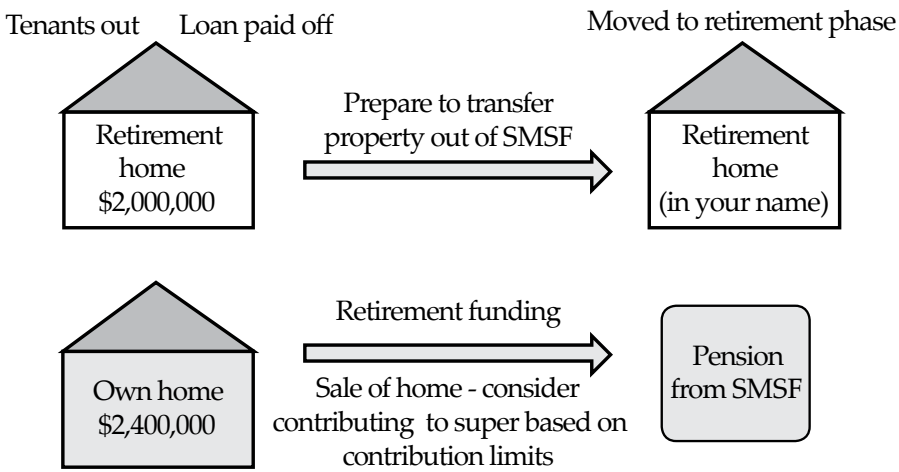
Figure 6.5a shows the first step in using this strategy and the basic plan during the accumulation years.

Figure 6.5a – Buying a retirement investment property through an SMSF – step 1



The second step in this strategy comes as retirement approaches. At this time the members will need to prepare to sell their family home and to make plans to convert their SMSF into the pension phase. The property owned by the SMSF will need to be transferred outside of super in order for the members to live in it and the proceeds from the sale of the family home will become the source of retirement funding. The timing and structure of the property transfer from the SMSF will depend on factors such as the value of the SMSF property and the proceeds of the family home and how these funds are invested. Figure 6.5b depicts this phase graphically.

Figure 6.5b – Buying a retirement investment property through an SMSF – step 2



Organise your SMSF finance

An SMSF is a great way to work towards achieving your financial goals. Because SMSFs carry responsibilities that all members must be aware of and comply with, it is vital that specialist advice is received to maximise the benefits and keep within the rules of SMSFs.

According to the SMSF Professionals Association of Australia, approximately 60 per cent of SMSFs do not have an adviser. Table 6.3 lists the top 10 mistakes members have made with their SMSFs, according to an ATO auditor report.

Table 6.3 – Top 10 mistakes made by SMSF members

Number	Contravention type	Percentage
1	Loans and financial assistance to members	19.8%
2	Administrative contraventions	14.7%
3	In-house assets	17.0%
4	Separation of assets	13.6%
5	Operating standard contraventions	8.4%
6	Sole purpose	7.8%
7	Borrowing outside of legislative rules	7.9%
8	Investment at arm's length	7.0%
9	Other	2.3%
10	Acquisition of assets from related parties	1.5%
Total		**100%**

Source: ATO auditor report

SMSFs are a great way to take control of your retirement nest egg. They are becoming more and more popular with savvy investors and I recommend speaking to your financial planner about whether now is the right time for you to look at this as an investment option.

Step 3: Buy well

Buying well is the most crucial component of a highly successful career in property investing. In any given week there are up to a million properties for sale in Australia (including commercial) but, in reality, only around 5 per cent of them fit the bill for a highly desirable long-term capital growth investment. Only 5 per cent! That means you have to be very choosey when it comes to selecting the right properties for your portfolio.

To get you in the right mindset, let me demonstrate the difference in capital gain between buying a property that increases by 5 per cent in value per year and one that increases by 10 per cent, based on paying the market value of $500,000 at the time of purchase.

Table 7.1 – Growth per annum – 5% versus 10%

Property:	1	2	3	4
Growth p.a.:	5%	7%	9%	10%
Price:	$500,000	$500,000	$500,000	$500,000
End of year				
0	$500,000	$500,000	$500,000	$500,000
1	$525,000	$535,000	$545,000	$550,000
2	$551,250	$572,450	$594,050	$605,000
3	$578,813	$612,522	$647,515	$665,500
4	$607,753	$655,398	$705,791	$732,050
5	$638,141	$701,276	$769,312	$805,255
6	$670,048	$750,365	$838,550	$885,781
7	$703,550	$802,891	$914,020	$974,359
8	$738,728	$859,093	$996,281	$1,071,794
9	$775,664	$919,230	$1,085,947	$1,178,974
10	$814,447	$983,576	$1,183,682	$1,296,871
11	$855,170	$1,052,426	$1,290,213	$1,426,558
12	$897,928	$1,126,096	$1,406,332	$1,569,214
13	$942,825	$1,204,923	$1,532,902	$1,726,136
14	$989,966	$1,289,267	$1,670,864	$1,898,749
15	$1,039,464	$1,379,516	$1,821,241	$2,088,624
16	$1,091,437	$1,476,082	$1,985,153	$2,297,486
17	$1,146,009	$1,579,408	$2,163,817	$2,527,235
18	$1,203,310	$1,689,966	$2,358,560	$2,779,959
19	$1,263,475	$1,808,264	$2,570,831	$3,057,955
20	$1,326,649	$1,934,842	$2,802,205	$3,363,750
21	$1,392,981	$2,070,281	$3,054,404	$3,700,125

22	$1,462,630	$2,215,201	$3,329,300	$4,070,137
23	$1,535,762	$2,370,265	$3,628,937	$4,477,151
24	$1,612,550	$2,536,183	$3,955,542	$4,924,866
25	$1,693,177	$2,713,716	$4,311,540	$5,417,353
26	$1,777,836	$2,903,676	$4,699,579	$5,959,088
27	$1,866,728	$3,106,934	$5,122,541	$6,554,997
28	$1,960,065	$3,324,419	$5,583,570	$7,210,497
29	$2,058,068	$3,557,129	$6,086,091	$7,931,546
30	$2,160,971	$3,806,128	$6,633,839	$8,724,701
Loans:	($535,000)	($535,000)	($535,000)	($535,000)
Equity:	$1,523,068	$3,022,129	$5,551,091	$7,396,546

Assumption: Costs are 7% of purchase price and loan is for purchase price + costs.

See what can happen? After 30 years of growth you could have $1.5 million of equity or more than $7 million. And, believe me, 10 per cent growth per year is certainly achievable if you buy the right property.

In this section of the book I'm going to teach you how to spot these 5 per cent of properties and how to avoid the ones that are going to struggle to make maximum impact in minimal time.

Buying for capital growth versus rental return

In this all-important section on buying well, I go through my strategy for locating the best properties for maximum capital growth. Some investment advisers promote buying 'cash flow positive' properties, that is, properties that earn you an income from the beginning because the rental income outweighs the loan repayments and other costs associated with holding the property.

This is generally not the case with capital growth properties. In most cases the properties that will make you the most money over time will cost more to buy and the rent won't be able to fully cover the mortgage.

To illustrate this point, the table below shows the difference between having an investment property that achieves 5 per cent capital growth and 10 per cent rental increase annually with one that achieves 10 per cent capital growth and 5 per cent rental every year. Which looks better?

Table 7.2 – 5% growth and 10% rent versus 10% growth and 5% rent

Yrs	5% growth	10% rent	p.a.	vs	Yrs	10% growth	5% rent	p.a.
1	$600,000	$60,000	p.a.	vs	1	$600,000	$30,000	p.a.
2	$630,000	$63,000	p.a.	vs	2	$660,000	$33,000	p.a.
3	$661,500	$66,150	p.a.	vs	3	$726,000	$36,300	p.a.
4	$694,575	$69,458	p.a.	vs	4	$798,600	$39,930	p.a.
5	$729,304	$72,930	p.a.	vs	5	$878,460	$43,923	p.a.
6	$765,769	$76,577	p.a.	vs	6	$966,306	$48,315	p.a.
7	$804,057	$80,406	p.a.	vs	7	$1,062,937	$53,147	p.a.
8	$844,260	$84,426	p.a.	vs	8	$1,169,230	$58,462	p.a.
9	$886,473	$88,647	p.a.	vs	9	$1,286,153	$64,308	p.a.
10	$930,797	$93,080	p.a.	vs	10	$1,414,769	$70,738	p.a.
11	$977,337	$97,734	p.a.	vs	11	$1,556,245	$77,812	p.a.
12	$1,026,204	$102,620	p.a.	vs	12	$1,711,870	$85,594	p.a.
13	$1,077,514	$107,751	p.a.	vs	13	$1,883,057	$94,153	p.a.
14	$1,131,389	$113,139	p.a.	vs	14	$2,071,363	$103,568	p.a.
15	$1,187,959	$118,796	p.a.	vs	15	$2,278,499	$113,925	p.a.
16	$1,247,357	$124,736	p.a.	vs	16	$2,506,349	$125,317	p.a.
17	$1,309,725	$130,972	p.a.	vs	17	$2,756,984	$137,849	p.a.
18	$1,375,211	$137,521	p.a.	vs	18	$3,032,682	$151,634	p.a.
19	$1,443,972	$144,397	p.a.	vs	19	$3,335,950	$166,798	p.a.
20	$1,516,170	$151,617	p.a.	vs	20	$3,669,545	$183,477	p.a.

Results After 20 Years:

Property Value = $3,669,545 if 10% growth p.a. and 5% rent
Property Value = $1,516,170 if 5% growth p.a. and 10% rent
Difference = $2,153,375 More capital growth for 10% growth p.a. and 5% rent versus 5% growth p.a. and 10% rent
$31,860 more rent p.a. by Year 20 for 10% growth p.a. and 5% rent versus 5% growth p.a. and 10% rent

The idea of having to fork out extra money every month to maintain an investment property scares a lot of people, especially when they consider all the other expenses they have to contend with on top of the mortgage on their own home.

That's where the leverage loan comes in. As explained in detail in Chapter 5, it's the system I've used for myself and my clients over the past 10 years to buy top-notch properties without using any of my own money.

Buying for capital growth over rental return will always give you a greater return in the long term, so buying property for capital growth must be your first priority.

7

Finding the five per cent of good property

One of the most important rules when you begin a search for an investment property is to remember that you are not buying for yourself. You are not looking for something that would suit you or your lifestyle necessarily. You are looking for a property that will suit the needs of your target renter and will double in value in the shortest time possible.

The décor doesn't have to be to your taste, the garden doesn't have to be to your liking and the street doesn't have to meet your personal standards. Choosing an investment property to buy is a business decision. It takes knowledge of what is going to perform well in the long term, of where you can add value to increase the worth of your investment and what is going to be attractive to your target market, both as a rental property and, in the long term, as a property for sale.

Key to this decision is understanding the three P's.

Knowledge is the most powerful thing you can arm yourself with to make you a money-making machine.

Understanding the three P's

Choosing from that 5 per cent of great properties for strong long-term growth relies on three factors: price, property and position.

Price

Price is, of course, an important factor. You don't want to be ripped off, plus, paying too much above market value will mean it will take longer to recoup your costs and start realising the big gains that are possible though buying the right properties. Understanding what a property is really worth comes down to a combination of determining its market value based on recent comparable sales in the area and understanding why, based on those comparable sales, you would be likely to pay more or less for the property in question.

Perhaps the comparable property doesn't provide off-street parking, is in a slightly inferior location or is not in quite as good a condition inside. Maybe the outdoor space is better. This is the point that you have to work out what the features are worth to you now and in the long term.

A more modern kitchen will mean you can wait longer to update it. Your tenants will be happier and be more likely to stay longer in there if a quality heating system is installed. How much are these features worth?

Property

I'll spend a lot of time in the coming sections talking about the second 'P' because selection is so important. Plus, there are a lot of factors to balance off against each other, remembering that you are buying investment properties as a business decision, not a personal one. Your own taste doesn't come into it. You have to buy with your ideal tenant in mind, plus future scope for capital improvements and growth.

Position

The third P stands for position. A really great position doesn't just take in the suburb where it is located, but the location within the location. What is the street like? Are the neighbouring residents house proud? Is there architectural consistency? Are there parks close by? Shops? Public transport?

Then, on top of all that, what is directly next to it? Across the road? Is it similar accommodation or is it a bank of 1970s low-rise apartments? Maybe a mechanic's workshop? If the property's right next to a kindergarten you will have to consider traffic congestion at pick up and drop-off times, for example.

Balancing the three P's

Balancing the three P's will always be a compromise. If you are focused on price alone (getting a property as cheaply as possible), you will most likely have to compromise on the quality of the property itself or its position (the other two P's). If position is your number one consideration, you will most probably have to pay a premium price.

But getting this balance right can make a huge difference to your potential for capital growth. Figures 7.1 to 7.3 show the differences in gains you could expect over 10, 20 and 30 years based on a $500,000 property.

Figure 7.1 – Expected growth over 10 years on a $500,000 property

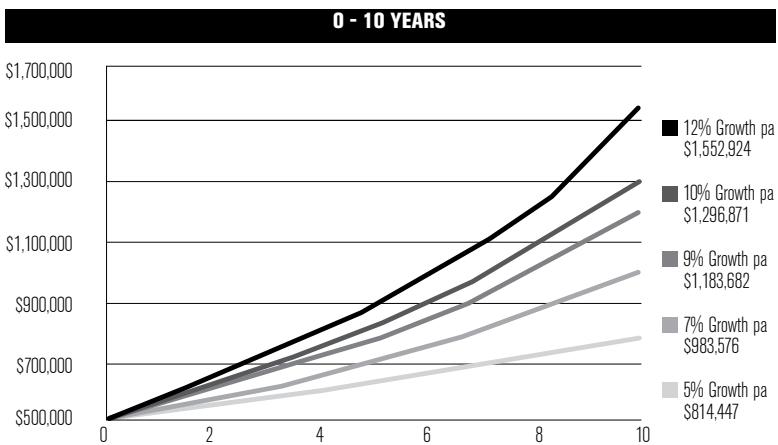


Figure 7.2 – Expected growth over 20 years on a $500,000 property

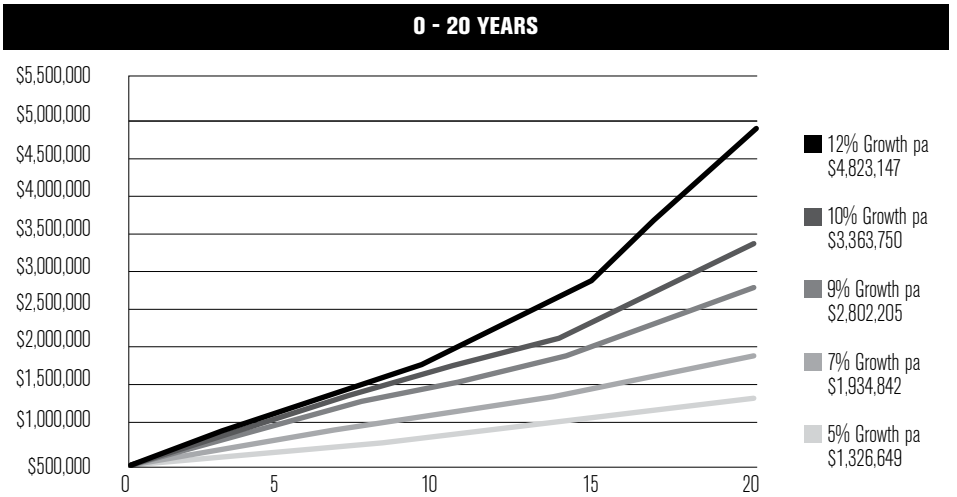
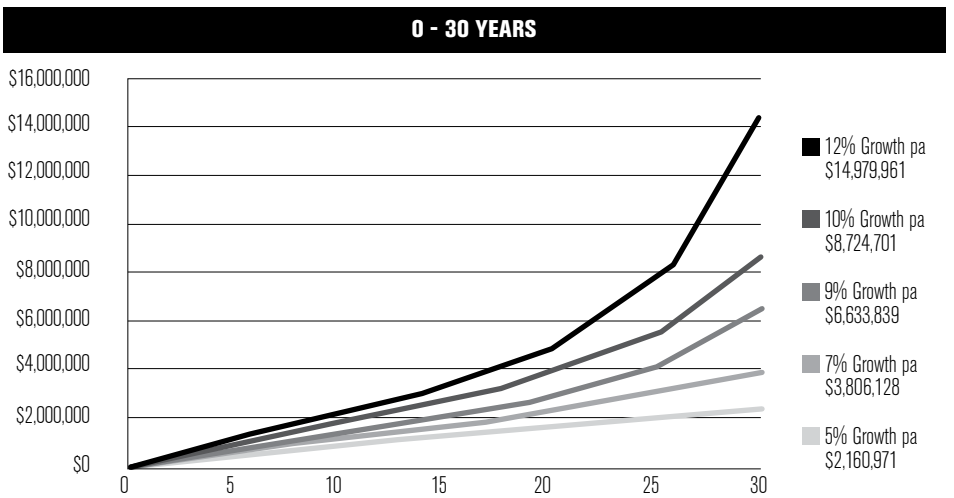


Figure 7.3 – Expected growth over 30 years on a $500,000 property



Experience and the tips in this book will help you make informed decisions about the right balance to strike when weighing up the pros and cons of a property according to the three P's.

Property search

Gone are the days when you had to buy the newspaper on a Saturday morning, search through the property ads (remember those little sketches of the houses?), read a four-line description and then have to go along to the property to see if it was anywhere close to being as good as the ad made it sound. That took a lot of time.

These days, we have the internet. We can look at photos, check out the floor plan, see what the surrounding properties looks like and, in some cases, go on a virtual tour. While an internet search will never replace standing inside the property and getting a feel for the place, you can at least get a sense of the location, the layout, the age and the décor. You can probably discount it immediately for a range of reasons (it looks like it's falling down, it's located next to a shoe factory), which will save you a lot of time.

Searching for properties on the internet

There are lots of great websites that will help you search for properties and complete some of the 'homework' you will need to do as part of your search.

There are dozens of sites to choose from (including the sites of individual real estate agents) but the most comprehensive tend to be www.realestate.com.au and www.domain.com.au. Both these sites advertise properties all over Australia and you can narrow your search criteria by area, property type and accommodation – an excellent place to begin any property search.

Real estate agents

Getting in touch with local real estate agents directly is another source of information about properties for sale. Real estate agents have knowledge of properties listed with their agency that have not yet hit the market. Some of these properties might meet your search criteria and the competition

will be less at this stage. They might also have 'off-market' properties for sale. These are properties that will never hit the internet.

Off-market properties

From time to time real estate agents hear about or list properties that never make it into the public domain. In some cases a vendor might not want to go through a protracted selling campaign, or may not want to pay for advertising, or, in other cases, doesn't want a bunch of strangers traipsing through their home at 'free-for-all' open for inspections. In this case an agent may float a property by their existing list of buyers and attempt to sell the property 'off market'.

Buyer advocates often have relationships with local agents and hear about off-market sales that the general public are never alerted to. Real estate agents will usually go straight to a buyer advocate when they have an off-market property because buyer advocates always have property investors ready to buy.

Off the plan

Property developers, particularly those constructing units or apartments, often attempt to sell their properties before they have even been constructed. They are marketed on the basis of a floor plan and are therefore sold 'off the plan'. The benefits, they say, is that you will be buying at today's rate (but not paying the full amount until they are complete) and that by the time they are constructed the market will have gone up and you will have a property worth a lot more than what you paid. Also, in Victoria, it becomes attractive to buyers because stamp duty is only payable on fully constructed properties so there are additional savings.

Although the glossy brochures make it all sound fantastic, the reality is not always so great. Here are some things to be wary of if you're considering buying off the plan:

- What is the real value of the property? This is sometimes hard to know. You can look at comparable sales in the area and perhaps ask a few real estate agents but even that can be unreliable. The

sale price set by the developer will include a healthy margin (obviously, they're businesspeople) and enough fat to cover all their marketing costs.

- Over supply. Sometimes there are so many of the same type of property within an area that, when buyers are spoilt for choice, you won't achieve the sale price you think you can.
- Lack of scarcity. Usually off-the-plan properties are multiple properties of the same or similar nature, so when they all hit the market are the same time, it's hard to negotiate the best rents due to lots of the same property being marketed at once.

With established properties you can clearly see what you're getting. Standing at an auction you can also see what others are willing to pay for the property. You can physically stand inside the property and get a sense of it. You know how much natural light comes in, you can hear how bad the traffic noise is and can sense that the rooms are too pokey in size.

If you're adamant about buying off the plan, here's a few steps you can take to give you some peace of mind:

- Check out the developer. Has the company built similar developments before? What do they look like today? Have they held their value? Have any formal complaints been made about them or legal action taken? Make sure the builder they are using is actually registered!
- Make sure the development is approved by local council. That's sounds obvious but if it's not, the developer might have to make significant amendments to the plan so they comply with the council's specifications. This could affect the design of the place you have signed on to purchase.
- Take particular note of where your property will be positioned in the block. If it's a high-rise, what will the view be like? Will the main bedroom abut next door's bathroom or lounge room (adding to noise issues during the night)?

- Make sure that what you're viewing are final, approved plans. Developers have the right to amend plans by a small percentage without informing you.
- Don't be fooled by 'rental return guarantees'. Sometimes these are too time-limited or mean that the developer over-compensates by inflating the sale price. Confirm the rental returns they are promising by checking with a local, independent real estate agent.
- Beware of buying this category of property from financial advisers who may attract a commission from the developer. This may present a conflict of interest.
- Look at the size of the rooms and physically mark them out in your existing home. How big will the bedrooms really be? Never buy a property off the plan that will be less than 50sqm in floor space.
- Specify the quality of fixtures and fittings in your contract (right down to brands and models if necessary).
- Insist on a 'sunset' clause in the contract – this states that the contract becomes null and void if the development is not completed by a certain date. Ask what happens to your deposit in the event that the company goes under.
- Have your contract looked over by a lawyer before you sign. Highlight anything you don't understand and ask the lawyer to explain it to you.
- Research what's happening in the area. Is the street going to be overrun with units or low-rise apartment blocks in three years' time? Is a shopping centre due to go up across the road? Your local council's town planning department can help with that.

Once you've checked out all these things and got assurances from the developer, get them in writing. Handshake deals won't hold any water if you end up in a legal dispute.

Buy two well-selected properties quickly and see how good it feels. Accumulation is a key word in making money quickly.

Researching the area

Paying a visit to your local council's town planning department is not only an important step for those considering buying off the plan but for anyone investing in property. What if that strip of land one street over that you consider a fantastic feature of the area is actually earmarked for a freeway?

The zoning of the land in which your target property sits will be clearly stated in the contract of sale. Areas zoned as exclusively residential are obviously the best because there is no chance a chain supermarket will pop up across the road.

Watch the geographical area in which you plan to buy for a minimum of three months before you buy. Go to lots of open for inspections, assess the properties in your own mind and try to figure out what you think they're worth. Go to auctions to get a feel for the agents in the area and how they work, and then see how close your guess is to what the property actually sells for.

Do this a lot and keep a record of all this information so you can build up a file of statistics that will help inform your decision when it comes time to buy. This will also mean you can avoid spending money on subscribing to websites for sales information or getting valuations on individual properties.

Focusing on the inner city

History tells us that property in inner city locations performs better in terms of capital growth. And that's the case in all capital cities around Australia. Land close to the central business district (CBD) is scarce and there will never be any more of it. More people work in the CBD than any

other single location; the best restaurants, museums, shops, entertainment venues and nightspots are usually located in or near the city, so it will always be a desirable place to live. Young professionals often want to be near the city because it means they are closer to work, their friends and all the places they want to go after hours. There will never be a shortage of renters for these areas.

The definition of 'inner city' changes depending on which city you're in. In distance from the CBD, I consider inner city to be:

- Sydney: 2–12 km
- Perth: 2–10 km
- Melbourne: 2–12 km
- Hobart: 1–6 km
- Darwin: 1–4 km
- Canberra: 1–5 km*
- Brisbane: 2–10 km
- Adelaide: 2–6 km.

* Canberra doesn't have a CBD as such, so I recommend buying 1–5 km from Lake Burley Griffin, which is considered the town centre.

As a general guide, properties within these vicinities will enjoy better and faster growth than properties in outlying suburbs. They are more expensive to buy but the returns are worth it.

Having said that, I wouldn't recommend buying a high-rise apartment in the thick of the CBD because of the 'lack of scarcity' factor. Often in a condensed area there are consistently many apartments for sale and rent, hence a lack of real scarcity. If there are 10 properties for sale in a high-rise block of 200, people feel they can pick and choose, negotiating the price right down because they have nine other similar options.

Going bush

Buying for investment reasons in rural locations is unreliable so I recommend you avoid it. Property prices in some locations, particularly those near the beach, have enjoyed sporadic jolts thanks to injections

into infrastructure from country councils and increases in the rate of 'sea changers' but, in the long term, these locations tend to level out and the gains begin to wane.

The positives of buying in rural locations is that properties are generally cheaper than in urban centres and the rental yields higher. There will always be exceptions to this rule and some people will do amazingly well out of buying in the bush but as a general principle it's safer to stay close to town.

Sydney and Melbourne, for instance, have close to one million people working in the CBD precincts. Properties in these areas will remain attractive to renters because so much of the population want to live close to the CBD.

Hot-spotting is fraught with danger; buying in blue chip locations will always go up in value long term.

It's all about the location

It's become a cliché in real estate circles but the old adage about buying in the best location is still true – and always will be if you want to see your portfolio skyrocket in value in the shortest time.

As I've said, buying in inner city locations is the most reliable way to ensure maximum capital growth, but not every street in every suburb within 2–6 km of Adelaide's CBD, for example, will guarantee the best growth. And not every property within the great streets will be a winner either.

Here are my tips on location:

- Within a small radius of the CBD. (See previous section for what that means in your city.)
- Close to public transport. Many people want to live close to the CBD because they want to be able to access it easily, either for work or other lifestyle reasons. Parking, in most Australian cities, is expensive and often hard to find. Your target property should be within a 10–12-minute walk of public transport. However, no one wants to be living on top of it, such as across the street from a train station, so target properties within reach of public transport but not right next to it.
- Close to 'lifestyle' amenities. These days, more than ever, people want to be able to just pop around the corner to buy lunch or grab a quality coffee. Again, the 10–12-minute walk is a good gauge. Look for properties within this distance of as many great amenities as you can – a supermarket, restaurants, an ATM, a pizza shop, a gym – the more the better. But, like public transport, you want to be close, not on top of these amenities (think about the noise and the traffic).
- Streets with architectural uniformity. Inner city locations all around the country are populated with lots of great period homes. A well-maintained, renovated period home will, in the long term, hold its value better than something new. In the 1960s, orange- and cream-brick houses were 'modern'. How do they look now? The same fate will fall on the 'modern' homes that are built today. In 30 years they will look out of date and daggy (much like many of those built in the 1980s). Period features never lose their charm. So, it's best to buy a period house (if you can) in a street with a lot of other period houses. Homes in hotchpotch streets with a mix of shabby low-rise apartments, modern units, 1970s brown-brick dwellings and a few period places don't hold their value as well.

Houses versus units

The decision to invest in a house or a unit often comes down to a few factors:

- your budget
- the supply and demand in your target neighbourhood
- the desire to diversify your portfolio.

There are no hard-and-fast rules here – both units and houses can do well in the long term if bought well.

One of the big advantages of houses as investments (particularly if they are detached or stand alone) is their scope for other uses. Depending on land size and subject to council approval, houses can be renovated, extended, demolished and the land subdivided for units, townhouses or even low-rise apartments in some areas. This opens up lots of choices for the future.

Units and apartments can make great investments too, but their perceived value (especially by banks) can be easily influenced by the price of other apartments around it. If a two-bedroom unit on the second floor sells for $650,000, that's what the bank will generally consider yours is worth, even though your two-bedroom unit, on the ground floor, has a large courtyard and has been fully renovated.

If you are going to buy a unit (or apartment or flat), please keep in mind a few golden rules:

- Make sure the floor space is at least 50 square metres. Banks are often reluctant to lend against units under this size because there is a perception that they are more difficult to sell if the market drops.
- Ensure the floor plan is logical. Some units are very poorly designed because the plans have been run out of a factory like sausages. Make sure the layout makes sense. If you feel disoriented when you walk through, so will potential tenants.
- Make sure there is some private outdoor space. Whether it's a private balcony, a small courtyard or a larger backyard, people need some space to stick a barbecue and for guests to smoke. An outdoor component is an essential part of every great unit.

- Make sure there is a car space on the title. Your tenants will get extremely frustrated if there is nowhere to park their car. Ensure that an exclusive car space is not only marked out but is actually on the title.

Well-chosen property will never let you down long term.

Assessing the property

So you've identified a few properties in your target area that tick all the boxes in your internet search. Now it's time to check them out in person.

Once you get serious about your property search I recommend making notes on each property so, when you are following up later, you know exactly which property you mean. The simplest way to do this is by creating a checklist and taking additional notes as you go. If you don't feel comfortable walking through properties armed with a clipboard, you can always make your notes when you are back in your car.

Your checklist could comprise a simple scorecard (out of 10) that covers the following.

Area and position: Distance to the CBD, access to the CBD (public transport), historical growth, shops, parks, street, neighbours, traffic, views

Land: Zoning, size, frontage, privacy, slope, orientation, fencing, car access

Building – exterior: Street appeal, dwelling type (house, townhouse, unit), construction materials (brick, fibro cement, weatherboard), position on the block (front, back, close to the road), number in the block (if a unit), noise, car accommodation, shed/workshop, shape, condition, security

Building – interior: Size and position of all the rooms, quality of appliances in kitchen, air-conditioning (heating and cooling), number of bathrooms, built-in robes/storage, ceiling height, natural light, general appeal/feel

As well as marking features out of 10 it also important that you weight your criteria. For example, the doors might not be very secure but that is not as important as its street appeal – you can always install deadbolts later.

Before selling the business, I used to be a company partner in a buyers advocacy business, which used a score card to rate potential investment properties for clients. Our buyer advocacy business has a strict 58 point criteria & assessment checklist that ranks all 58 segments that need to be ticked off before we will buy a certain property. See in Table 7.3 just 10 of the 58 items we assess on every property that we look at.

Table 7.3 – Here are 10 of 58 items we assess on every property:

Item No	Items to Assess
1	Floor plan and layout
2	Street Presence
3	Security
4	Noise & Privacy
5	Car Accomodation
6	Proximity to Transport / Shops / CBD
7	Position on the Block
8	Scarcity Factor
9	Size of Bedrooms
10	Ceiling Heights

I hear stories every day about some of the poor property buying decisions people make and my heart opens up to these people. Some people buy without any real criteria or checklist to make sure their money grows at the best possible rate. Without knowledge of the game, unfortunately some people make uneducated decisions based on emotion, which is fraught with danger. I had a case recently where a mortgage client rang me and said he'd lost $70,000 on a property he'd bought 18 months before. If he'd done his homework properly (or got some professional guidance) he would never have bought that property. The suburb he chose was simply not right for growth. Had he bought better he could have made $150,000 in the same time period – as did two other clients of mine who purchased properties around the same time, although both of these properties were around 20 km away, in a far better location for investment.

Often, when you have a poor investment property in your portfolio, it pays to cut your losses and sell the property. Use the money to invest somewhere that, in the long term, will deliver far better results. I actually did this myself with expert property advice back in the early 2000s. I had a property that was not performing so I sold it, and used a buyer advocate to buy myself a property that ticked all the right boxes. There are buyer advocacy companies all over Australia that will analyse your portfolio at no charge.

Asking questions

After you've completed an inspection, have a chat to the agent to see what they have to say about the property. Why is the vendor selling? How long has it been on the market? When was it sold the last time and for how much? If it's currently rented you'll want to know what the rent is currently set at.

The agent will no doubt ask about you as well. It is fine to tell them what kind of property you're looking for – they may have some other suggestions – but it's probably better to not reveal too much detail. Saying something like 'a period house in good condition close to shops and public transport' would suffice. Giving them a price range will help identify properties in your scope but don't give away too much information because, if they know you have $600,000 to spend, for example, they might use that to their advantage in negotiations.

All the property data over the last 60-plus years is clear. Property prices long term continue to double about every eight years.

Check out the neighbourhood

Assessing the neighbourhood is as important as assessing the property itself – location, location, location!

Physically taking a walk around the streets will give you a good sense of what it's like to live there. Are there parks close by? Public transport? How long does it take to walk somewhere to buy a carton of milk or some takeaway? Are the streets noisy or quiet?

While you're walking around, take note of the kinds of people you come across. Are they older people? Families or young couples? This will give you an indication of the kind of person who might want to rent the property.

8

Buying the five per cent of good property

So you've identified the perfect property: it's in an inner city location, close to shops, public transport and other lifestyle amenities. It's not fully renovated, but it's in a very liveable state and there's scope for improvements down the track. Now it's time to buy it. You discover that searching was the easy bit. So it's time to negotiate!

How do you secure the property without paying too much? How do you know what it's really worth (as opposed to what the agent tells you it's worth)? How do you negotiate your way to a great deal?

Knowing you're paying the right price for a property is one of the areas that makes most would-be investors the most nervous. There are certain mathematical elements that can make things easier but then there is gut feel, which comes from knowledge and experience. The more you get to know your target area and see how much properties are selling for, the more accurate you'll become in working out a property's value.

Determining what the property is worth

There are a number of tools you can use to help guide you towards an accurate estimation of a property's value. The first is comparable sales. Knowing what similar properties have sold for in the area gives a good indication of what your target property might be worth. The closer the comparables are in location, style, land size and accommodation, the more helpful the information will be. The more recent the better.

Compiling a listing of comparable sales can happen in a number of ways:

- Check recent sales on the internet through property search sites. Some sites even list recent sales under the ad for comparable properties in the area.
- Ask local real estate agents.
- Develop a database of your own through attending auctions and looking at sales results in the newspaper.
- Subscribe to an internet database such as realestate.com.au, RP Data (www.rpdata.com) or Australian Property Monitors (www.apm.com.au). For a fee you can access accurate, up-to-date information on specific property sales.

In combination, these are all great ways to help arrive at a property's value. If you're after a more accurate estimation on a particular property, My Mortgage Mentor can help with property reports. These reports include the property's sales history, comparable sales in the area, information about the suburb and its growth over time and the property's estimated value today.

To increase the level of accuracy up another notch you can hire a professional valuer to actually visit the property and give you a much more detailed evaluation. This is a more costly way to go but if you are really unsure of yourself, it can be a worthwhile investment. Both of these types of property reports are available when you complete Exercise #10, which was discussed in Chapter 5.

Negotiating the deal

In private sales (sale by private treaty) and post-auction negotiations,

it's important to go in armed with two things: knowledge of comparable sales in the area so you have some evidence to support your offer, and your own realistic estimation of what the property is worth so you know you are negotiating at the right level.

In the negotiations, ask lots of questions and really listen to what the agent tells you. This includes picking up subtle clues about the reasons the vendor is selling and how desperate they are to offload the property. Maybe the vendor has already bought elsewhere and the property has been on the market for a long time.

Gauge the level of interest in the property by asking how many people have been through, how many people have requested contracts and how many offers have been made. You can ask if anyone has had a professional building inspection conducted and about the feedback of other interested buyers. This will give you a good feel for the competition. Obviously, if there has been little interest you are in a much better bargaining position.

In some cases you can help out the vendor in some way in exchange for a lower selling price. Perhaps they want a long settlement or, if they currently live in the property, they might want to rent it themselves until they find a suitable property to move to. Perhaps the seller has had offers from developers and knowing that you intend to keep the property in tact will get you over the line. All these little tactics can add up to you negotiating your way to a much more favourable deal.

Everything is negotiable. The worst thing someone can say is no. Don't be afraid of hearing no.

Dealing with real estate agents

Given that you have no doubt devised a plan that will see you amassing a number of investment properties over a number of years, you will most probably come up against the same real estate agents while searching and negotiating purchases.

This means you want them on your side.

Nine times out of 10 a vendor will rely on their selling agent to advise them on the right price to accept and the right time to accept it. They will believe the agent when they say, 'This buyer won't go any higher'.

This means you want them to take you seriously.

The agent will take you seriously if you behave professionally in your dealings with them and don't waste their time. Be straight with them. Call them back when you say you will and honour your commitments. If you tell them you will make a decision by Monday then make sure you get back to them by Monday.

Negotiate in good faith. Let them know your highest offer and stick to it.

Real estate agents have enough people wasting their time already. They don't need another. If you treat them professionally they are more likely to call you when off-market opportunities cross their desk.

Using a buyer advocate

Spending upwards of half a million dollars on a property is a big decision, whether it be for a family home or for an investment property. Or two. Or three. You want these decisions to be good ones. If you're not confident in your own ability to spot the right properties and negotiate the best price, it might be worth engaging the services of a professional.

Buyer advocates (also called buyer agents) are real estate professionals who work exclusively for the property buyer to find and negotiate the purchase of a property. The services of individual buyer advocates vary slightly but, in general, they identify properties on the market that will suit the brief they are given and then negotiate the purchase with the selling agent on your behalf.

Buying property can be an emotional time. Buyer advocates are better able to distant themselves from a purchase and take the stress and emotion out of property buying. That's something not everyone can do when they're spending their own money. The better buyer advocates will take time to get to know you as a person and to understand your goals.

Another plus is that buyer advocates have access to data that is not readily available to the general public. This includes details of sales of similar

properties in the same area, trends to help pinpoint high-growth suburbs, and other industry-based information only accessible by licensed agents and valuers. Other information, such as how long a property has been on the market and how that compares with others in the area, can impact on how negotiable the vendors are. Buyer advocates also often have access to off-market properties.

A buyer advocate should be able to give you an accurate appraisal of the realistic rental return you can expect on a property. This will help provide a business case for your purchase.

Choosing a buyer advocate

Buyer advocates work on a commission basis or for a fixed price. They will often have an upfront engagement fee to cover the time it takes to search for the right property, just in case the client decides to pull out or significantly change their brief. This investment for service may be offset against the fee for purchase. However, as advocates' skill levels can be different, it is important to not only base your decision on price.

Buyer advocates must be either fully licensed real estate agents (if they are running their own business) or work as an agent's representative with a real estate agency. At a minimum, ensure your buyer advocate:

- is registered with the real estate institute in their state
- has a minimum of two years' experience as a buyer advocate
- has their own property investment portfolio
- has an established track record (see if you can talk with past clients)
- has strong knowledge in the area you are looking at buying in
- clearly understands your property investment goals.

For more tips on buying well, including updated trend data for your area of interest, visit *www.mymortgagementor.com.au*

The property cycle

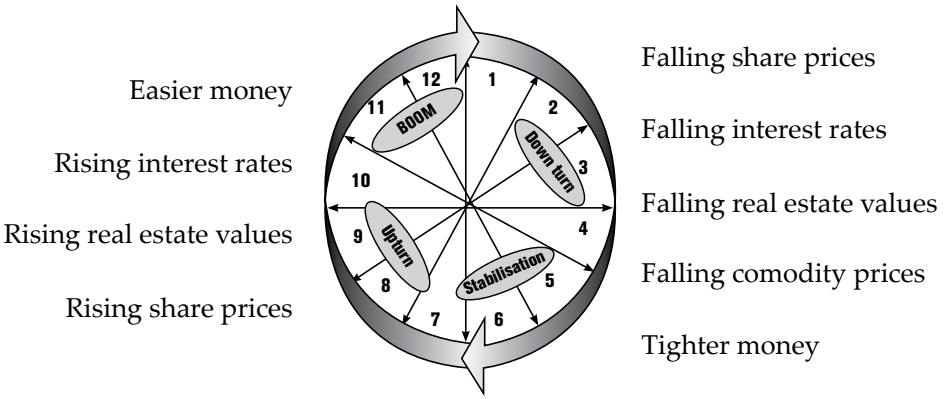
I've talked a lot about *what* to buy, but *when* is the right time to buy?

The answer is: as often as you can afford to.

It's true that the property market works in cycles: the boom, the downturn, stabilisation and the upturn (see Figure 8.1). These phases continue to cycle but the timings of each depend on consumer confidence, which can be the result how the economy is perceived to be performing, interest rates and world events.

There is a 'snowball' effect that drives property cycles and they don't move at the same pace all over the country, or within one city for that matter. Perth and Hobart could be booming while Brisbane and Sydney are experiencing a downturn. The north and west of Melbourne might be surging ahead while the eastern suburbs might have plateaued.

Figure 8.1 – The property clock



Making sense of the cycle

Some of the factors or 'key drivers' that influence the phases of the property clock include:

- the supply of (or lack of) property
- population growth and migration
- consumer confidence
- interest rates
- employment and other economic factors.

Population increases due to migration and immigration. More people means more demand for housing. Demand drives prices up. It's basic economics. When this happens, investors jump in, confidence springs up and all of a sudden everyone is scrambling to buy property. This rush in demand drives prices up and up and we experience a 'boom'.

But what goes up must come down. Prices get ridiculously high and no one can afford to buy any longer. Prices level out and the cycle continues.

Savvy property investors are buying property when the majority of the market is procrastinating.

How should you be influenced by the cycle?

As I said before, it's important to be aware of the property clock but don't let it control your investment strategy. Try not to use the cycle as a reason to procrastinate, especially because no one knows how long each phase will last. The best time to buy is when you can afford to, as often as you can afford to.

Step 4: Manage your portfolio

The fourth step on your road to financial freedom comes once you have a least one investment property under your belt. Managing your investments well is really important because, if neglected, you can risk losing money through: not attracting the right tenants, having to deal with bad tenants, not staying on top of maintenance and having to fork out thousands for repairs.

Successful investing requires treating your activities as you would any other small business venture. You need to meticulously record your incomings and outgoings, build relationships with industry professionals and seek advice on issues that you don't feel confident handling yourself.

Part of this process is conducting annual reviews of all your properties to ensure they are keeping up with market rates – ensuring you are earning as much rent from your properties as the market can bear. Don't make the mistake of getting emotionally attached to properties – or tenants. When it's time to put up the rent, put up the rent. If you need to offload an under-

performing property, do it. You need to consider servicing current and future investment loans. Better the money in your pocket than someone else's.

9

Property management perfection

Staying on top of your investment properties begins with great property management. Which, by the way, is not so easy to come by. Lazy property managers cost you money (on top of what you already pay them in fees!). But a great property manager will take good care of your investment, ensure your tenants are living up to their end of the bargain, and keep your rental income at maximum levels according to changing market rates.

There's a lot to do to manage a property well:

- get the property ready for the rental market (including making sure it's clean, safe, secure and has smoke alarms installed)
- advertise the property for rent
- sift through applications from potential tenants
- interview applicants

- conduct applicant reference and financial checks
- sign up the successful tenant (providing a lease agreement) and collecting a bond
- submit the bond to your state/territory-based bond authority
- complete a condition report on the property
- manage the tenancy including all requests for maintenance works
- settle disputes with tenants
- abide by all state-based laws in terms of issuing notices for a rental increase or eviction
- carry out routine inspections
- maintain accurate financial records (including receipts) for accounting purposes.

All these processes can be learned and, legally, you can do it all yourself. But it can become very time consuming, especially once you accumulate a few properties. Remember that the cost of property management is tax deductible.

Selecting the right property manager

A good property manager will take control of the day-to-day issues and tasks associated with managing an investment property.

The benefits of having a property manager are many and include that they:

- have up-to-date knowledge of legal requirements
- can capture a larger portion of the market through additional advertising on industry-based websites
- have knowledge of rental market prices
- manage the process of getting in tenants, including all their paperwork (lease agreement, bond)
- schedule and conduct routine site inspections

- have immediate access to up-to-date forms
- manage disputes that arise on your behalf
- record and pay all outgoings
- oversee all maintenance
- provide financial statements (which are usually coded to match the ATO codes so it's easier for your accountant)
- provide an arm's-length relationship between the landlord and tenant
- ensure rental reviews are done regularly and in accordance with legal requirements.

A good property manager will do more than just collect the rent for you. You are paying them a fee to manage the property so they should add value by taking a proactive approach to your business. They should conduct regular rental reviews to ensure you are getting as much rental income as the market will tolerate and regularly appraise your property so you know how much it's worth.

A good managing agent should also have a detailed understanding of tenancy laws and assist you by ensuring your rights and responsibilities as the landlord are met.

10

Getting involved in your investments

Although good property management is an essential part of your property investment strategy, that doesn't mean you can hand over all responsibility and sit back and do nothing.

You can become a little more hands-off down the track when you have established relationships with professionals you can trust to look after your interests, but in the beginning you should be all over your investments to ensure they are tracking how you expect.

Keep an eye on your properties

My recommendations for the kind of properties to buy for maximum capital growth (inner city, close to amenities etc) apply whenever you are in Australia, and you don't have to live in the same city as where you're buying. But it does make it easier to keep a watchful eye over them.

Attend routine inspections with your managing agent, see for yourself how well the tenants are taking care of it, think about what improvements you can make to increase its value and draw in more rent.

Drive by your properties every now and then to see how they look. Get a feel for how the street is changing or how the neighbourhood is growing. Are older people moving on and more young families moving in? Are all the houses with 'character' being torn down to make way for ugly cookie-cutter units?

Diversify your portfolio

On the one hand, I'm a big supporter of 'when you're on a good thing, stick to it', but I also believe in adding a little diversify to the kinds of properties you buy – a mix of units, townhouses and houses in a variety of locations. More cautious investors than me (I'm a risk-taker!) will no doubt feel better about spreading their risk in this way.

All properties you buy should perform well if you follow the advice in this book, but you will be surprised at how some surpass your expectations while others just travel along as expected. I expect all my properties to at least double in value every eight years, but I've had houses that have doubled in five. I love good surprises!

On the flipside, you will have some disappointments too – a next-door neighbour might build a monstrosity that towers over your little townhouse and there's nothing you can do about it. At the time of buying you thought someone would be crazy to demolish the lovely little cottage next to yours, but not everyone shares your taste or nous for long-term gain.

Save money where you can

Always be on the look out for a better deal. Lots of small amounts of money add up to a large amount, so if you can make savings on the things you have to pay for as being part of being a property investors, the quicker you will reach your goals. Some examples are:

- **Interest rates -** always be on the look out for a better deal. Make

an annual appointment with your mortgage broker to investigate your options.

- **Insurance -** shop around or consider swapping all your policies over to one insurer and negotiate a big discount.
- **Property management -** a standard management fee is varies from state to state, but if you have a few properties in the area managed by one agent they might be willing to discount their fees, especially with the promise of more business coming their way in the future.

Make money where you can

Just as there are opportunities to save in places, you should always be on the look out for ways to make more money through your properties.

Perhaps your tenants are busy people who don't have time to look after the garden. Include garden maintenance in the rental agreement (for a fee) that you either take care of yourself (maybe your son, daughter, niece or nephew is after some extra cash?) or get a professional to handle it.

Maintain good records

Like any business that runs professionally, good record keeping is essential. Plus it keeps you in your accountant's good books! Keep all your receipts for property-related expenses together and record them in the one spot. Log all the kilometres you travel in the car on related trips: to visit the property, to buy supplies, to visit your property manager. All these expenses are tax deductible.

(My Mortgage Mentor has a fantastic system to maintain your investment receipts and all your other financial records – see the website to learn more.)

Here are some other expenses you might not realise you can claim against:

- **Insurance -** This includes premiums for building, contents, public liability and landlord insurance.
- **Owners corporation (body corporate) fees -** If your property is part of an owners corporation (as most units and apartments are) you can

claim these fees, which are most commonly paid quarterly. These fees usually cover the running costs of the building including repairs, insurance, gardening and communal lighting.

- **Rates -** This includes council, water and sewerage rates.
- **Interest -** Interest on a loan to purchase, build, improve or repair a property is deductible. The function of the loan must be for income-producing purposes.
- **Building works -** Building construction costs can include engineering, drafting, architect fees, surveyor fees and excavation costs.
- **Cleaning/gardening -** This includes internal and external cleaning. But, if you take care of the gardening or cleaning yourself, you can only claim the cost of materials, not your own labour.
- **Depreciation -** You can make a tax claim against the decreasing value of assets within the property including the cost of fixtures and fittings based on the asset's 'effective' life. Your accountant will make these claims at tax time according to a depreciation schedule, which must be prepared by a qualified quantity surveyor. For a fee, the surveyor will look through the property and record the details of depreciable assets and assign a rate to them. This can save you thousands on your tax bill for an investment of around $600. The kind of assets that can be depreciated include:

  - air-conditioning units (excluding ducts, pipes and vents)
  - electronic security systems and intercoms
  - drapes, curtains and blinds
  - heaters, ceiling fans
  - hot water systems (including solar hot water heaters)
  - lights, both fitted and freestanding, and including shades
  - swimming pool filtration and cleaning systems.

- **Furnishings -** If your property is rented furnished, items like whitegoods, removable rugs, TVs, and other furniture can also be depreciated (see below).

- **Advertising -** Any ads you or your agent place to attract a tenant to your property is tax deductible.

Tax depreciation for property investors

Many property investors are unaware of the potential benefits of having a tax depreciation schedule completed for their investment property and may therefore be missing out on thousands of dollars in legitimate tax deductions. Serious property investors should understand and claim all deductions legally available to them, whether they own one investment property or a large portfolio.

To understand the potential tax savings available through depreciation, consider the following example. Based on an average annual depreciation claim of $5,559, an investor whose taxable income places them in the 30% marginal tax bracket could potentially reduce their income tax by approximately $1,668 in the first year alone.*

Table 10.1 – Tax benefits through depreciation

Depreciation period	Depreciation claim	Tax saving (based on 30% tax rate)
1st year claim	$5,559.37	$1,667.81
5th year accumulated claim	$33,220.73	$9,966.51
10th year accumulated claim	$60,422.99	$18,126.90
20th year accumulated claim	$98,844.52	$29,653.37
40th year accumulated claim	$152,977.48	$45,893.09

At the end of the first year following completion of the tax depreciation schedule, the example above provides a depreciation claim of $5,559.37. For an investor in the 30% marginal tax bracket, this could provide an income tax saving of approximately $1,667.81. As Table 10.1 demonstrates, over 10 years the accumulated depreciation deductions of $60,422.99 could potentially provide approximately $18,126.90 in tax savings, with deductions potentially continuing over the effective life of eligible depreciating assets and capital works.

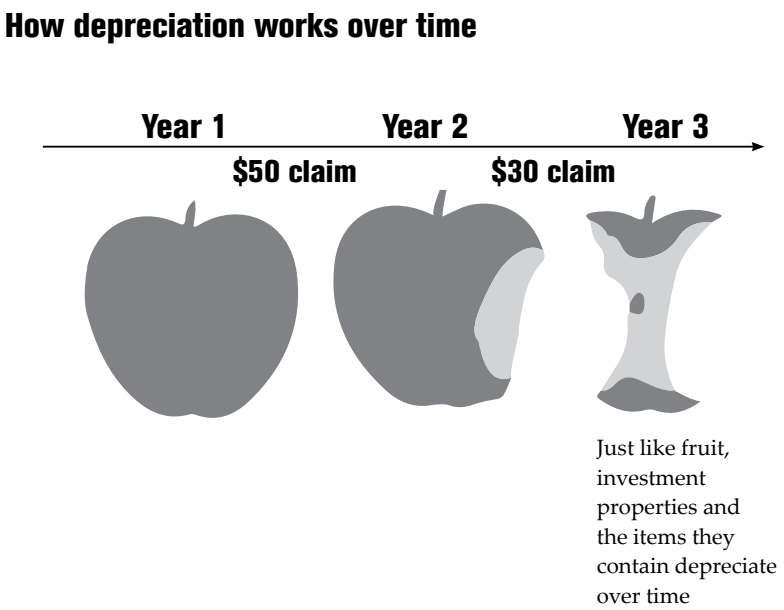
* Important: The actual tax benefit will depend on the investor's individual circumstances, taxable income, marginal tax rate and eligibility to claim

particular deductions. The figures above are illustrative only and exclude the Medicare levy. Investors should seek advice from a registered tax agent or accountant.

So how does tax depreciation work?

Tax depreciation is an often overlooked, yet essential component of property investment, despite the fact that it is a legitimate deduction against assessable taxable income. The tax office recognises that the value of capital assets gradually reduces over time, much like a car, and allows a tax deduction to recover these depreciation costs. The principal behind tax depreciation is to compensate tax payers for the reduction in the value of items used to produce taxable income, in this case, rental income. The value of the building, the plant and equipment (removable assets such as ovens, smoke detectors and air-conditioners) within it, and new and existing structural improvements (fixed assets such as pergolas, fencing and clotheslines) all attract depreciation and as such, can provide deductions to the property investor.

Figure 10.1 – How depreciation works over time



Like the apples pictured in Figure 10.1, household items lose their value as years go by. At year 1 the apple was valued at $100, but 12 months later in year 2 the apple is now valued at $50. The apple has lost $50 in value, and that $50 loss is the amount that the apple has depreciated. In an investment property, that loss is the amount that can be claimed as depreciation.

The tax office allocates household items with an effective life, and where it is unknown, quantity surveyors are able to determine that effective life themselves, based on industry knowledge and experience. Property investors are able to claim a percentage of the cost of an item back as a deduction, as it depreciates over its effective life. For example:

- **Building -** valued at $98,000, with an effective life of 40 years – yearly amount claimable = $2,450
- **Carpet -** valued at $4,000, with an effective life of 10 years – yearly amount claimable = $400
- **Curtains -** valued at $7,000, with an effective life of 6 years – yearly amount claimable = $1,166
- **Hot water system -** valued at $3,000, with an effective life of 12 years – yearly amount claimable = $250.

Please note these calculations above have been based on the prime cost method.

In order to complete a tax depreciation schedule, a quantity surveyor inspects the property and calculates deductions available to the investor through depreciation. These deductions are then combined and a claimable amount for the property investor is established.

For example:

- property investor's wage = $70,000
- rental income = $20,000
- total income = $90,000
- less property depreciation claim of $5,559 (as a result of the average claim)
- investor only pays tax on $84,441.

While current tax legislation states that residential properties built before 18 July 1985 cannot claim the building as a deduction, any building works (ie, extention, granny flat) completed since this date can be claimed. Structural improvements and renovations (completed after February 1992) can also be claimed, irrelevant of the property's age.

Nobody likes having to cover extra expenses such as replacing items in an investment property, but things can at least be made as easy and beneficial for you as possible by having a tax depreciation schedule completed for your investment property.

Step 5: Protect and grow your assets

Buying property according to the fundamentals outlined in this book and setting up your loans well will mean that your investment strategy should tick along nicely for years. You will protect those assets by insuring them, but your investment strategy will rely on you earning a certain level of income in order to build on your portfolio and to continue to build towards your ultimate property investment goals.

It's important that your income is protected and that you take steps to ensure if something unforseen does happen – if you are out of work for a long period or are injured and can no longer work – your investment portfolio will not be compromised.

11

Protecting your life's assets

No one likes paying for insurance, especially when the premium goes up and up every year and you feel like it's money down the drain. Hopefully you never have to claim on any of your policies, but imagine what would happen if your tenants destroyed one of your properties and you were uninsured. Or they skipped out on two months' rent.

As much as we don't like paying it, there is no question that insurance is an essential part of being a property owner. Plus, most of it is tax deductible.

Insuring you – your greatest asset

Have you ever sat down and tried to work out your earning capacity over your lifetime? I think you'd be surprised at the result. Let's say you're 30 years old and earning $70,000 a year. Forgetting about income from investment properties and assuming you stay in the same level of job until you retire at 65 (so, earning $70,000 plus an annual increase of 2 per

cent for the next 35 years), your earning potential – at a minimum – is $3,639,606. That's a pretty big asset!

Figure 11.1 – How much income you could reasonably expect to earn in a lifetime.

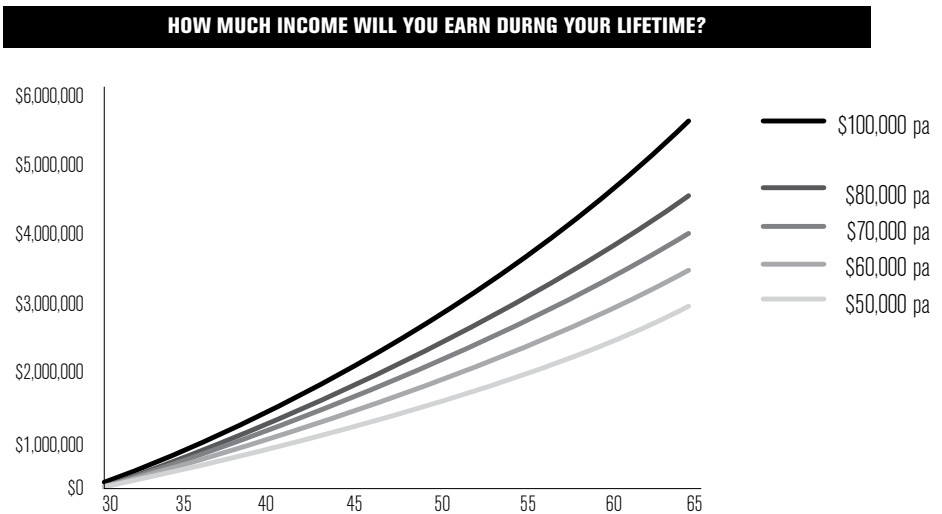


Table 11.1 – Income earned during a working life

Years	Income per year – assuming a 2 per cent inflation increase per year				
30	**50,000**	**60,000**	**70,000**	**80,000**	**100,000**
31	51,000	61,200	71,400	81,600	102,000
32	52,020	62,424	72,828	83,232	104,040
33	53,060	63,672	74,285	84,897	106,121
34	54,122	64,946	75,770	86,595	108,243
35	55,204	66,245	77,286	88,326	110,408
36	56,308	67,570	78,831	90,093	112,616
37	57,434	68,921	80,408	91,895	114,869
38	58,583	70,300	82,016	93,733	117,166
39	59,755	71,706	83,656	95,607	119,509
40	60,950	73,140	85,330	97,520	121,899
41	62,169	74,602	87,036	99,470	124,337
42	63,412	76,095	88,777	101,459	126,824
43	64,680	77,616	90,552	103,489	129,361
44	65,974	79,169	92,364	105,558	131,948
45	67,293	80,752	94,211	107,669	134,587
46	68,639	82,367	96,095	109,823	137,279
47	70,012	84,014	98,017	112,019	140,024
48	71,412	85,695	99,977	114,260	142,825
49	72,841	87,409	101,977	116,545	145,681
50	74,297	89,157	104,016	118,876	148,595
51	75,783	90,940	106,097	121,253	151,567
52	77,299	92,759	108,219	123,678	154,598
53	78,845	94,614	110,383	126,152	157,690

54	80,422	96,506	112,591	128,675	160,844
55	82,030	98,436	114,842	131,248	164,061
56	83,671	100,405	117,139	133,873	167,342
57	85,344	102,413	119,482	136,551	170,689
58	87,051	104,461	121,872	139,282	174,102
59	88,792	106,551	124,309	142,068	177,584
60	90,568	108,682	126,795	144,909	181,136
61	92,379	110,855	129,331	147,807	184,759
62	94,227	113,072	131,918	150,763	188,454
63	96,112	115,334	134,556	153,779	192,223
64	98,034	117,641	137,247	156,854	196,068
65	99,994	119,993	139,992	159,991	199,989
	2,599,718	**3,119,662**	**3,639,606**	**4,159,549**	**5,199,437**

As you build your property portfolio over the years, your personal wealth will grow and grow. So you can see how you and your earning potential are your greatest assets.

Now imagine that you couldn't work for whatever reason. Maybe sickness, maybe an injury. How would you pay the mortgage? How would you support your investment strategy?

The answer is insuring yourself. People don't think twice about insuring their house or their car. It's a given. No debate. But when it comes to insuring ourselves, too many people either never seriously consider it or don't think it's necessary.

Income protection should be one of the first insurances you consider

Believe me, it's necessary. You don't want to find yourself in a situation where you have to sell those property assets you've worked so hard to acquire.

These days there are a mass of insurance policies on the market but some of the more important polices you might want to consider are:

- life insurance
- health insurance
- income protection (this protects you against lost income if you are sick, injured or suffer a disability and therefore can't work for a period of time).
- trauma insurance (this provides a lump sum if you suffer a critical illness)
- total and permanent disability (this covers you if you become permanently disabled and can no longer work).
- landlords insurance (this protects against losses involving your rental properties such as damage or loss of rent)

I recommend investing in all six insurances. To me, it's more important than home or car insurance.

Life insurance, as most people know, is usually set up to cover your debts should you die unexpectedly, while also leaving some money for your family to live on. This is especially important if you are the main breadwinner. In the majority of cases, health insurance covers medical bills in the event that you need medical treatment performed by the doctor of your choice. We are lucky to have a public health system in Australia that looks after us without having to pay a cent most of the time, but if you want elective care quickly and you want to choose where and by whom, then health insurance is a must. Plus, the Australian Government taxes you if you are over 30 and don't have private health insurance.

Depending on your specific policy, income protection insurance usually pays up to 75 per cent of your annual average income, in monthly benefits, to cover your expenses if you are unable to work due to sickness or disability. Even though you might have life or trauma cover to protect against a critical illness or major accident, these insurances won't cover

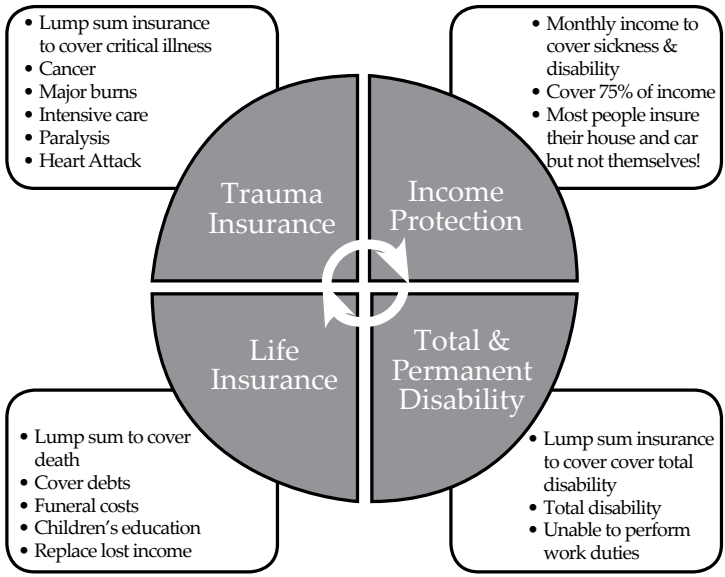
you if you are off work with a less serious illness or injury for an extended period, or if your particular illness is not specified in one of these other policies. Premiums are set depending on factors such as your age, gender, occupation, health status and the time you choose to wait before receiving payment.

You are the most important asset in the whole plan. You must insure yourself and your income.

Trauma insurance pays out a lump sum designed to help with the extra costs of living with a disabling condition. It's important to note that it only pays out if you contract one of a defined list of illnesses. In other words, if your illness isn't on the list, you won't benefit. The most common three claims are for cancer, heart attack and stroke.

Total and permanent disability (TPD) insurance is also paid out as a lump sum, but is payable when you have been advised by a medical specialist that you will never work again in your chosen profession. This is different for everyone. For example, a visual artist might be considered totally disabled through the loss of the use of their hands. The difference between TPD insurance and income protection is that TPD insurance is paid out in a lump sum, rather than in regular payments in line with the wage the policyholder is without. TPD insurance is often used to clear debts and provide funds for medical costs.

Figure 11.2 – Protecting your assets



Personal Insurance Case Studies

The following case studies demonstrate the value of making sure you are properly insured. They're real stories from my business, Your Money Manager, but I've changed the clients' names for privacy reasons.

Insurance Case Study 1 – John and Mary

In 2007 John and Mary built their dream home. It cost $550,000 to build so they had to take out a loan of $250,000 to cover the full cost. John was self-employed and Mary worked part time. They were comfortably able to cover their loan, and were very happy with their lives.

A couple of years later Mary called me to tell me that John had been diagnosed with dementia. Unfortunately, John passed away in 2010, leaving behind Mary and their two young children, both under the age of five.

John and Mary didn't have enough insurance to see them through this difficult period. In addition to losing her husband, Mary also lost the dream home they had built together. She received a payout of $192,000 from John's superannuation ($22,000 in super and $170,000 in TPD and life insurance). This may sound sufficient to almost cover the outstanding balance of the loan; however, when you consider the loss of income during John's illness, medical expenses and funeral costs, you can see the $192,000 didn't go close to clearing the debts.

The family had to move to an outer suburb to find a house they could afford. As a result, the children had to start at a new school and kinder, losing all of the friends that they had made during their short lives. Mary also had to return to full-time work, no longer able to financially support her family on part-time wages.

In addition to the loss and suffering they experienced through John's illness and death, Mary and her children also encountered substantial financial and emotional stress, which could have been prevented if they'd had an appropriate level of insurance coverage.

Insurance Case Study 2 – Mark and Sally

Mark and Sally were an older couple with an outstanding balance of $220,000 on their home loan. They had $30,000 of superannuation, but no other assets. Mark, 59, was a labourer who earned $90,000 per annum. Sally, 60, was not employed.

I met Mark and Sally in late 2022 when I reviewed their loan. As part of this process, the issue of insurance was raised, and the couple completed a full review of their insurance coverage, updating policies as needed. They took my advice and implemented the insurances I recommended.

Sadly, in late 2023, Mark was killed while at work. There had been no period of illness and therefore no reason to expect they wouldn't share a long life together. Sally's world was shattered.

However, because they had updated their insurance 12 months earlier, Sally was not in the same situation that Mary (case study 1) had been in. Sally received a payout of $1,491,995 from Mark's superannuation and insurance.

As a result, Sally was able to pay out her mortgage, and pay back $45,000 they had borrowed from family members. She was also able to gift her eldest son $10,000 towards his wedding expenses.

This left Sally with $1.2 million, which she has been able to use to secure her financial future. In the 18 months from mid-2024, Sally has made approximately $200,000 in investment profits from the funds she received from the insurance payout.

While Sally's story is undeniably a sad one because she lost her husband, her current situation could have been a lot worse. This story really highlights how important taking out the right amount of insurance is.

Insurance Case Study 3 – Chloe

Chloe was a single lady in her early 30s when she came to our business in 2023. She had just bought her first home, and had a loan of $350,000. She came to discuss her financial plan, and the financial considerations of her new loan.

Like Mark and Sally (case study 2), Chloe followed our advice. Her coverage included life insurance, TPD, income protection and trauma coverage. This was fortunate because in 2025 Chloe was diagnosed with cancer.

Chloe was paid out $400,000 from her trauma cover policy, and also received payments through her income protection policy while she was unable from work. This meant that Chloe was able to focus on her treatment and recovery, without having to handle the additional financial and emotional stress of paying her mortgage – or worse – defaulting on the loan and losing her house.

Chloe faced a mentally challenging and emotionally demanding condition, but adequate insurance coverage helped make her journey back to health a much smoother one.

Chloe has since made a full recovery, and with the insurance payout, has recently bought an investment property and started a share portfolio.

Outcomes – Being adequately insured versus under insured

Case study 1 is a classic example of not having adequate insurance. Mary's financial life has been turned upside down, whereas Sally and Chloe are financially set by having been adequately insured.

With no partner and no children in the foreseeable future, Chloe was a typical candidate to say, 'No thank you, I'll be alright, I don't need insurance.' Unfortunately, no one knows what the future will hold.

In addition to losing their husbands, both Mary and Sally's lifestyle situations have changed. Mary now has to work full time. She is not at home with her children, as she had always anticipated. She can no longer afford to live the life she wanted, in the environment that she wanted. Sally, however, has a safe and secure income for the rest of her life, has her home, and has been able to help out the people who had helped her in the past.

What's your situation right now? Do you know how much insurance cover you have with your existing superannuation or insurance policies? If you know how much cover you have, is it enough to cover your family's lifestyle needs or only your debt should you lose your income or your partner's income? Even if you are single you still have your own future to think about! Most people think that illness, disability or untimely passing won't happen to them, if they think about it at all. Death and injury are two of the greatest innate fears people hold – rather than be prepared, many people tend to avoid these topics. Don't fall into that trap.

Insurance and will review

Go online to www.mymortgagementor.com.au to complete a questionnaire to check if you are adequately insured and have an appropriate will in place.

Landlords insurance

Landlords insurance is a must for all property investors. You might not like forking out for it, but it's tax deductible and will give you piece of mind in case of accidents or intended damage inflicted by tenants. You can even get covered for rent default and theft by tenants.

Landlord insurance usually covers:

- damage to buildings, including fixtures and fittings
- damage to contents, such as appliances or other fixtures
- natural events such as flood or bushfire
- debris removal and demolishing
- council fees associated with rebuilding
- liability cover if someone dies or is injured on your property due to your negligence
- loss of rent
- rent default and theft by tenants
- mortgagee discharge costs
- workers' compensation if tradespeople are injured on your property while carrying out work.

This is a pretty extensive list of what can be covered by landlords insurance but not all insurance companies include all these items in their polices. Usually things like loss of rent, rent default and theft by tenants are optional extras. Loss of rent is generally capped at an agreed amount, often $5,000.

As mentioned in Chapters 2 and 10, if you can save money here and there, it adds up, especially across a number of investment properties, so shop around for a good deal. Most insurance companies will offer further discounts if you move all of your policies over to them.

Finally, I always advise my clients to organise landlords and property insurance the moment you sign the contract of sale, rather than waiting for settlement. This will overcome any legal complications that might

arise if the property is damaged between the time you sign and the date you settle.

Buying to protect your assets

This is where great financial advice comes into its own. Depending on your strategy, there are structures you can set up that will ensure your assets are as protected as possible. These structures include buying property in a company name or setting up a trust. By combining a number of these structures you will be able to buy more properties, more quickly and protect your personal assets at the same time.

12

Revalue, add value and replicate

OK, so all the measures are in place to maintain the portfolio you have. Now it's time to build on it. If you are truly to become a multimillionaire property investor you will need to acquire multiple properties. One will never be enough to properly secure your financial future. Do the maths. If you bought one property for $500,000 today (let's assume property doubles every eight years as history has shown), in 16 years your property will be worth around $2 million. Once you settle your original loan of $500,000, you will clear $1.5 million (to use round numbers). In 16 years' time $1.5 million will be a nice sum of money to have at your disposal. But would that sustain a more-than-just-comfortable lifestyle for the remainder of your days?

Table 12.1 gives you an estimate of how much a $500,000 property would be worth in eight, 16 and 24 years' time.

Table 12.1 – Purchasing one investment property

	Property value*	Loan	Profit
Today	$500,000	($500,000)	$0
Eight years from now	$1,000,000	($500,000)	$500,000
16 years from now	$2,000,000	($500,000)	$1,500,000
24 years from now	$4,000,000	($500,000)	$3,500,000

* This assumes the property doubles in value every eight years.

Replication – the magic of accumulation

I believe you need five properties at a minimum to become rich. The above strategy needs to be replicated. Let's see what happens if you bought five properties (Table 12.2).

Table 12.2 – Purchasing five investment properties (five properties x $500,000 properties)

	Value of five properties*	Five loans	Profit
Today	$2,500,000	($2,500,000)	$0
Eight years from now	$5,000,000	($2,500,000)	$2,500,000
16 years from now	$10,000,000	($2,500,000)	$7,500,000
24 years from now	$20,000,000	($2,500,000)	$17,500,000

* This assumes the property doubles in value every eight years.

To keep the numbers simple, let's stick with the above example and say you paid $500,000 for each property and all five were worth $2 million each in 16 years' time. You would have $10 million in property assets. One strategy for those who don't like to have loans might be to sell two

of them. This would give you $4 million from the sale of assets. You could clear the $2.5 million you had in loans and still be left with $1.5 million in cash plus three $2 million properties to retire on. Sounds easy, right? No loans, $1.5 million in cash and $6 million in property assets. Awesome, I say.

But what about capital gains, I hear you ask. Even if you had to pay $1 million in capital gains tax, you would still have $500,000 in cash and $6 million in wealth-building property assets. For those doing it, it is that simple; however, you do need a great team around you to assist in all the areas mentioned previously. Plus you need time – time to sit and wait for the full property cycles to rotate through and make you rich.

This is where the leverage loan is critical to your strategy: If you sold two properties and still owned three with no loans attached, you would end up with half a million and some loose change. With the three properties you own, you could live off all the rental income for the rest of your life. Don't believe me? Let's look at the numbers.

Continuing with the above example, in 16 years you would have three properties worth $2 million each with no loans:

3 properties x (4 per cent rent of $2 million property value) = $240,000 p.a.

That $240,000 is the rental income you could be living off if you follow the principles of the leverage loan.

How good would it be to know you have $240,000 a year to spend in your retirement in 16 years' time, with no debts to worry about?

Sounds like a plan, doesn't it?

Even if you only achieved half of the growth predicted here, you would still have $120,000 per year to live off. That would put you in the top couple of percent of retirees in the world.

Going back to the table with five investment properties, if you kept all five properties in 16 years' time you would have accumulated about $7.5 million in profit.

Look at the situation in 24 years, you could have profits sitting around $17.5 million. It certainly opened up my eyes when I built these strategies and looked at the long-term wealth potential.

That's why it's important to keep building your portfolio. And why stop at five?

Let's look at doing it for 10 properties (Table 12.3).

Table 12.3 – Purchasing 10 investment properties (10 properties x $500,000 properties)

	Value of 10 properties*	10 loans	Profit
Today	$5,000,000	($5,000,000)	$0
Eight years from now	$10,000,000	($5,000,000)	$5,000,000
16 years from now	$20,000,000	($5,000,000)	$15,000,000
24 years from now	$40,000,000	($5,000,000)	$35,000,000

* This assumes the property doubles in value every eight years (which is approximately 9 per cent growth p.a.)

This strategy has put many of my clients into a position where, after years of following this plan, they can retire wealthy today. About seven years ago, I had one couple who bought about 30 properties in 18 months, both with an income each under $57,000 and they are now very wealthy. So well-off, in fact, that private bankers came knocking on their door touting for their business. It's interesting that as soon as the banks see some wealth, they want to be your best friend and offer you the world!

So what if you could turn the clock back knowing that the median house price in Australian in 2002 was $224,163 and today it is approximately $500,000? How many properties would you buy if you could go back to 2002? Recently I have read numerous media articles talking about a median house price in 2020 being over $1 million. This theory really resonates with me. If in eight years' time the predictions are for a $1 million-plus Australian median house price, that tells me I should go out and buy as much property as I can now.

Take yourself back. Keep asking yourself, how many properties would you buy in:

- 1990 – when the median house price was $116,988 (capital growth of 172 per cent from 1980 to 1990)
- 1980 – when the median house price was $43,014 (capital growth of 163 per cent from 1970 to 1980)

- 1970 – when the median house price was $16,333.

The evidence is there for everyone to see. Search the internet, do your own research. This is capital growth of well more than 10 per cent per annum.

At the time of writing (in 2012) the median house price around Australia was $505,098. In 2002 it was $224,163. That's 125 per cent capital growth in 10 years! In 2025, it now sits at $1,152,000, up more than 128% in the past 13 years — more than doubled again. Property keeps surging forward, like a steam train.

Now you are feeling more comfortable that property keeps delivering the goods as a vehicle for capital growth, let's look at buying five investment properties at $400,000 each (Table 12.4).

Table 12.4 – Purchasing five investment properties (five properties x $400,000 properties)

	Value of five properties*	Five loans	Profit
Today	$2,000,000	($2,000,000)	$0
Eight years from now	$4,000,000	($2,000,000)	$2,000,000
16 years from now	$8,000,000	($2,000,000)	$6,000,000
24 years from now	$16,000,000	($2,000,000)	$14,000,000

* This assumes the property doubles in value every eight years.

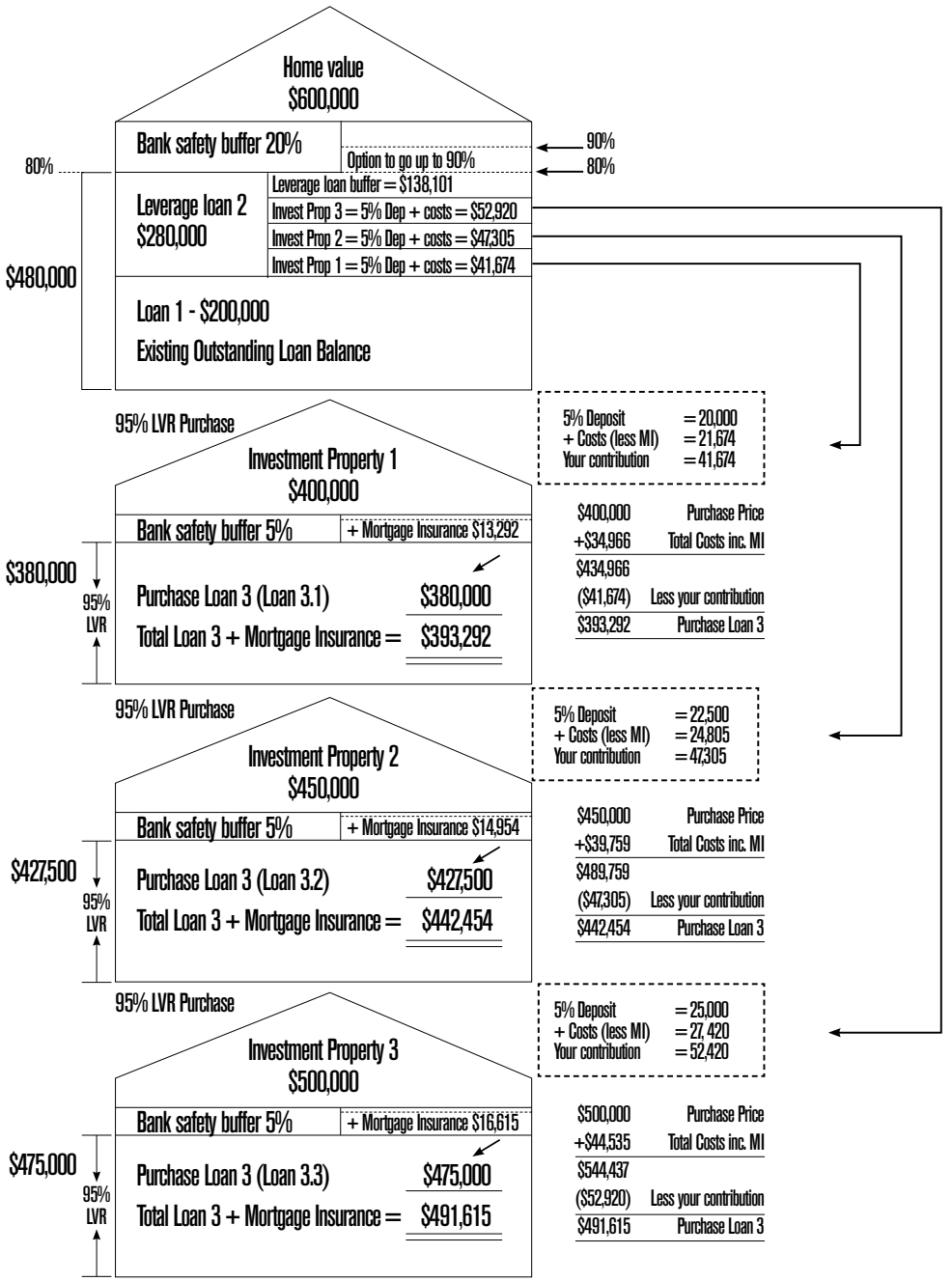
The formula works, but the leverage loan is key to ensuring you can hold the properties as each property needs to go through an eight-year property cycle.

Multiplying the leverage loan

There are numerous considerations that we have touched on when using the leverage loan to build a property investment portfolio. Figure 12.1 presents an example of a strategic path you could take, if you had some reasonable equity in your home.

In the example, the home owner has a home worth $600,000 and a $200,000 mortgage.

Figure 12.1 – Multiplying the leverage loan



In this situation I would buy three investment properties straight away, all at 95 per cent. Here is how things would play out (check back at Figure 12.1 if you get confused).

Loan 1 (the existing home loan) would be capped at $200,000, with your leverage loan (loan 2) taken up to 80 per cent LVR, being $280,000.

Buy investment property 1

Buy your first investment property for $400,000, contributing a 5 per cent deposit (plus costs) excluding mortgage insurance. The purchase loan will be $380,000 plus mortgage insurance of $13,292, making Loan 3 total $393,292.

You will need to contribute $41,674 from the leverage loan (Loan 2), being the 5 per cent deposit and costs, excluding mortgage insurance.

With a starting leverage loan of $280,000 less the $41,674 used to buy investment property 1, you will still have $238,326 in the leverage loan.

Buy investment property 2

Buy your second investment property for $450,000, contributing a 5 per cent deposit (plus costs) excluding mortgage insurance. The purchase loan will be $427,500 plus mortgage insurance of $14,954, making Loan 3 total $442,454.

You will need to contribute $47,305 from the leverage loan, being the 5 per cent deposit and costs, excluding mortgage insurance.

With a starting leverage loan (Loan 2) balance at $238,326 less the $47,305 used to buy investment property 2, you will still have $191,021 in the leverage loan.

Buy investment property 3

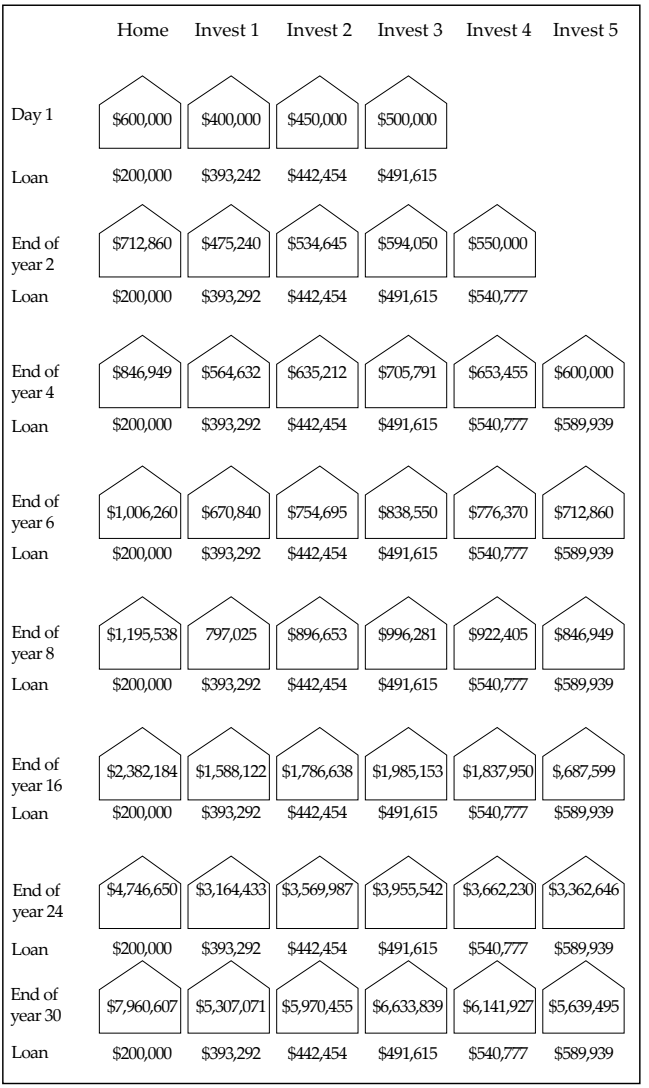
Buy your third investment property for $500,000, contributing a 5 per cent deposit (plus costs) excluding mortgage insurance. Your purchase loan will be $475,000 plus mortgage insurance of $16,615, making Loan 3 total $491,615.

You will need to contribute $52,920 from the leverage loan, being the 5 per cent deposit and costs, excluding mortgage insurance.

With a starting leverage loan balance at $191,021 less the $52,920 used to buy investment property 3, you will still have $138,101 in the leverage loan (Loan 2).

Figure 12.2 shows how this works diagrammatically.

Figure 12.2 – The concept of buying five investment properties



NOTE: Total loan amounts assume a 95% LVR, which means higher mortgage insurance costs. Under the leverage loan system you are structuring your loans in a way that you are borrowing 100% plus costs without cross securing properties.

After two years

Assuming 9 per cent capital growth each year, in two years' time:

- Your home will be worth $712,860, meaning you could increase your leverage loan up to 80 per cent of $712,860, which is $570,288 less your $200,000 home loan = $370,288. This is up $90,288 from the $280,000.
- This gives you another $90,288 to buy and hold more investment properties.
- Investment property 1 is worth $475,240.
- Investment property 2 is worth $534,645.
- Investment property 3 is worth $594,050.

Buy a fourth investment property for $550,000, contributing a 5 per cent deposit (plus costs) excluding mortgage insurance. The purchase loan will be $522,500 plus mortgage insurance of $18,277, making Loan 3 total $540,777.

You will need to contribute $58,428 from the leverage loan being the 5 per cent deposit and costs, excluding mortgage insurance.

With a starting leverage loan balance at $138,101 less the $58,428 used to buy investment property 4, you will still have $79,673. However, with $90,288 of new home equity, you can increase your new leverage loan balance to $169,961.

After four years

Assuming 9 per cent capital growth each year, in two years' time:

- Your home will be worth $846,949, meaning you could increase your leverage loan up to 80 per cent of $846,949 which is $677,559 less your $200,000 home loan = a new leverage loan of $477,559. This up another $107,271 on top of the $90,288 and the starting $280,000.
- This gives you another $107,271 to buy and hold more investment properties.

- Investment property 1 is worth $564,632.
- Investment property 2 is worth $635,212.
- Investment property 3 is worth $705,791.
- Investment property 4 is worth $653,455.

Buy a fifth investment property for $600,000, contributing a 5 per cent deposit (plus costs) excluding mortgage insurance. The purchase loan will be $570,000 plus mortgage insurance of $19,939, making Loan 3 total $589,939.

You will need to contribute $63,920 from the leverage loan, being the 5 per cent deposit and costs, excluding mortgage insurance.

With a starting leverage loan balance at $169,961 less the $63,920 used to buy investment property 5, you will still have $106,041. However, with $107,271 of new home equity, you can increase your new leverage loan balance to $213,312.

After eight years

Assuming 9 per cent capital growth each year, in two years' time:

- Your home is worth $1,195,538, meaning you could increase your leverage loan up to 80 per cent of $1,195,538, which is $956,430 less your $200,000 home loan = a new leverage loan of $756,430. This is up another $278,871 on top of the $107,271 and the $90,288 and the starting leverage loan of $280,000. This gives you another $287,871 to either buy more investment properties or just hold the investment properties that you already have.
- Investment property 1 is worth $797,025.
- Investment property 2 is worth $896,653.
- Investment property 3 is worth $996,281.
- Investment property 4 is worth $992,405.
- Investment property 5 is worth $846,949.

After 16 years

- Your home is worth $2,382,184.
- Investment property 1 is worth $1,588,122.
- Investment property 2 is worth $1,786,638.
- Investment property 3 is worth $1,985,153.
- Investment property 4 is worth $1,837,950.
- Investment property 5 is worth $1,687,599.

After 24 years

- Your home is worth $4,746,650
- Investment property 1 is worth $3,164,433.
- Investment property 2 is worth $3,559,987.
- Investment property 3 is worth $3,955,542.
- Investment property 4 is worth $3,662,230.
- Investment property 5 is worth $3,362,646.

This example shows that in 24 years' time the property portfolio will be worth $22,451,488.

Now, as the leverage loan numbers showed in Table 5.1, by year 24, all of your Loan 3 balance would have paid itself off, leaving you with no loan on any of the investment properties. However, let's play the devil's advocate and assume you have not paid off any of the purchase loans on all properties (except we will assume the shortfall monthly payments and the deposit and costs used have paid themselves off within the leverage loan, which usually happens well before the 16-year mark), your loan balances for all six properties would be:

- Your home loan is $200,000.
- Investment property 1 (Loan 3) is $393,292.
- Investment property 2 (Loan 3) is $442,454.
- Investment property 3 (Loan 3) is $491,615.
- Investment property 4 (Loan 3) is $540,777.

- Investment property 5 (Loan 3) is $589,939.

This is a total of $2,458,077 of purchase loans on all five investment properties plus $200,000 still on the home loan.

If you are the type of person who wants to eliminate your debt, you could sell investment property 3 and, even after taking off the capital gains tax, the five investment purchase loans of $2,458,077 and the $200,000 home loan could all be paid off. You would be left with a home worth $4.74 million and an investment portfolio worth $13.75 million, and some cash left over.

This is only one example of the path you can take. The options and strategies can range far and wide. That's why it's so important to know your numbers, have a well thought out plan to suit your goals, and have a team around you to assist with the implementation of your ultimate property plan.

Revalue

To get the best results from the strategy, you should revalue your properties every one to two years. Reason being, you want to be able to continue to draw equity as your property values are rising, so you can top up your leverage loan and re-invest in more properties. My theory is, you should revisit your mortgage broker every one to two years, who will arrange your bank valuations. Knowing you have bought well, with extra equity, you will use the bank's money to secure your next deposit and the costs for your next property purchase. Remember you are buying capital-appreciating assets.

Let's go back and closely analyse the numbers over the years on the example just given in Figure 12.1. It is very important to revalue your properties every one to two years, so you can access and draw upon your useable equity.

Each time you apply for a loan to obtain additional funds, the lender will need to value your current properties. The valuation will be conducted by an independent valuer. To arrange this, go to *www.mymortgagementor.com.au* and complete Exercise #10.

These valuations give a realistic guide as to what your property portfolio is worth, although many valuers tend to be on the conservative side. I talked about how live valuations work in Chapter 5.

Add value

No matter what your strategy for building wealth through property, it is always worth spending at least a little time and money improving the appeal of the properties you own. This will have the dual effect of increasing their bank valuations when it comes time to re-borrow, plus a more appealing property will be able to collect more rent. You can make low-cost improvements such as tidying up the garden, replacing broken tiles and sticking down curling linoleum.

Painting is a relatively low-cost improvement that can make a huge difference. If you have the time you can do it yourself to save money, but if it's a larger property this can take some effort and patience.

You can cheaply update window furnishings with blinds bought online – the selection these days is incredible and the range of sizes means it's more than likely you will be able to find something to fit your windows.

Even replacing carpet can be done relatively cheaply. Every Australian city has stores that specialise in factory seconds or lower-end carpet designed for rental properties. If it is fresh and clean it will really lift the feel of the property.

Handy do-it-yourselfers will be able to re-grout tiles to freshen up the wet areas. Alternatively, you'd be amazed at the job that some professional cleaners can do in bringing smelly, unloved properties back to life. As long as they are not damaged, carpets, curtains, stovetops, baths… they can all be brought back from the dead.

Higher cost improvements that make a huge impact include new kitchens and bathrooms. Again, you don't have to get cabinetry custom-made. There are plenty of off-the-shelf options that will do the job nicely.

Remember that the costs of all these improvements are tax deductible and you can fund them through your leverage loan.

Developing property

Buying properties with long-term high-growth potential is a strategy that I get whole-heartedly behind. It's one of the key planks in my own strategy. But buying run-down properties in great locations and building something new on the site is another way to go if you are after some shorter term gains. You can make some big money very quickly.

I have a client, Paul, who recently bought a property in Box Hill North, an affluent suburb within 20 km of the Melbourne CBD. He paid $630,000 for a house on a large block. Once he took possession he immediately subdivided, creating a separate block behind the house where the backyard once was. After subdividing he sold the house on the front part of the block for $535,000.

Without taking holding costs such as interest into consideration, it meant that he paid $179,000 for the land at the rear ($630,000 purchase plus $84,000 renovation less the $535,000 sale price). The construction cost of the new house was $290,000, planning costs were around $22,500 and the end value of the newly built house was around $770,000. The total cost not including interest comes to $491,500. He created $278,500 in equity!

That's a nice way to make some good money while still working in a full-time job.

Recently I bought some land in New South Wales with a family member and we subdivided the block, built two four-bedroom, double-storey, double-garage townhouses and have made approximately $150,000 profit, with more than 6 per cent rental return per annum on each property, which is fantastic investing.

These are good stories, but even the average stories of savvy property development are good. Stories about buying a $600,000 block with a run-down house on it, bulldozing the house, building three or four units, selling them for $700,000 each and walking away with a million-dollar profit (once you factor in the cost of building the units) are common. Remember, when developing, do your numbers first, based on conservative numbers. If you do your due diligence and be conservative, the profit outcome will usually end up with a better ending than the numbers first suggested.

Building, however, is a much different proposition to buying well, sitting

on your investments for 25 years and retiring. In buy-and-hold strategies, you don't have to do that much work. Yes, you can pay someone to oversee the construction if you choose to build but you won't make as much money. Doing it yourself takes time and a steely personality, especially when you have to deal with unreliable tradespeople.

So, where do you want to end up? (see Table 12.5). Recent statistics say about 95 per cent of people end up broke in retirement.

Don't let yourself be one of them.

Table 12.5 – What category do you want to fall into?

Category	Income in retirement	Net worth
Broke	$800 net per week / $41,600 p.a.	2 x $400k investment property / $800k
Just getting by	$1200 net per week / $62,400 p.a.	3 x $400k investment properties / $1.2m
Moderately secure	$1600 net per week / $83,200 p.a.	4 x $400k investment properties / $1.6m
Independent	$3000 net per week / $156,000 p.a.	8 x $400k or $3.2m in net assets
Financially free	$6000 net per week / $312,000 p.a.	$6.4m in net assets
Wealthy	$10,000 net per week / $520,000 p.a.	$10.4m in net assets

Summing it up

To summarise, this book has taken you through the five steps to becoming rich through property.

The five steps are simple and easy to follow. They are:

Step 1 – Plan your strategy. Who are you as an individual? Where are you at financially and what do you want to achieve through investing? This knowledge helps to build a strategy that's right for you.

Step 2 – Fund your properties. Now you know the financial process of funding your property investments – how to set up your loans, the various strategies available to us all, and what you need to know about the banks and their processes for lending money.

Step 3 – Buy well. Target the right properties that will give you the maximum capital growth to achieve your goals. There's a lot more to it than just a good location.

Step 4 – Manage your portfolio. Property investment should be treated like any other small business venture. Ensure you are making the most money you can now and in the long term.

Step 5 – Protect and grow your assets. A cruel twist of fate has brought down the savviest of businesspeople and investors in all types of industries. Protecting yourself and your assets will ensure no accident or disaster will derail your investment strategy. Multiply your property portfolio and continue to add value and revalue every one to two years.

A final word

There you have it. The investment property plan that will put you on the right path to financial freedom. Wherever your financial journey is at, following the five steps to becoming rich through property and completing all the 13 wealth-building exercises will set you well on the road to bulletproofing every aspect of your financial life.

Remember: Life is about having fun and enjoying yourself. If you can sort out your numbers you will be in a much better position to do all the exciting things on your bucket list, without financial worry. Let's be honest, that's what most people live for – having fun. Having goals energises your life and if you can retire financially free, you will hopefully live a long, secure and stress-free second part of your life.

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Imagine having a clear pathway to:

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- Use your income and equity more effectively.
- Build wealth through property.
- Create greater financial freedom for you and your family.

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Live your ultimate financial life.

STEPHEN ZAMYKAL

THE INVESTMENT PROPERTY PLAN

*The **5** steps to becoming rich through property*

What stops people becoming rich through investing?

- Little understanding of their current or projected financial situation
- Not knowing how to manage their finances
- Not believing they can be financially free so not planning for it
- Being scared of debt and therefore making ill-informed financial decisions or not investing at all
- Choosing under-performing assets, minimising the return on their investments

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Start making your money work for you.

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