Monopoly Money

This is all about armchair income. I touched on this on the Master disc of IRL when I spoke about how people should have seen the property crash coming and how the search for INCOME can let you know what is a good investment and what isn't.

It's worth repeating here:

There's a word we're going to talk about a lot here in IRL, especially on the 'Armchair Income' discs:

INCOME.

How important is this word? Well, if everyone had paid attention to it, they wouldn't have got burned in the recent property crash!

Now, this isn't a course dedicated to property investment, but this is worth an explanation before we move on…

What people lost sight of in the real estate boom(s) is the critical question anyone who understand money asks before making any investment: what's in it for me and what's the risk?

The foolish assumption 'investors' made here was assuming that property prices would continue to skyrocket and thus, they didn't care if the property threw off any income. Worse, in many cases people were happy to take a loss because they thought they would make money on the appreciation of the property.

NEVER do this. As people are reminded once every decade or so, property prices CAN and WILL go down for periods of time. The longer term trend may well be up, but try telling that to people who bought investment property in 2006 for top dollar!

So, by knowing this we can also get a good idea for how to truly value a property…

Let's say you have $200,000 that you need to put to work. What are your choices for income currently and how safe are those choices (obviously higher income usually carries a higher risk)?

If you buy a rental property with that $200,000, how much would you realistically make a year after all expenses and tax?

Now, take that amount as a percentage of your $200,000. Weigh this up with the risk of owning property in terms of completely losing your money over time (low risk) and the effort involved.

Now look at what else is available comparing like for like in terms of stocks, bonds etc.

If you're only getting 3% on your $200,000 property investment, that property might well be too expensive.

So now please tell me, if you can find a property today that honestly throws of a net rental profit of 10%, is that a risky investment?

No, of course not (property will always be needed and most of all, 10% is very nice). But talk to anyone these days about real estate and they run a mile!

Start looking at every venture in terms of INCOME!

When you do this, you'll start to see that most investments are NOT worth doing and it will stop you making poor decisions and paying too much.

Remember, automated INCOME gets that runner across the finish line!

So with that in mind, I hope you're ready to revisit what is an excellent source of safe income IF YOU DO IT RIGHT AND NOT LIKE ALL THE CLOWNS WHO GOT BURNED…

Property- Easy Money Basics

A lot of talk about property today, and a lot of confusion too. I'm here to perhaps plug a few holes in your knowledge. The first thing to remember is something we keep coming back to:

The media, the masses and the politicians all give you inaccurate information!

I will be showing you proven methods of buying properties to provide you with passive income using none or very little of your own money. That by itself represents minimal risk of course, but let's understand why real estate itself is a relatively safe investment of your time.

Would your bank manager give you a loan to buy some shares? Of course not! Would he give you a loan to buy property? Yes- and give you a much lower interest rate than any other type of loan! Why? Because property is considered a safe investment; if you default on the loan, the bank can easily get their money back by taking back the property.

Plus, you get a tax-deduction on the interest you pay AND you're allowed to claim back depreciation (!). More about this at a later stage, but the advantages of property are endless!

PLUS, property increases with inflation but the borrowing on it stays the same. Say you buy a house for $200,000 with a $180,000 mortgage. In 20 years the value of the property could very easily be $600,000, but the mortgage debt would be the same!

All Aboard!!

Throughout history, property has steadily increased in value generally- an enviable track record in relation to many other investments out there, including savings accounts! The relatively recent images of the early nineties are still vivid in many peoples' minds though when it comes to investing in this area.

The media told you all about the hard-luck stories- they thrive on panic and fear. But what actually happened? Did all property entrepreneurs suffer?

Well, the whole property debacle wasn't a very accurate reflection on property investment as a whole. But it was a very accurate reflection of what happens when governments start meddling with things they know little about (like they're still doing to this day). Like economies.

Inflation was allowed to spiral out of control to cut a long story short and the government responded by raising interest rates to outrageous levels in a desperate attempt to curb the overheating economy (higher mortgage payments = less disposable income in homes). As you probably well know, the short-term effects of this was to put off first-time buyers taking the plunge- that combined with a recession too, destroyed confidence in the buying market and resultantly, people instead turned to rental properties until the storm passed.

Right, that paragraph contains some important lessons as to what drives the property market and most important of all, *how you can profit from it regardless what the economy is doing.*

The greater the demand in relation to the supply of something available, the higher the prices become right? So what is the overriding supply/demand factor in the property market?

First Time Buyers.

Those three words are now to regularly worshipped by you! What's going on in these peoples heads is the key to it all, but by learning how the players do things, you'll win whichever way their minds turn. But let's just become clear about just why they're so important.

Firstly, without them virtually the entire property sales market stagnates. To elaborate, if you own a property already and want to move you need a buyer and for them to sell their property, they need a buyer and so on. Very obvious I know, but it's an important principle to bear in mind always. For the whole chain of buyers to start moving, there needs to be someone at the bottom- a first time buyer.

So what makes them tick? Who are these upstarts that we have to pay so much consideration to? It stands to reason that they are younger people aged 18 to 30 usually and often childless couples. Probably in the early stages of their career, job security and relocation are key factors that dictate their buy/rent decision.

Clearly, if the economy (or the local area and/or the company they work for!) is doing fine, they feel secure in their jobs and their postings, they will have surplus income to save up for deposits and furniture and generally feel confident enough to buy a property rather than rent. This is what's been happening in recent years and hence why property prices went through the roof in the late nineties.

While I'm on this point, I want to bring your attention to a marked change in the trend of first time buyer habits. Due to salary inflation, first time buyers are missing out the cheaper properties causing a stagnation, and even a decline in value in the many of the cheapest properties.

Now of course, the opposite is equally true with regard to the first time buyers buy/rent dilemma. When things aren't too good, renting a property becomes more attractive.

As well as all that, there's a very simple question going through FTBs (first time buyers) heads: "Can I afford the monthly payments?"

Notice something; the question they're asking isn't as much about whether the property is worth the money or how the mortgage will be paid off. Generally, as long as the monthly payment fits their budget they're happy. And what determines affordability? Interest rates.

Is it cheaper to buy or rent? The levels of interest rates answer this question for the FTB. But either way, you win!

It's A Win / Win!

So, did all property entrepreneurs get burned ?

Many did yes, and many will this time round too; those people being the hack amateurs that have blundered in blindly and don't know what they're doing. A buoyant marketplace covers a multitude of sins, but when times get a little tougher only the informed will survive and prosper; while all the wannabes run for the bunker you'll be calmly and continuously making money for nothing!

So what's this win/win trick that will set you apart from the crowd and make you profit regardless of what's going on in the heads of FTBs?

Making sure that whatever property you buy is suitable for renting as well as selling!

Get it? People have to live somewhere! If FTBs are in a buying mood you profit by selling them property; if they are unsure then you profit by renting them property. As a rule anyway though, there is pretty much always a rental and purchasing market if you know what you're doing.

In any case, it's all about creating value in a property.

Your Simple Real Estate Profits

There now follows a list of possible modifications/improvements to properties. We're going to play a little game now to get you thinking!

What I want you to do is arrange these things in order of what you think offers the best return for money spent i.e. which ones have the biggest effect on the value of a property **in relation to what it cost to do them?**

Converting the garage into another room
Swimming pool
Tasteful redecoration
Landscaping/tidying the garden
New Kitchen
New Bathroom
New Carpets
Creating a carport when there wasn't one before

When you've finished, take a look at what follows to find the correct order.

Creating a carport when there wasn't one before (we'll talk about why in a second)
Landscaping/tidying the garden (Presentation and convenience)
Tasteful redecoration (As above)
New carpets (As above)
New Kitchen
New Bathroom
Swimming pool (A bonus, nothing more)
Converting the garage into another room (This is likely to devalue the property)

Do you see? It all comes down to convenience and packaging! **Now listen up. This is the essence of making money from buying and selling property: *The things that cost the least to do are the things that put the most value on a property!***

I know people who make their living just from this simple piece of knowledge- I'm talking more than most people earn in a year for just a few phone calls.

Most people work harder than ever before- they have less time and more money as a result. People lack imagination and foresight to picture how a property could look if they did all the work themselves. Presentation is everything. They want something they can just move into-a ready made home. And **convenience carries a price!** That is where the shrewd property developer comes in.

A carport can be installed for as little as $1000 but will increase the value of the property by as much as $10,000!!

Let's think about this for a second. Say you buy a property for $100,000. Forget about arranging the finance and the down payment for now because later I'll be showing you how to do all this even if you have no down payment and a lousy credit-rating.

You get the property with a $10,000 down payment, which you may have borrowed from the bank. Okay, so you then install a carport for $1000 and tidy up the yard and re-decorate, and get the property refinanced at a new, increased value of $120,000. The bank then advances you 90% of the new value = $108,000 mortgage.

With that $108,000 you pay off the original $90,000 mortgage, leaving you with $18,000.

With that $18,000 you pay off the loan you took out for the $11,000 for the down payment and the carport, leaving you with $7,000. Closing costs would run at about $5,000. This leaves you with $2,000 AND a property which earns you a rental income of approximately $150 a month after expenses!

Unbelievable! You didn't use a penny of your own money and you walk away with $2,000 in your pocket and a monthly income!!! Deals like this are very easy to do and present themselves daily if you open your eyes!

What's that? You think there would be too much competition to find a property without a carport? Just the opposite! Most people would turn away BECAUSE it doesn't have one!

Something else to consider when thinking about improving either your own home or a future investment property is this. **50% of buyers have made up their mind by the time they walk through the front door.** The front of the house should look tidy. The hallway bright and new. You should always show potential buyers the best parts first in a viewing. Keep the colors fairly universal- creams and beiges work the best.

People aren't just buying your home though. Oh no. **They are buying your lifestyle!** Strange as it may seem, buyers seem to forget that all the nice furniture, dishwasher and TV are not sold with the house! Pay careful attention to lighting. Lay the dinner table. Put the garden furniture out. You get the idea. Simple, but this is very important. Obviously this doesn't apply in whole to investment property, but this demonstrates the classic trait of human nature that will make you a great deal of money- laziness!

Too many people think if something sounds too good to be true, it must be. If that's what they choose to believe, every time you come across something that sounds too good to be true, (like a property worth $250,000 that's on the market for $200,000) you'll dismiss it as a hoax and move on to more 'believable' deals.

Let me give you a few reasons why bargains that could make you $50,000 quickly are sitting in your own city today, just waiting for you:

1. **Divorce.**

   This is usually the most common reason properties are sold well below value. They just want ‘out’ so the couple in question can get on with their lives.

2. **Not getting an appraisal.**

   People think they’re saving a buck or two by not bothering with an appraisal of their property. Very often, they may not appreciate how much their house is worth.

3. **Foreclosure.**

   Banks aren’t in the property business; they’re in the lending business and they just want their money back quickly. This means a bargain price usually.

4. **Realization of an inheritance.**

A property may have been left in a will to a few children. They won’t be greedy as this is money they didn’t have anyway. They’ll just want the money out quickly.

There are many reasons, but they all come down to one thing: **A Motivated Seller**. These are the people you must home in on to find the bargains in your city. I’ll be showing you how to uncover the bargains in your city later on;

I’ll show you how to make more in ONE low-cost property deal than you earn for working a whole year! From a property that’s in your very own town right now.

Motivated sellers are in about 5% of all sellers, but they’re quite easy to spot when you’ve had some practice. They are irrational and very flexible.

In the last level, we explained why debt was a bad thing. But in fact, debt is a double-edged sword; it can work for you or against you. It works against you when you borrow money to buy things which don’t give you any income.

However, if you borrow things which DO bring you income, debt is a GOOD thing. Make sense? Let me explain further…

Why The Banks Will Make You Rich!

If you’re a homeowner you’ve already probably made money from buying property- your house is probably worth far more than you paid for it.

Well, although what you say is true, any gain on the property you live in is in fact ‘paper money’ because you don’t have access to the capital and if you sell the house, the next place you buy would eat up all your capital unless you move down market. Let’s take a typical example:

John bought a house for $100,000 with a 5% deposit of $5,000. He cosmetically improved the property for little expense and a few months later he sold it for $120,000.

After paying closing costs he was left with a profit of $14,000. Now a question:

Please can you tell me the percentage net profit John made on this property?

Are you thinking the following?: Profit = 14,000.

14,000 as a percentage of 100,000 (cost of home) = **14%?**

Well you’re wrong! How does **280% profit** sound?

Absolutely true. You see John’s investment was only the deposit of $5,000. If he proceeds to make a profit of $14,000 from it that’s a 280% return on investment.

This process is called gearing. It involves using other peoples money (OPM) as leverage to get more ‘bang for your buck’.

More fortunes have been built on borrowed money than any other way! And this is how you can gain financial freedom from a relatively small amount of money.

Please note the difference between consumer and commercial credit. Consumer credit involves buying a load of depreciating assets such as stereos and TVs at ludicrous rates of interest.

Commercial credit is good but consumer credit is bad and it is most important that you learn to distinguish the two if you want to grow wealthy.

Your 9 Steps to a Million

I’m going to show you what happens when you combine the power of compounding with the power of gearing. The results are awesome!

Let me show you how compounding and gearing turn $5000 into $1,000,000 in nine simple steps. If you don’t have $5,000 right now don’t worry as I’ll be showing you how to start with absolutely nothing in a later lesson.

If you can make even a 100% return on your investment once you can do it again, only by using the power of compounding you can buy two properties next time or a bigger property and so your profits keep multiplying.

Let me demonstrate your eight steps to a million starting with $5,000 doubling each time:

Property 1 profit = $5,000 so total capital is now $10,000. You buy a property twice as big now.

Property 2 profit = $10,000.

Now you do the same again by buying two properties. Then four properties, then eight and so on.

Stage 3 profit = $20,000.

Stage 4 profit = $40,000.

Stage 5 profit = $80,000.

Stage 6 profit = $160,000.

Stage 7 profit = $320,000.

Stage 8 profit = $640,000.

Stage 9 profit = $1,280,000.

You won’t even have to pay any tax on that as I’ll explain another time!

Yes, But…

Okay, rewind a little you say. Let me tackle all the common objections most people have about property. By the way, MOST people will have a problem with investing in real estate and they will tell you as much.

But remember, MOST people are also poor or hopelessly trapped living from paycheck to paycheck! Is it worth listening to them about real estate? In fact, doing the OPPOSITE to them sounds like a great plan!

“It’s not possible to get a 90% mortgage!”

Shop around! There are banks that will do this. Check out the Internet. Even if you can only find an 80% mortgage, what’s to stop you borrowing some of the equity on your existing home?

I’ll also be showing you how to construct deals where you don’t part with a dime…and even walk away with cash in your pocket!!

“What if I lose a tenant?”

You just get another. I'll be showing you how to get and keep the best tenants.

"I don't want calls from tenants in the middle of the night to go and fix a toilet!"

What makes you think I do? I don't know one end of a hammer from the other! I'll be explaining how to get a suitable management company to do all this for you while you take it easy.

Okay, now let's get started on how to actually do it!

The 100-10-3-1 Rule

Perhaps you or someone you know has considered investing in real estate but decided against it as there were no suitable properties to be found. This usually means they took an afternoon to look at a couple of local properties and then gave up!

Time for your first lesson:

If you look at 100 properties, put offers in on 10, and try to arrange financing for three, you MAY end up buying 1.

People, it's just a numbers game. The 100-10-3-1 Rule is a pretty widely accepted formula amongst professional property investors. Amateurs ignore this principle which is why they always believe "all the good ones have gone already."

Don't worry though, it's not as much hard work as it sounds! By looking at 100, I don't mean actually physically seeing the property; you might just look at the details on paper after a realtor faxed them to you.

After you've seen around 20, you should be getting a good idea about what represents a bargain in your criteria. How are you supposed to find time for this? Come on, arrange it properly and you can easily see 15-20 properties in a day! You either want financial freedom or your don't. It may seem like hard work now, but it's all so you can take life easy in the future! Think about WHY you're doing it.

Here's a neat idea if you're really pushed for time: Recruit a bunch of college students or teenagers. Tell them specifically what you're looking for and tell them you'll give them a hundred bucks if they find a suitable property you end up buying.

So now let's see just what we're looking for and how to find it.

The Classified Ads Are Goldmines!

I'm talking about the small ads of just a few lines. These are a prime nesting ground for motivated sellers! These are people who are clearly not using a realtor. This means they quite often don't know the true value of their property. Sure, sometimes they'll want way over market value, but by the same token, they will also be sometimes way under.

Plus they'll have less interest this way as opposed to having a realtor arrange viewings. This means they'll be more open to offers.

I Love Realtors And So Should You!

I want you to go and do something you never thought you could ever do- go out and hug a realtor today! Why do some people get offered ripe investment properties before others? Because they know how realtors think and work. Once upon a time I was a realtor and I learned a great deal.

When a new property comes on to the market they will call the people who are the strongest prospects first- i.e. the people who are serious and can move fast.

You'll need to introduce yourself to the realtors in your chosen area and state your intentions. Befriend them. Take them out for a beer and a sandwich or whatever. Be professional; the knowledge in this course will enable you to talk like a pro. Realtors know that serious developers move fast and that way they get their commission guaranteed fast.

Realtors love property developers.

Once you've sold your first property you'll never look back. Realtors will know you're serious and will come to you again with properties and if you're regularly selling property, then you are a regular customer for them!

Breaking the ice and making your first deal is the hardest part. Gain their trust by not wasting their time and following through with any offers you make. Tell them that you will be at the property within twenty minutes of him phoning you with the details!

And make sure you're there. Time is of the essence once a good development property comes on to the market, plus this lets the realtor know early on that you're not a time waster.

The only way to be able to make fast decisions is to know the local market back to front in terms of prices. Learn what prices properties are actually selling for rather than what they're on the market for- there's a big difference sometimes! A neat way of giving yourself a crash course in discovering what's what in the area is to pick a day and ask an agent to show you a dozen properties with the most development potential. When you make these viewings ask as many questions as possible.

Don't spread your market knowledge thin by trying to deal in loads of different areas; select just one. Knowing your market is key.

Other Pointers For Dealing With Realtors:

Never use just one; have several working for you.

Work with realtors who are property investors themselves if possible.

Walk into a realtor office and ask who is the best person to talk to regarding investment properties. IF someone comes forward, ask them what the best investment property they have on their books is. IF they give you one, ask them WHY they think so.

Getting Started

If you're really have trouble getting off first base, it's time to start fishing. Here's a good way to jolt yourself into action: ask the realtor to show you all properties that have been on the market for more than four months.

This way, the very least you'll accomplish is to learn why these properties are not selling, but you may even stumble across a bargain that everyone else has missed- remember the owners of these properties might be getting desperate now and could be open to a low offer!

Pay close attention to this 'bullet' guide:

Area. You should aim to buy in a fairly established town- this way there will be some older properties that have renovation potential (= profit). There will also be established services and transport links.

The area is more important than the actual property. A smaller property but in a better area will have more profit potential than a larger property in a poorer area. The poverty gap is widening and people will pay a premium for the 'right' area.

The standard of schools vary widely from one area to another and as you know, children are generally only allowed to go to the schools within their area. If a family home is within the area of the good school in the area it will sell quickly.

Trying to spot an up and coming area is too risky really. If you get it wrong you could be out of pocket so keep it safe and simple by sticking to good quality areas that are already established. This way there will also be more renovation potential as discussed.

Bear in mind the people you are trying to attract. People want to live in an area where there are other people like them.

Visit the area/property at night, at the weekend and at a weekday to get a true picture- at different times of the week a street can become totally different. Facilities, shops and good transport links should be reasonably close by.

If possible avoid properties close to railway lines, pylons and telephone masts.

Some streets can be deceptive. It may appear that it is a dominated by houses when in fact they are all converted into apartments and this will result in parking problems because of the extra capacity of cars the road was not designed for. The trick here is to count the number of door bells on each property.

A little bonus that will serve you well is trying to get a property with just one special feature- particularly in an area where the houses are very similar. This gives the property an unquantifiable uniqueness that justifies a higher price than the others in the area.

I've told you how to get realtors on your side- having a network of reliable 'bird dogs' is by far the easiest. But there are other ways to find the right investment property. Private ads and leaflet drops are other good ways- you have the advantage of offering no agent commission too.

Here's a sample letter and leaflet:

(Your address)
12/5/03

Dear Sir/Madam,

I'm sorry for writing to you out of the blue like this, but I was passing your house today and realized that it just the thing I'm looking for. I didn't see a 'For Sale' board outside so I wondered if the property was for sale or if you are considering selling in the near future. The benefits of this for you are of course a saving on realtors' fees of around 8% of the purchase price!

Please let me assure you that I am not a realtor. I have the deposit and mortgage in place and am therefore in an excellent position to move quickly and have no chain beneath me.

If you have no intention of selling now, then I apologies for disturbing you but can I ask that you keep this letter safely tucked away somewhere in case your future situation changes?

Thank you.

Get the idea? Don't make it too slick (= untrustworthy) and don't make it look like the sort of thing realtors put through doors (i.e. don't use headed paper).

Property Urgently Required!

Probate, repossessions, scruffy properties needed. No chain, quick sale. We will view anything in any condition. Save realtor fees and release the value of your asset.

Call 123 456 7890

This is the sort of thing you just leave everywhere and anywhere as often as possible.

On cars, through mailboxes, in realtors etc. Even when you send a check off to pay a bill stick one in- the person who opens it is a potential seller. People keep things like this for never knowing when they might need it. People inherit property all the time (probate) and just want a quick return on it.

If you put an advertisement like this around enough or even put it in a local newspaper, you can be prepared for some calls. Here are the questions you will need to ask people when they phone:

Is the property already listed with an realtor?

First question. The best ones are usually not listed, but if it is already listed, don't be put off- remember, the seller will be inclined to take a lower offer by saving on agents' commission. Plus the fact that if the property is listed and the seller is phoning you, then he's getting desperate.

Where is the property?

Get the full address. If you don't recognize it ask where about it is. If the area is not a good one, don't let that rule a purchase out completely.

What is the asking price?

What is the condition?

Why are you selling?

It's unlikely that the seller will have prepared for the last question so you might catch them out and get an honest answer! We want to qualify each call thoroughly without scaring them away. Conclude the conversation by arranging to view the property.

Other Methods:

Keep a Dictaphone or notepad in your car and as you drive around start to notice properties that are looking shabby and put a leaflet through their door stating an interest in buying if at any time in the future they were interested.

Visit your local planning department and ask about condemned properties.

Get referrals. Whether people you come into contact with sell or buy or don't do either, tell them that you will pay $200 cash for introducing you to a buyer or seller that results in a deal payable upon exchange of contracts.

Traps for the Unwary

You need to be able to tell the difference between cosmetic distress and serious problems with a property and fortunately, with a little experience it’s not that difficult.

If the place has had all the doors ripped off, the décor is non-existent, the floor is saturated with pet urine and the kitchen is encrusted with grease and the garden resembles the Amazon jungle that’s absolutely perfect! IF the price reflects it of course- for this you need to compare similar properties but in good condition as a guide for profit potential.

However, if there are sloping floors this suggests a problem with the foundations for example.

Long cracks in the outside walls are a warning sign for subsidence.

When ever you view a property be sure to turn on all taps and flush all toilets and test the heating/ac system. Be sure to turn on the highest tap in the premises.

To test for wet rot, slide a pocket-knife into the wood suspected at a right-angle to the grain. If it penetrates easily, there is a wet rot problem.

Woodworm is easily visible (small holes) but the best place to look for it is under carpets and around toilets.

Dry rot is indicated by cube-shaped cracks in wood.

If in doubt, take a professional tradesman with you. We’ll be covering renovation another time in detail.

The Buy Low Sell High Myth

The strategy is not to simply buy when property is at its cheapest and then sell it at a later time. Although there is sense in buying property when the market is depressed and waiting for things to improve, it is a very limited strategy because the time between highs and lows in the economy is around seven to ten years.

If you are reading this at a time when property prices have been knocked hard perhaps because of recession then great but don’t sit around waiting for it. The strategy of the players is to buy properties that are in need of cosmetic work because if you recall, the things that cost the less to do to a property increase its value disproportionately.

This way you can make money throughout good times and bad!

Your Safety Factor

But what happens if you can’t sell it quickly? You’ll be stuck paying the interest on it every month! What happens if property prices crash just after you’ve made the investment? These are important considerations (not problems!!) and you need a safety net.

Any property you buy for the purposes of resale should also be suitable for leasing!

And always remember here that the larger properties attract less rent as a percentage of their value so it is probably a better strategy to buy several smaller properties than one or two big ones. Give yourself a deadline by which you will either have an offer on the property or a tenant installed- two months maybe.

If property prices do crash just after you've made the investment (not very likely), then the rental market will be booming as potential buyers put off buying homes and choose to weather the storm by letting.

With property, you will always win long term!

When you calculate your profit on the project don't include the natural rate of property price inflation (the annual figure that property is increasing by) because it may take a dip at any time.

You will not make your money by 'natural appreciation' as much as 'forced appreciation'.

In other words, not just buying property and sitting on it for years (although this is highly successful long term) but rather by forcing the value of the property up by means of minor cosmetic renovation. Having said that;

Absolute fortunes are made by cunning entrepreneurs buying run down property in recessions and then renting them out until the boom times return and selling them.

This powerful combination allows you to benefit from both natural and forced appreciation. Now I want to explain the property risk-buster I introduced you to in the first lesson: The Rule of Margin.

You need to achieve a 20% mark up after all costs on the resale of the property.

20% is essential. There is no room for compromise here whatsoever!

Here's a thing. Once you get started in buying investment property you'll notice that banks usually require a 20% deposit as a rule for security (later on I'll show you two ways of buying with no deposit at all though). So what's so special about this figure of 20% when reducing risk in the area of property?

As discussed before, we can build a 20% margin in by buying properties in need of renovation and force appreciation of the value by doing them up. Renovation for profit is a whole new subject and we'll talk about it in detail in another lesson.

This is why banks require a 20% deposit on buy to let mortgages. From their point of view, if the property market crashes by 20% (a worst case scenario) and you are unable to continue repayments, they could repossess the property and get all their money back. Let's say you bought the property for $100,000. This means that they only lent you $80,000 with a 20% deposit. The market crashes say and reduces the value of that property to $80,000 = the amount the bank need to get back out of the deal if it goes sour.

So this 20% rule of margin isn't negotiable. If it's good enough for the banks it's good enough for you! Just in case you think I'm splitting hairs, I want to tell you a story about a guy I once knew who was a property developer in the late eighties. It's a 'rags to riches….and then back to rags' story all because he decided to neglect the Rule of Margin.

He started by buying a property with no cash. He sold it, made a profit and reinvested the profit and so on using the '9 steps to a million' technique I explained earlier and strictly using The Rule of Margin. A few years later he had a multi-million dollar property portfolio. But as prices of properties started to go through the roof in 1988 he found it hard to continue to find places that could accommodate the 20% mark up he needed due to an out of control demand for houses.

So he decided to compromise the rule and take 10% margins instead- the alternative would be stop trading (the correct choice). In 1989 interest rates skyrocketed and property prices plummeted soon after. Meanwhile he still had to make payments. So did he do the sensible thing and rent the properties out? No, he just hung on in hope of a turnaround in the market. A few years later prices had dropped 20% wiping out all the profit he had earned in the years before.

Observe the two commandments and brand them into your forehead:

Anything thou shalt buy must be equally suited to both rental and resale.

Thou shalt always, always use the 20% rule!

Please don't write in asking me "Yes, I know you said 20% but I've found this lovely little investment but the margin is 18%….". **I'm not interested!** The line must be drawn somewhere and that's it.

You're not expected to be a whiz on this just yet- later in the course we'll be looking at this in more detail.

One bedroom apartment value = say $60,000
Deposit of 20% = $12,000
Monthly mortgage payments on balance (6%) = $240
Property Tax = $60
Monthly rent = $550
Monthly profit = $250 PLUS appreciation in property value.

Simple right? Well, there's a fair bit more to it than that such as buying the right property which is what we'll talk about later, but essentially this is why property rental is such an easy and passive income.

"That's all very well if you've got $12,000 to spare!". True, which is why over this course I'll be showing you how to buy a rental property with no deposit at all!

Now though I want to talk about the actual principles behind leasing.

Just think if you had ten of these properties! You could live off the rent and in twenty years time have made so much on the appreciation in value that you could retire very comfortably indeed. The very wealthy are acutely aware of this fact which is why real estate is always at the core of their investment portfolio. Most of them made their money by running a business and pumping the proceeds into shares and real estate.

The case for owning property is sound and simple. It has steadily and consistently increased in value and you cannot ignore an investment with this kind of track record. Of course, there have been times where values have leveled out or even dipped, but they always come back and stronger than before. As Mark Twain once said, "Buy land- they aren't making any more of it!"

Now, it's easy to get scared off by things like finding a tenant, interest rate rises, losing money on the property, tenants that won't pay and so on. STOP! That's why you're here- to make sure this is effortless by learning to do it like a pro, not all the 'wannabe' amateurs out there and don't forget 'The Rule of Margin' that ensures you just about never lose on property (we covered this in the previous lesson).

The first thing I want to do now though is talk about expected yields (income) from different types of property. Don't make the mistake of thinking that the larger the property value, the larger the rent! It's actually the other way round. The reason being that there is a higher demand for smaller properties- it is this type of property that the sort of people I referred to in the introduction want. Look at the following table:

Average rentals as a percentage of the property value

Furnished Rooms	19.3%
1 Bedroom Apartment	12.5%
2 Bedroom Apartment	11.5%
2 Bedroom House	10%
3 Bedroom House	8.1%
4 Bedroom House	6.3%

We'll talk more about furnished rooms another time!

With apartments, you do have to take into account community charges for maintenance of the communal block facilities (entrance hall painting, gardening etc.) which vary from one flat to the next. Even so, one and two bedroom apartments are very good news in the right location (more on this another time). Small, one and two bedroom houses are also worth considering and have the benefit of being free of any mainte-

nance charges. Now have a look at this table to demonstrate the fact that smaller properties are better for rental:

Size of Property	Average number of vacant weeks per year
1 Bed/Studio	**2**
2 Beds	**3**
3 Beds	**4**
4 Beds	**5**
5 Beds	**6**

Now this is important. There is an inverse relationship between properties for capital appreciation and properties for rental income. **That is to say, a one bedroom apartment will give you a higher rental yield, but at the other end of the scale, a luxury four bedroom house may give a lower rental yield, but the actual property will appreciate more in value each year. So it depends what you want. The two ways to make money from property are:**

Buying and selling for profit- larger properties.

Renting- smaller properties.

There's no reason why you can't do both, but don't ever confuse the two!

You also need to allow for a leasing agent's management fees which are usually 10% of the annual rent. Please don't bother trying to do this for yourself- believe me, the fees are worth it as long as you find a good one. The thing is, that good ones are few and far between.

Their job is to find you a tenant ASAP and keep them there as long as possible. They should check the tenant's credit and stability of employment, write an inventory, document the condition of the property and move the tenant in. But make no mistake, all they are interested in, quite rightly, is their cut. If your property is vacant for a few months, they don't lose out- you do. If the tenant misses a months rent, they don't lose out- you do because they get their fees in advance- they will collect one months rent in advance and one months rent as deposit from the tenant and deduct their annual fee from it.

With this in mind, it's important that you vet your agent very carefully indeed. The following tips on what to look for are extremely important:

A prominent location that will attract potential tenants and regular advertisements in the local paper. If someone is offering low fees it's because they can afford to by not having these things in place- don't be tempted!

Conduct a 'mystery shop' on them. Phone up pretending to be a potential tenant and judge their customer service skills. Ask yourself if you would be comfortable renting

something from them.

Check they have indemnity insurance.

It's a good sign if many of their clients are companies. Companies use rental agents for relocating staff often and this is very good news indeed. You can charge more and the rent is always paid.

Make sure it isn't just 'bolted on' as a sideline for a realtor. Many of the best ones are affiliated with realtors but be sure that it is a totally separate and dedicated department.

Ask them outright why you should use them as opposed to their competitors.

Your aim is to find a good agent and build a relationship with them that will last a long time. Explain to them that you plan to expand over the years and want someone to count on.

They will offer you 'full management' for an additional 5% a year. For this, you can basically leave everything down to them- they arrange all repairs and maintenance as and when it happens. Now this depends on you and your situation but I advise against it. I'll be showing you how to do a much better job yourself for little effort and it's a great way to learn more about this business anyway.

Now here's the most important thing to remember with leasing agents. They want you to charge as little as possible in monthly rent! The reason?

Well let's say you could get $600 a month in rent. If they can knock you down to $550 a month they'll be able to lease it easily and make their money quicker- they'll only be $5 down a month (10% of $550 as opposed to 10% of $600) but you'll be $50 down a month!

At the same time, if your property is too expensive, it may remain vacant for a while and this is something you definitely don't want. Study prices and know your market. Combine this knowledge with how much you feel you can trust the agent and set a price that will pull tenants in. Of course, when the property is viewed, this will make the decision for them if it's right and this is a whole new trick.

I bet your mind is filled with problems about this isn't it? What if they don't pay the rent? What if they damage the place? What if they move out? blah, blah. Excuse me, but this is nothing more than putting obstacles in the way! Your mind senses upheaval and is trying to protect you. Let me tell you something:

The difference between people running a business for a living and those doing it for wealth is property. A real problem is having to be a wage slave for the rest of your life constantly depending on other people for the next pay-check!

Sure, you're going to get things come up occasionally even with all the advice I will be giving you here. Deal with it- it only becomes a problem when you make it. Don't start cursing and blaming me for it- "I knew this was a bad idea!" That's the loser mind set.

The Right Property

Put yourself in the shoes of the type of people you want to attract. Your tenants are likely to be working people possibly without a car and in a transient point in their lives. The following pointers will guide you to getting the right rental property:

Make sure there are a few large companies around, especially big names- this is good news for relocation tenancies which pay top dollar on time and are usually long term. What tends to happen is that the company lets the property indefinitely and puts various members of staff in as and when.

As you've seen, apartments produce a higher yield than houses generally. As central as possible location is desirable with good access to rail and bus stations, bars and shops.

The town itself should be sustaining growth not declining. Take a look around- are new developments going up everywhere or is the whole place generally deteriorating? What is the town's main source of employment? Is this industry in decline or growth?

It shouldn't be out of easy reach for you. It doesn't have to be in the same town, but any more than two hours drive would be undesirable from the point of keeping your finger on the pulse.

Older properties tend to mean more maintenance. A/C, plumbing etc you just don't want the bother from the leasing point of view.

When looking at apartments ensure you check on payments to the management company for community charges and don't forget to factor this into your business plan.

Once you have found the right property, you need to make it suitable and attractive to tenants with the following advice:

If the place is cosmetically scruffy, all the better as you will increase the value drastically with redecoration. If you are going to replace a bathroom make it white and with a kitchen, make it dark colored durable work surfaces.

Use neutral or pastel colors when decorating. Carpets should be a medium shade, durable texture preferably with a speckled pattern as this shows dirt, stains and marks less. Apartments generally have quite small rooms so you can get good carpet from surplus shops.

With apartments it is best to get it furnished- especially if you want company leases. This shouldn't cost much because the 'minimalist' effect is very attractive and makes the place look bigger.

Provide a firm double bed, a durable neutral cloth sofa again, with a slight speckled pattern, a bedside table and perhaps a coffee table and a TV stand. The bed and sofa need to be compliant with modern fire regulations. A great place to get this stuff is shops that specialize in ex-hotel furniture.

Use lamp shades and ‘soft tone’ bulbs but make sure the place isn’t too dark- flats generally have few windows so you need to be creative with lighting to make the place look big.

Always use rugs in the bedroom, bathroom and lounge. This protects the carpets and adds a ‘homely’ feel.

Smoke detectors are a legal requirement and must be serviceable so best to buy these new. Check all local regulations for leasing property also.

You will also need to provide a washing machine, a kettle and a refrigerator. Again these can be purchased very cheaply from a second hand or reconditioning shop- but they must be checked electrically for fire hazards. Ensure the washing machine is fitted well to avoid problems down the line.

Flea markets, yard sales, dollar stores etc are good places to get cheap items. Remember, don’t sink too much time and pride into this- the aim is to keep costs down- you’re not going to be living there!

Try to bring your property on to the leasing market in January or August/September. These are the busiest times of the year for tenants. This way, either with a one year contract, every time a tenant moves out your vacant weeks should be minimized.

Use an agent that has an agreement whereby as one tenancy comes to an end, you have the right to have the agent show new prospective tenants the property before the existing tenants have moved out. Used successfully, this technique could reduce your vacant weeks to zero!

The information provided here must be adhered to exactly. You may think it’s just my personal opinion or common sense, but believe me, this knowledge has taken years to acquire- the hard way!

So if you have the right property equipped in the right way, you have gone a long way to ensuring that it is always rented out for top money with few problems.

Removing Risk

Now let’s look at some basic procedures for ensuring things stay that way and while building in a little more ‘safety margin’ for ourselves in the process:

It is well worth making the effort to actually meet tenants at the beginning of the tenancy. Be pleasant and subtly let them think that you’ve sunk every penny into the place. Tell them you hope they’ll have a pleasant time there. If the tenant sees you as an actual, honest working person, they are less likely to abuse the property and get behind on rent. Don't get over-friendly though- this is a business relationship and in the future you need to not feel guilty about raising rents!

Try to catch small problems before they build into big costly ones. Each time the tenancy is renewed, snatch a moment to give the place a thorough check.

If maintenance is required don't get the agent to sort it out for you- they won't care how much other people charge you! And don't bother hiring out specialists such as plumbers etc- far better to get acquainted with a general handyman for much cheaper rates.

From time to time, walk past and have a subtle look at the outside of the property. Do not enter though.

Take photos of the property inside and all the furniture as a record.

If you follow all my instructions, you should find tenants quickly and have little problems. If the property is not let out within a week or two approach the agent. You then need either to find another agent or reduce the price based on your gut feeling always remembering that the agent wants you to knock the rent down as low as possible.

Finally the area of non-payment of rent. If you've taken all my advice and especially if you have company lets, I would be surprised to find you in this situation. Nevertheless, here's what you should do:

Don't jump to conclusions if the rent doesn't appear on time. Banks make mistakes and so do individuals and there could be a perfectly simple explanation. A belligerent attitude will lose you respect from the tenant. Make a simple enquiry through the agent, failing that the actual tenant.

Your next step depends on what the outcome of the last one was. Remember all rent is paid in advance, not arrears and it cannot be allowed to pass- the tenant asking you to use the deposit or pay in arrears is not acceptable.

If an immediate solution is not forthcoming, you must write a letter giving a deadline by which the outstanding rent must be paid before legal action is taken. Deliver this letter personally at 8-00 am on a Sunday Morning. This is not harassment, just a polite way of letting the tenant know that this will have an impact on their life and privacy. The second letter should repeat the message of the first with the addition of stating that within one week you will place an announcement in the local paper stating the tenants name and what they have done and refer the incident to a credit agency. If they don't pay up after all this then you've done a lousy job of vetting them in the first place!

Don't be put off by all this talk of non-payment of rent. **In all the time I've been doing this I've never even encountered it once** so don't take it out of perspective. Like I say, if you do all your homework in the first place it shouldn't be a problem.

“Every problem has within it the seeds of its own solution. If you don’t have any problems, you don’t get any seeds.” – Norman Vincent Peale.

“Progress always involves risk. You can’t steal second base and keep your foot on first.”- Frederick Wilcox.

Power Negotiating

Of course, when it comes to the part of the offer, no-one likes it because haggling is involved and confrontation makes us uncomfortable. But it doesn’t need to. Just bear in mind that this is a business transaction and you need to make a profit- it doesn’t need to be awkward. There are some crucial techniques that you need to be aware of:

Virtually everyone with a property to sell expects buyers to come in with an offer that is lower than the asking price. But, and this is the important part, they also expect to have to meet you halfway.

NEVER say a number first. Whoever does loses!

I’ll use a real life example of my own here. The property was up for $98,000. Now amateurs wouldn’t expect to get more than a few grand knocked off. After asking him what he realistically expected to get, I offered $89,000 knowing full well they wouldn’t accept it. So why bother?

Because my dear student, the point of meeting halfway has just been lowered- let the haggling commence!

Half-way between $98,000 and $89,000 is $93,500. I actually bought the property for $92,000. You see, they will probably blow their top when they hear your first offer but your haggling position is starting from a favorable point now and more importantly, **their perception of the value of their property has been lowered.** This is why $89,000 has more effect that $90,000- it sounds a great deal lower than the asking price deliberately.

Staple a check to your low offer contract. This can work very well as money is hard to turn down. If they cash your check, they are obliged to accept your offer. This appeals to peoples’ greed and they also see that you’re serious. Money today is better than a promise of money tomorrow.

If the seller won’t play ball ask them to justify their stance. Explain that there are properties around that are cheaper and you are in business to make a profit. Politely!

Re-iterate your buying position- nothing to sell so nothing to sell, quick sale etc.

If you’re negotiating through the seller’s realtor and they are insulted by your low offer, remind them that they are required by law to submit all offers to their clients.

If you end up involved in a bidding match and all interested parties are requested to submit their final offers, here's a neat trick that could get you the property. Most people will offer in round numbers like $110,000. Your offer should always end in 111 e.g. $110,111. Those extra few bucks might just clinch it! The same principles apply to auctions especially.

A wise seller will be trying not to look desperate even if they actually are. Look for clues in their conversation and around the house when you view the property. Ask probing questions. If there are signs of financial difficulty, divorce, job relocation, death of the owner etc. these are the ingredients for a knock down price (see previous lesson).

Now don't think you're cheating anyone here- they don't have to accept your offer you know!

Look, I know from personal experience that it can seem like you're taking advantage of people who may have fallen on hard times. I've actually had the dirty job of taking over repossessed properties for the purpose of resale in my days as a realtor- I've had one owner literally crying on my shoulder as he gave me the keys. You don't need to tell me about how sad it is because I know more than most!

But look at it this interesting fact. Only 10-20% of repossessions involve the owners being evicted from their homes! Many repossessions are due to fraud, money laundering and a staggering 80% are due to the owners abandoning it! Anyway, even if it is a hard luck case, you can't help it and it wasn't your fault. Someone's going to make money from the situation so it may as well be you!

Slipping Through The Cracks

You need to be able to tell the difference between cosmetic distress and serious problems with a property and fortunately, with a little experience it's not that difficult.

If the place has had all the doors ripped off, the décor is non-existent, the floor is saturated with pet urine and the kitchen is encrusted with grease and the garden resembles the Amazon jungle that's absolutely perfect! IF the price reflects it of course- for this you need to compare similar properties but in good condition as a guide for profit potential.

However, if there are sloping floors this suggests a problem with the foundations for example.

Long cracks in the outside walls are a warning sign for subsidence.

When ever you view a property be sure to turn on all taps and flush all toilets and test the AC. Be sure to turn on the highest tap in the premises.

To test for wet rot, slide a pocket-knife into the wood suspected at a right-angle to the grain. If it penetrates easily, there is a wet rot problem.

Woodworm is easily visible (small holes) but the best place to look for it is under carpets and around toilets.

Dry rot is indicated by cube-shaped cracks in wood.

If in doubt, take a professional tradesman with you. We'll be covering renovation next time in detail.

Raising The Cash

Remember what we said in the previous lesson about gearing before you start getting nervous about borrowing:

More millionaires have been created with other peoples money than any other way!

There's a massive difference between consumer and commercial debt- the latter is good and the former is bad. Buying a washing machine with your credit card is a lot different to using the power of gearing to make a 100% return on your investment!

The Rule of Margin

Okay, we're going to construct a business plan for your property activities. There's no need to get a headache because there's nothing complicated about it and we need to impress those bank managers by showing we've done our homework (more later).

This is how the pros are separated from the amateurs.

When buying a property to sell you need to be looking at a 20% mark up after all costs (remember?) so you start at the price you intend to sell it for and work backwards.

You are able to calculate this by looking at similar properties in the area that are in excellent condition- the condition you will presenting your property in.

If you have a computer: Presenting the bank manager with this will look very professional indeed. Go to the 'Property Developer' program. First, only write in the green boxes- red boxes give you the answers you need. In the 'C' column you'll notice three green boxes with numbers in. You need to set the interest rate to whatever it is at the time-I've entered 6%.

Similarly, agents fees and the deposit required by the bank for the mortgage- I've set them both at the common levels until you decide the change them.

You need to enter the amount for closing costs. The interest is calculated as if you pay two months interest before you re-sell the property and this comes off your profit.

In the 'G' column you need to enter all the costs to develop the property- don't leave anything out. Compare the total of these costs to the refurbishment allowance that has been calculated based on your inputs of purchase price and the price you could re-sell the developed property at etc. If the actual cost to refurbish is a lot higher then the refurbishment allowance, the project won't work. Clever, yes?

Your bottom line profit is based on the actual cost of refurbishment, not the refurbishment allowance. Don't get scared off by the amounts of capital required by the given example- you'll soon know how to buy with zero deposit when you're just getting started.

Inside Secrets of Banks

Does it fill you with dread having to see a banker? You're not alone, but why is it so many of us feel that way? I think it is mostly down to the fact that there is a certain air of mystique around banks and bankers. But the fact is that they are nothing more than money stores and you are the customer and you are going to get them to help you get to freedom!

I have to get you out of the private customer mind set and into the commercial customer mind set. Walk into a bank with your cap in hand for a $3,000 loan for a car and they'll try to hide their yawn as they hand you a form to complete. If you're a businessman, they get excited.

I realized this one day when my bank told me that I now had a personal banker and could he arrange an appointment to see me- at my home! You'll see a different side of banks once they start to take you seriously and you'll then realize that it is you that is doing them a favor not the other way round!

Deposits are the lifeblood of banks. Bankers are paid bonuses for bringing them in. If they have your money on deposit for any longer than 24 hours they are making a profit on it. Of course, the other way banks make money is interest on loans- and that's what we're interested in.

When loans go bad all eyes turn to the person that granted it. It is not only a bankers responsibility to bring in loan business, but to bring in reliable loan business.

So although you are the customer, bear in mind that sitting the other side of the desk there is a nine to five worker trying to cover themselves at the same time.

This is a classic risk versus reward scenario.

You need to know the six 'Cs' that bankers will use to assess your application. In order or importance they are:

Character. Number one on the list this. You can have a solid gold credit score but if they think there's something not right about you, they'll decline the business. It's extremely naïve and idealistic to think that bankers aren't influenced by their own prejudices and opinions about certain types of people. Generally speaking, bankers reject people far more than the actual loan application.

Capacity. Capacity to repay. This is based on your earnings and outgoings at a personal level.

Collateral. The security you have to offer. For our purposes, this is the deposit. If you need to show proof of this, you can always borrow the money temporarily from another source.

Conditions. The economic climate at a national and local level and how it affects the type of project you're involved in.

Credit. Credit history. Notice how low down it is on the list! We'll talk about this in the following section.

Capital. Your net worth- assets and liabilities.

Are you aware that even millionaires get turned down for loans sometimes? It's true. The reason for this is banks are highly regulated in that they must have a balanced investment portfolio.

That is to say, loans cannot be focused too highly in one area such as property or businesses in a certain industry for example. They will try to spread it around for different uses so that they are not exposed to any one area should it be badly affected for some reason.

Obviously, if they had too many property loans and that market went through a bad spell and people started defaulting on their repayments, they would be in difficulty. So you may get turned down for a loan simply because their portfolio is too heavy in that particular area right now, although the banker won't tell you this. Here is how to get what you want out of banks:

Firstly, be professional. Always arrange an appointment and look the part- suit, tie, polished shoes- the whole nine yards. NOT because you're groveling but because you are projecting an image of a serious player.

Put together an attractively presented business plan along with a brief resume about yourself and your intentions. Include your credit report along with explanations for any adverse entries (more shortly) and your assets and liabilities. Package the whole thing in a clear sleeve presentation folder. Little things like this are rarely done and bankers will tell you off the record that it goes a long way indeed.

Do your homework fully about your project and think of what you will do if things go wrong- they won't generally if you follow all my advice, but this is how the banker will be thinking. An experienced banker will be able to tell in the first five minutes if you know your stuff.

Bankers prefer it if you have a job. Very strange but true. It's so they can see that you have something to fall back on and a regular income. If you're self-employed get a friend to 'employ' you or start a business in your wife's name and give yourself a job.

Never rely on just one bank. Mergers and takeovers mean that the person you developed a rapport with might not be there next week and their replacement might not be so sympathetic to your cause. You want as many credit lines as possible.

It’s not so much cash as cash flow that gets bankers excited. Your bottom line profit is of nowhere near as much interest as the amount of cash your business generates. More businesses go under as a result of lack of cash flow rather than lack of profit.

Okay, let’s look closely now at the type of finance you will need to support your property activities because it’s significantly different to the type of mortgage you would get to buy your own home. Let this bullet guide make this complicated area simple for you:

- They will usually require a 10-20% deposit for reasons you now know. But there are ways I will show you to get around this.

- Make sure there are no early redemption charges- if you plan to sell the property shortly after this will cost you dearly.

- Use the CD-ROM to help you calculate what represents a viable loan payment for the rent attainable.

- Also on the CD-ROM play about with variables to make sure you’re covered if the worst happens; raise the interest rate and/or lower the rental yield to demonstrate your break-even points. Fiddling around like this will give you an excellent feel for the whole thing.

- The interest rate can be expected to be about 1% above the personal mortgage rate.

- Some lenders offer fixed rate deals- this can be an excellent way of knowing exactly where you stand every month in terms of profit.

- Get a mortgage broker to do the shopping for you. One that charges a fixed fee rather than a commission from the lender- this way you’ll get the best deal rather than the one that pays the broker the most commission!

- Get a broker who’s on your side when it comes to getting the loan approved- one that doesn’t mind bending the rules occasionally!

- Use the broker to assess your business plans- they’ll have a good idea about the local market.

- If you are unable to raise the full amount of money you need and the property needs renovation, you could argue that the work you will do will put extra value on the property so the bank would have that extra security.

Instant Freedom

I’m going to tell you how to achieve financial independence from a single property deal now, as promised. This is how Conrad Hilton (The founder of the Hilton hotel chain) started out!

Earlier I gave you a table comparing different types of property to the percentage of value they return in rent. If you recall, there was one type of property that returned a massive 20% rental yield!

Remember? If you don't, the type of property I am referring to is rooming houses.

Now as you know, there are two ways to make money from property; renting and buying and selling for profit and the two should never be confused.

Larger properties produce the biggest profits for buying and selling and smaller properties produce the biggest profits for renting.

Somewhere in the middle is a compromise between the two, but if you take two extreme examples from either camp; let's say a large, six-bedroom house and a one-bedroom apartment my point becomes more pronounced. The rental income you would get for the large house would barely even cover the mortgage- you may even make a small loss. However this is fine because you sacrifice the monthly income in the knowledge that you are going for capital gain.

Let's take the apartment now; the capital gain you make on the property won't be anything near as high as the large house, but the rental income will easily cover the mortgage payments twice over. So we have this classic dilemma of capital gain versus income.

But here's something that has the best of both worlds!

What about if we took a large six-bedroom house and converted it into as many rooms as possible? You would have the benefit of a rental yield twice as high as a one-bedroom flat and when you wanted to sell, you simply convert the property into a fancy, executive home for capital gain!

When we think of rooms for lease, the image is somewhat depressing and you would be forgiven for wondering what sort of low-life want to rent such places. But, that perception is inaccurate. Young people in the early stages of a career, people in transitional stages in their life, elderly, students and low-income earners among others all need somewhere to live but can't afford to pay a mortgage or the rent on a flat. But they can afford to pay $60-$70 a week for a room.

Just one or two of these means financial independence for you!

Let's take a four-bedroom room house in an industrial area in the outskirts of a city. Let's say the property is run down and you get it for $200,000.

Then once you're in you need to convert it to as many rooms as possible for maximum income. Upstairs will be easy as they are already bedrooms. With the downstairs, you will need to keep one area as a 'common room' for the tenants to eat, watch TV and

socialize in- preferably in the kitchen. The other rooms have to be converted into furnished rooms and is nothing some dry-wall and paint can't sort out.

If there is any opportunity at all to convert any area into a room then take it; a conservatory, an attic, a basement, a garage are all good examples. For the example we are using here, let's say we convert the garage into a fourth room for downstairs. Check the local planning regulations; you may find that a window for each room is mandatory but this is relatively cheap and easy to do (just knock a hole in the wall).

Each of the rooms needs to have a lockable door and a master key held by you that opens all of them. Tenants will expect to share bathrooms- one downstairs and one up. It's relatively easy for a builder to put a shower in the downstairs bathroom. The bathrooms must have good locks for privacy and you could well need to install an extra capacity water heater. Something that will really attract tenants is having a basic satellite TV package installed with TV points to all rooms. Again, this represents minimal cost when shared amongst the tenants.

The rooms will need a basic level of furnishing;

A double bed
A bedside table
A chair
A wardrobe/dresser
In the common room a small TV and a payphone.

The furniture can be purchased second-hand but must comply with modern fire regulations (nearly new stuff will probably comply but check everything). If you buy all this at once you should be able to negotiate good discounts. The ex-hotel furniture shops I mentioned in an earlier issue are excellent for this sort of thing.

Here's how the figures look:

Mortgage cost on $190,000 (5% deposit) = $950
House converted into 8 rooms (including garage conversion).
8 units @ $70 a week = $560 a week.
4.3 weeks (weeks in a month) times $560 = $2408 income.
Less expenses: Mortgage $950, 1 vacant room a month on average $280, maintenance $50, property tax $250.

Total expenses = $1530

Total profit = $878 a month!

As I said, depending on your individual situation, just two of these can mean complete financial independence for you.

The amount of management is higher than with other types of rentals. You will need to

advertise for and vet tenants yourself as letting agents don't get involved with this end of the market generally (maybe a business opportunity?). Advertise in the local paper and have cards or leaflets in local supermarkets, newsagents and any local industry

> Comfortable Rooms To Let
>
> **Newly refurbished double rooms in Smithville. Color Satellite TV, all facilities. Close to station, high street and bars. $69 per week. Call 123 456 7890 to view.**

notice boards or publications.
Go to a local stationery store for ready-made rental agreements to use. When screening tenants, you can't expect them to be smartly dressed executives! The only requirement should be that they are in employment or have a provable form of income, they don't appear troublesome and have good personal hygiene.

No-one moves in without cleared funds of one weeks rent plus $100 deposit as security, refundable on departure. Arrange to have all the rents due on a certain day- Friday is good because of weekly wages. If the tenant is able to pay monthly then all the better.

Post up house rules. Each tenant should clean up after themselves and be considerate to the other tenants. You might consider making one of the longer-term and mature tenants a manager to ensure the rules are adhered to and rents are paid on time. Offer them a discount on rent for doing so. Rents must be paid on time without question. See my procedures with non-payment of rent earlier. Do not go down the slippery slope of letting a late payer slide further!

There are some particular requirements to bear in mind when selecting the property. First you must be located in a busy city- this won't work in rural or very suburban areas- I don't mean the middle of New York, but somewhere in between the centre and the edge of town. Ideally, close to an industrial area like an airport or large industrial park. The area shouldn't be a poor one though if you want to have a large capital gain upon re-conversion and sale.

Transport links must be excellent- your tenants are possibly unlikely to have their own cars- as must the vicinity to plenty of shops, bars and leisure facilities. The actual property itself needs to have as many rooms, or potential to have as many rooms, as possible both upstairs and downstairs, preferably with a bathroom both upstairs and down.

How to Buy a Property with Zero Cash

I bought my very first investment property with zero cash. In fact, I walked away with cash in my pocket! Here are some ingenious ways of buying a property with no cash at all- I've used them myself when I first started. The first method is to get the seller to pay the deposit for you! Here's how it works:

Let’s say the property is up for sale at $60,000. The deposit you would need here can be 10% if you shop around = $6,000.

So you ask the seller if they would accept an offer of $53,000, of which they are likely to accept if they are a motivated seller.

Then you simply tell them that you will offer the full price of $60,000 if they pay your deposit. Same difference and the closing company can arrange the whole thing!

Now, the second method:

The second way is to get the seller to pay an allowance for renovation/decorating on closing.

If the property is priced at $100,000 but it needs a lot of work doing, say you will offer full asking price on condition of a renovation allowance of $15,000 payable on closing.

This can work well with repossessed or probate properties- anywhere the owners are looking for a quick sale.

Third method:

Using the techniques I showed you in the previous lesson, even if you have a poor credit rating, you get a bank loan for some capital (OR if you have a low rate/zero rate credit card with a reasonable credit limit, use that).

You get the property with a $10,000 down payment, which you may have borrowed from the bank. Okay, so you then install a carport for $1000 and tidy up the yard and re-decorate, and get the property refinanced at a new, increased value of $120,000. The bank then advances you 90% of the new value = $108,000 mortgage.

With that $108,000 you pay off the original $90,000 mortgage, leaving you with $18,000.

With that $18,000 you pay off the loan you took out for the $11,000 for the down payment and the carport, leaving you with $7,000. Closing costs would run at about $5,000.

This leaves you with $2,000 AND a property which earns you a rental income of approximately $150 a month after expenses!

Fourth Method…

How To Buy A House For Zero Cash And Walk Away With $10,000 More Than When You Started!

Even IF you don’t have a home to borrow against for some capital, you could ask the seller to carry 20-30% of the price.

If the house costs $100,000 you'll be able to get a mortgage for about $80,000. You ask the seller to hold $30,000 of the mortgage they have already in the form of a note (an escrow company can arrange this and it is secured against the home).

So you walk away with a rental property providing you passive income AND $10,000 of capital for your next deal! You're on your way.

And yes, it DOES happen, and yes, it IS legal! It's all about finding that motivated seller we talked about in the fourth lesson and applying the 100-10-3-1 rule. The reason the masses don't believe deals like this can happen is because they don't know how to, or can't be bothered to find the motivated sellers out there!

Okay, so no more excuses about not having the cash to buy a rental property to get you on the road to financial freedom. Now let's talk about adding value to your investment properties by fixing them up…

How Home Improvements Can Lose You Money!

A classic mistake made by the public and amateurs is this. The nation has become obsessed with DIY programs on television- I dread to think how many people have blown half their house away with a gas explosion or got electrocuted as a result of the frenzy, but there you have it.

I suppose it's far easier to fix up your existing home than take serious action with your life to move to a bigger and better home in the first place. But you know, there's a saying in the professional property world:

You can't polish dirt!

In my days as a young realtor in my early twenties, I learnt a lot about this principle. You would be invited around this guy's house to value it for him and he would enthusiastically whisk you around showing you all the incredible home improvements he had done; the built in tropical fish tank set in marble, the $10,000 kitchen, the garage conversion etc.

All very nice mind you, it's just that the value it had put on his property was only a few thousand, if that. The reason? Because the house was, at the end of the day in a terraced block in a very run down neighborhood. Do you get my drift?

There is only so much value you can add to a property in a particular situation.

It wouldn't have mattered if that guy had the finest interior money could buy, the type and location of his property would always hold the value back.

I tried explaining this diplomatically but of course he insisted that the value of the property should have increased by the amount he had spent on it, so I took it on at his asking price hoping that once people went inside they would be swayed by the palatial

interior.

Never mind getting them inside, I couldn't even get anyone to view the damn place! Those punters that did overlook the exterior photo (which I took very carefully to hide the burnt-out car on one side of the house and the laden dumpster on the other side), would turn up to view the property by prior arrangement but didn't even bother knocking on the door once they saw the exterior.

Anyway, so how do these trials and tribulations of a young realtor in the past affect you and your plans to grow rich from real estate?

Well clearly you must bear this in mind when fixing up your investment properties. The key principle is to find a property that is cosmetically distressed and fix it up for resale based on the fact that people neither have time or imagination anymore and will pay a premium for convenience.

Let's say you find such a property. Perhaps a typical, three-bedroom, 2 bath in a reasonable neighborhood that is in a very poor condition cosmetically- needing a new kitchen, redecorating and gardening. Fine.

But I can tell you right here and now, if you put a $10,000 kitchen in there you will only put about $5,000 on the value of the property. Tops. It may look fantastic but you won't be the beneficiary of it and more to the point, **you will have just lost $5,000!**

On the same note, the interior not only needs to fit the type of property it is in, but it needs to appeal to as many people as possible. For this reason, keep everything fairly neutral and simple. Kitchens and bathrooms should be white, the décor pastille shades and creams.

Large, executive homes have different rules here. Anything above four or five bedrooms in a good area and it will pay to hire an interior designer to arrange carpets, curtains and wall color. This really will command a high premium in your mark up.

Forcing Appreciation Of Your Assets!

Decorating, gardening and general tidying can be done by just about anyone. There's no need to get expensive contractors in for $30 an hour when you can pay students, retired folk and just about anyone else looking for casual work $30 a day. Just ask around and you'll come across plenty of people looking for a bit of extra money and many of them- especially the retired- are very skilled and conscientious workers.

If you want to get stuck in yourself to save costs and have the time not to drag the whole thing out for months, then fine- especially if it's your first time. But there will come a day when you have to consider if this is a wise way to spend your time- wouldn't it be better to be out and about looking for the next property?

When it comes to kitchens, my advice is to go for a full fitted package where the supplier of the kitchen also fits it. The reason being that they know the product and will do a better job- there's nothing like a kitchen unit door coming off in your hand to put off a potential buyer as you show them round!

Get a trade or regular discount by building up contacts in the area to save costs here- if they see you are a serious company rather than some private individual trying it on, the results should be positive.

When it comes to bathrooms, plastering, demolition and any other specialist work, you will have to use a professional tradesman. If you have been concentrating on what I've been telling you in these lessons you'll stay well clear of properties that need serious building work, but I appreciate the fact that there will be a need for tradesmen from time to time so here is my survival guide for dealing with them:

The best way to get a reliable, quality tradesman is by positive recommendation from someone who has actually used them and you have inspected the work.

Failing that you need one that has been around for a long time under the same trading name. You can do this by locating a Yellow Pages that is a few years old and using that. Older guys have a better reputation and learned their trade in the days of proper apprenticeships.

Do not attach any value to memberships of trade organizations or guilds. These bodies do not check on the quality of the builder in question.

Do not employ a contractor to handle several different tradesmen (plumbers, electricians, plasterers etc.) as their mark up will be as much as 30%. Become your own contractor by booking the respective people yourself. Build reputations and negotiate discounts.

Be very specific about quotes and get exact details about the requirements of the job in writing to avoid any quibbles further down the line. If they run over allowed time what will be the daily rate? Who will supply the materials and what exact standard will they be? How long will it take? Will you use sub-contractors? What does exactly fully tiled mean? How long have you been trading? Will you be doing this job full time until it is finished? Don't be too aggressive though because a good builder can pick and choose their jobs and might be scared off.

Tie them to a contract which penalizes them for running over schedule!

As the job progresses, keep a journal of everything that is agreed and show to the builder. You want a fixed cost for the job- not a daily rate!

Never, ever pay up front. A reputed company will have the necessary trade credit I place so there should generally be no need for this on the smaller jobs you'll be involved with. If the balance of financial power shifts in their favor they'll be tempted to go off on another job.

Hold back 10% of the total bill for last minute snags you spot after they've left.

Other Renovation Points:

- Remember: TIME IS MONEY! You're paying interest on a loan so the faster they complete the job, the quicker you can get the place to earn its keep. Work on 4 to 8 weeks depending on the amount of work involved.

- If the property is for rental, you want hard-wearing materials; things that are flimsy or wear easily should be avoided. Keep the garden low maintenance too-preferably a patio.

- Priorities. Do the things that have the most visual impact for the least money first- see the previous lessons for details on this.

- Kitchens and bathrooms should always be in excellent condition most of all though- 90% of the time the woman in the buying couple that has the biggest say. There are ways to create immediate impact on a property: flooring and carpets, taps, walls, lighting and a pleasant front door. Cleaning the carpet is obviously cheaper but only if the original carpet is in good condition.

- The same carpet running through all rooms gives the impression that the property is bigger than it actually is.

- Stick to your budget and time schedule! Spend no more than 10% of the intended final resale value on refurbishment. If you run over make sure it's no more than a total of 15% maximum.

- A way to drastically increase the value of the property is by changing the product! For example, converting a one bedroom apartment into a two bedroom by carefully rearranging the rooms with partitioning. However, avoid creating galley kitchens- bad news. Skylights can be a good way of creating extra light and making the place look bigger.

To create a feeling of extra space in the kitchen, it's a clever effect to convert closed cupboard space to open cupboard space. There are some vinyl floors for kitchens now that are dead ringers for wood and stone tiles and look very nice.

Consider the use of many mirrors in the smallest rooms to make it look bigger.

Lighting is very important. Spotlights will appeal to your market; either embedded in the ceiling or on a rail. Especially in kitchens and bathrooms.

The smell of new paint has a habit of lingering, especially in small rooms. But if you stir a couple of drops of vanilla essence into the paint before you actually start painting, the fumes should be neutralized!

Another problem with paint is getting grit in it, which is often the case in properties that need renovating. To get around this, take an old pair of pantyhose and pour the paint through them into another container- this is a good filter.

Landlords: Make the place look as beautiful and tidy as possible for minimal cost. This alone puts you streets ahead of other competing landlords!

Getting The Big Bucks

Now it’s time to talk about selling the property. First of all though, when should you sell is a common question and there is no clear answer to it. It really is down to what your immediate and long-term goals are firstly, and secondly what the market is like.

In a recession climate, property in poor condition tends to be in more plentiful supply so this is a good time to be buying, fixing up and then renting until the boom times return. If the market is going absolutely crazy, it could well pay to take the money and run. Of course, you have to consider the timing and inconvenience to any tenants involved.

Renting provides you with an income and selling provides you with a lump sum of course, but which you do depends on many variables that only you can judge at any one time. Maybe do a bit of both, bearing in mind which properties are more suited for rental and which for resale. The compounding example I gave you in an earlier issue shows you how to turn $5000 in to a million in 8 steps through buying and selling- it’s all down to you and how much you put in.

That’s the bigger picture. On a more immediate basis, there are some seasonal points to note although the market has become more regular in recent years:

January to March: Variable really. Pretty average interest subject to any local anomalies though.

April to May: This is the best time to bring a property on to the market especially for young families- have it ready by Easter preferably.

August to October: August can be quiet due to school breaks but September and October make up for it by being very busy.

November to December: Whatever you do, plan things so that your property does not become ready for sale in time for these two months. All people are interested in is the holidays.

Right, so let’s concentrate on the actual sale. If you’ve done all I told you so far in terms of selecting and restoring the property, this bit is easy but let’s make it even easier and more profitable.

Unless you’re living in the property, it will look bare, but a few very simple homely touches can drastically change all that. Set up a transportable sales kit comprising of artificial flowers in vases, pictures, coffee table, light shades, lamps and bulbs and anything else you can fit in your boot. You need to give the imagination of your potential customer a little jolt.

Always attend every viewing personally if you can. Some realtors haven't a clue and you know far more about the place anyway. If the property is on a busy road or railway line avoid booking viewings during rush hour. Common sense applies.

Get there in advance to turn on all the lights, have a quick vacuum and dust, squirt round air-freshener and open all the windows unless it is very noisy outside.

First impressions count for 50% of the decision process. Make sure the front of the property is tidy and attractive. You could put some artificial trees in pots on the front patio/path. Show the potential the best parts of the house first even if it means taking an unusual route around the house.

Tailor the presentation to your customer. What sort of person are they- married, single? What are they into? Sell the benefits of your property that suit them most. For example, what's the point in telling a young single man the fact that there is an excellent school a few blocks away?

With apartments and small houses your market is likely to be first time buyers. It is well worth furnishing the place with white goods, a sofa and a bed and charging a premium for the convenience. Balance this with the fact that properties look more spacious with nothing in them.

Don't over sell. The property will very often sell itself- it's far better to ask friendly questions about the actual customer than ramble on about the property. The relevant selling points will come naturally to you then.

Generate excitement with the property but don't be too keen. People want what they can't have and you need to make them think you can pick and choose your buyer by asking about their position to buy. First time buyers are best followed by people under offer both of which must have deposits and mortgages in place and the sale is conditional on closing within 6 weeks. People whose house is not on the market are wasting your time.

When pricing the property, pay attention to price brackets. Realtors can confirm these for you. Depending on the area, properties fit into certain price brackets and this can mean that buyer's price requirements can take large jumps. For example, a typical bracket is "Up to $100,000" and then "$125,000 to $175,000". Here, your property should ideally not be priced in between $100k and $125k; instead it should be either side.

Don't be greedy on the price- you want a quick sale to cover your costs and a property that's been on the market for too long looks bad.

I've mentioned that when showing an interested party around, it's good to turn all the lights on to make the place look bigger. But natural light is also worth a mention because it can make a massive difference.

During renovation of the garden, be sure that all plants are cut away from windows- it's quite incredible how much natural light is kept out this way.

With this in mind, look around the property inside for rooms that could be transformed by a window or skylight. You would need planning permission depending on the location of the window, but this is an inexpensive improvement that really can put thousands on a property. The best example is adding a balcony or roof garden to an apartment or town house in urban areas. You need to develop a sales head.

How to Get Realtors Really Fighting In Your Corner

Once you've made the decision to sell, you need to move quickly because all the time the property is not earning you rent, you are paying interest on the loan. So like it or loathe it, you need to hire a realtor rather than try and sell it privately.

Of course, the more established you become, the more likely realtors will offer you preferential rates as a regular customer. Indeed a couple of months back and you might have bought the property from the very same realtor so there is definitely room for discounts on the average fee.

There is a little-known trick though that will make the agent realize they are dealing with a pro. That is to propose a 'split-fee'.

Here's how it works:

Normal fee method: Agent charges 6% of purchase price.

On a $120,000 house = $7200

The important point here is that if the buyer offers $110,000 the realtor only stands to lose $600 of the full $7200 commission so he couldn't really care a less, but you will have lost $10,000 from the price!

He will be happy to get the sale and whether you like it or not, in a case like this will not have your best interests at heart like he should. To think otherwise is naïve and the mark of a rank amateur.

House is sold for $110,000. Fees payable of $6600.

Now here's the 'split-fee' method:

You put your house up for the same price of $120,000. You propose a commission of 4% PLUS 10% of any amount achieved over $110,000.

Now the agent has an incentive to get you a higher price!

House is sold for $115,000. Fees payable of 4% of $115,000 plus 10% of $5,000 = $5100.

Can you see? You've paid virtually the same amount of commission as before but your house has sold for $5,000 more!

The realtor doesn't like it? Why? Are they saying they are not good enough to achieve that price? Realtors generally claim to be brilliant- their sales pitch will focus on what great salespeople they are, so let them prove it.

What are they afraid of? Of course, if the agent gets an amount higher than $115,000 they stand to make more money than if they were charging you the full 6%. Either way, you are better off.

The Right Realtor & The Quick Sale

So much for fees. There are of course other considerations though. You can get an agent to charge you a low fee but if your house is still sitting there costing you interest next month it won't be too good.

In short, don't let fees be your sole focus. Best to find the right realtor and then negotiate on the fees. Now here are my top tips on selecting the right agent and the quick sale:

A tactic often employed by realtors is to tempt you to go with them by being over-optimistic with the price they think they can get. Once you've agreed to sign up, a week or two later when the property hasn't sold, they'll ask you to lower the price. You don't have the time to play silly games so the moral here is to know your market, know about this tendency of agents to over-price and not to let greed get the better of you.

Telling you that they have a buyer for the property on their books is another trick to get you to sign up. If the agent is that desperate for properties, why?

Do your homework. Do they regularly advertise in the local property papers and what quality are they? Do they have many for sale boards up in the area? Do they sell many of your type of property- any previous examples of prices obtained?

You should always opt to have a board outside your property. No excuses. The reason being that 25% of properties are sold by buyers driving around areas they like looking for sale boards. You should also give them a key so that they can do viewings when you're not around.

Go for a realtor with a central location and branches in nearby towns that they share information with. You want as much exposure as possible. I particularly like it when realtors are all clustered together in one part of the town. Why? Well where would you go if you wanted some property details? It's the realtor that isn't located in this group that will lose out.

Do a mystery shop on the realtors in the area. Are they polite and professional? Did they get all your details and requirements including telephone number?

Agree that if you sign up the realtor will advertise your property immediately with a large photo ‘house of the week’ type promotion complete with an ‘open day’.

In an earlier issue when we discussed buying a property, I told you to look for clues to suggest that the seller was desperate. Now the shoe is on the other foot, so make sure you don’t appear desperate to get a sale!

Wealth From Commercial Property

Commercial property is even better than residential property, ONCE you have some inside-knowledge under your belt and perhaps a little experience.

The masses are scared off by commercial property because they perceive it as difficult or risky.

This lack of interest makes a HUGE buying opportunity for you because there’s less competition!

It’s another myth that you have to be wealthy to invest in commercial property. Here are the advantages of commercial property over residential property:

1. It’s generally a higher price so you have less units for the same price, meaning there’s less management.

2. You’re dealing with contracts, not people, so it’s more straight-forward and clear-cut.

3. Value is increased not so much by fixing up the place, as finding a tenant. If you can locate a tenant by rearranging the property perhaps, the value goes up massively! Something as simple as dividing a large space into smaller units increases the revenue (because smaller office units are more expensive).

4. It’s in the tenants’ interest to keep the property in good condition because it is their place of business!

5. Tenants actually WANT to be tied into a long lease so they can pay you for a long time! Why? Because this means stability for their business.

6. Tenants tend to do their own maintenance. It’s much easier for them to fix a leaking tap if it’s affecting their business than to wait for you to call someone out to do it.

Here’s some background information to digest:

Most commercial property is let on a multi-year lease with five yearly upward only revision of rents. This obviously represents a great deal of security for you for a long period of time. You also know that the rent can only rise.

Properties fall into three groups mainly: Shops, offices and factories/warehouses.

First shops. They will vary in value and hence rental yield according to how prominent the location is. Major national firms will be keen tenants with prime sites but meaning reliable payment but the yields are a little low at about 6%. You could charge smaller companies 10% but obviously there is more danger of them going bankrupt. The classic risk to reward balance.

Offices. These days it will need to have the necessary suspended floors to cater for computer hardware and terminals. It is also best to have several units to rent rather than rent the whole building to just one company- this way you are not over-exposed.

Factories and warehouses. This type of property varies widely with anything from car dealerships to a distribution centre. This is my favorite because there is flexibility to convert the premises (subject to planning) to suit the environment.

There are special commercial realtors that you need to use as well as auctions (see earlier issue). If they seem not bothered when you approach them, this is because for some reason, they get a high proportion of time wasters.

Best of all though, apart from the retail store examples described earlier, you can expect a yield of around 15-20%

You would be advised to keep an eye on trends. Is the business your tenant is in looking shaky? Is the town it is situated in decaying gradually? If you have the advantage of being able to convert the property to suit the environment, this would obviously be better. Sure, businesses can fail, but so can individuals in the case of residential property. If you select tenants well, I think you'll find them reliable.

The one downside to commercial property, is the one thing which scares most people off, but can often be overcome quite simply. The deposit required can be as high as 50% of the price, BUT it's far easier to increase the value as we've discussed.

You could find a tenant before closing and get the property re-appraised for a far higher value and walk away with even more cash than when you started.

The Golden Rules Of Passive Income From Property!

Last word on property! Here is a summary of what we've covered so far. Stick to these and you won't go far wrong:

1. You make money when you buy!

Remember, the first rule is safety. If we always buy a bargain, the market fluctuations in value can't do any damage. Check the previous lessons for finding bargains whether they be in the form of a property in need of cosmetic attention or a motivated seller…

2. Always buy from a motivated seller!

I have given you a list of many reasons why a seller is motivated, the number one reason being divorce. Local court records announce pending divorces- you might want to send a sensitive, but business-like letter along the lines of the one I gave you. Motivated sellers are everywhere if you look. Use the 100-10-3-1 rule. The only way you'll see bargains is if you KNOW what things are worth!

3. Have no emotions!

Remember, you're not going to be living in these properties! So don't get emotionally attached to any property- it could compromise your bargaining power. Likewise, you have to be firm with tenants. You're a businessperson, not a charity.

4. First person to name a figure loses!

We've discussed this. It's just a simple fact that in any negotiation, the first person to say a number usually loses. So make sure it's not you!

5. Buy with as little cash as possible!

The best deal is one where you walk away with even more money than when you started. A common response to this is that it must be illegal or impossible to find a seller willing enough. GARBAGE!

6. Only sell if absolutely necessary!

We've talked about selling a property if need be, but is selling really wise? Why would you ever want to sell something which brings you income? When you sell you have to pay tax on the gain AND you lose the income it provided.

7. You are presented with a local bargain EVERY week!

I cannot emphasize this point strongly enough. Your mind is a powerful thing and it plays tricks on you! If you program yourself into believing there are no bargains to be had, guess what? You won't notice any! Lack of belief is the biggest obstacle standing between people and unlimited wealth.

8. Be contrarian.

What's contrarian? This means not being afraid to do the complete opposite to the masses. If they're rushing in to buy property, it could be best to hold off for a while. If they're rushing out, bargains must be around. But it takes guts to think the opposite of the crowd. You have such strength or you wouldn't have made it past the first lesson!