Home Study Program Module 5
Property Dynamics

Wealth Creation Dynamics

Learn how to **drastically** advance **your** financial future.

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Welcome

Module 5
Property Dynamics

Welcome to module 5 of the Wealth Creation Home Dynamics Study Course - Property Dynamics.

This module is number 5 of 24.

Each module is presented in the same layout and contains exercises that you can do in your own time.

The benefits of participating in this Home Study Course are:-

- You progress at your own pace.
- You can study in the privacy of your own home.
- You can ask questions regarding the course at questions@apin.com.au

We hope you enjoy the Wealth Creation Home Study Course.

Best regards,
The team at APIN

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Module 5 - Property Dynamics

Research and Ask Questions

One size does not fit all, make your first decision a good decision, purchasing and owning real estate is a very expensive exercise. If you get stuck with a bad investment it can cost you thousands of dollars - a proper mix of emotional and commercial reasoning is needed when investing in property.

There are many different types of properties, i.e. units, villas, townhouses and houses etc. If you can identify which one is right for you and your needs, you could save thousands of dollars, from making the wrong decision.

One of the secrets of the rich or sophisticated investor is the type of questions they ask and the research they perform.

Here's a few research tips to get you started:

- Read newspapers and magazine articles relating to the economy investments and the property market.
- Photocopy any article, which is relevant to the property market and paste into your research journal.
- Perform research by looking at Internet property websites:

  www.property.com.au
  www.domain.com.au
  www.realestate.com.au

- Obtain statistical data on population trends, housing and development figures, and demographics.

Never be afraid to ask questions. Here's a few examples:

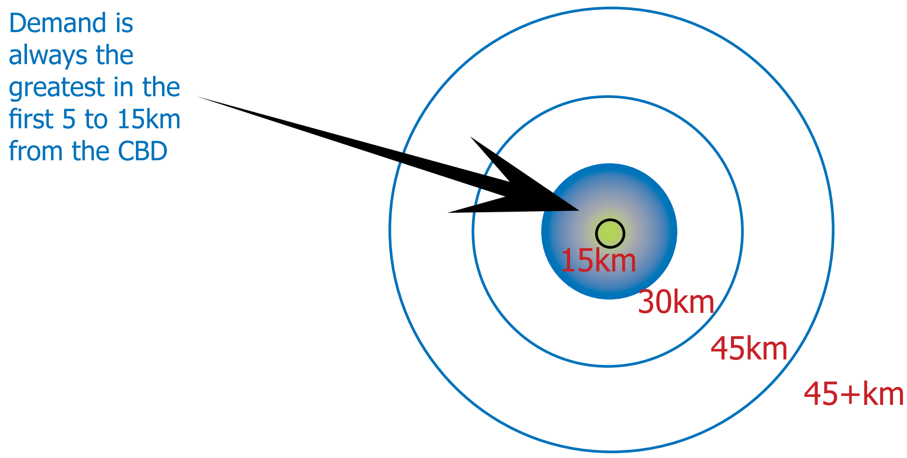
- What are the purchase costs?
- How much is the stamp duty?
- Solicitor's fees and search costs?
- What are the Loan costs?
- What are the Loan repayments?
- P & I or fixed terms?
- What is the term of the loan?
- Are there penalties for early payment?
- What is the agent's commissions?
- Are there any easements on the property?
- Are there any heritage or contributory issues?
- What is the exact size of the property?
- What is the council zoning and are there any restrictions?
- What is the exact size of the property?
- What is the council zoning and are there any restrictions?

Supply and Demand

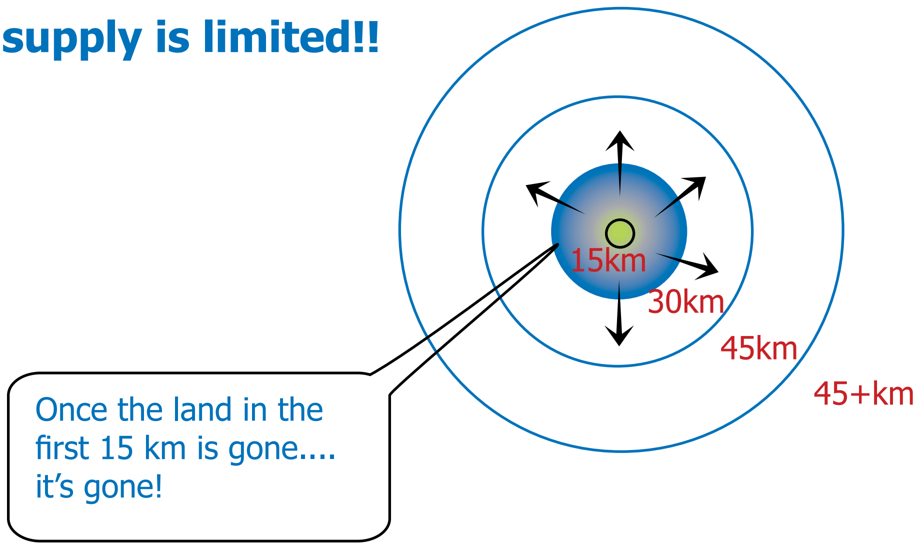
Demand for property is influenced by a number of criteria:

- Overseas and interstate migration
- Birth rates
- Attraction to trendy suburbs
- Vacancy rates
- First home owners
- Location to CBD
- Supply

The following diagram outlines how supply can affect demand:



and supply is limited!!



Supply and Demand

There are other factors which you should consider when purchasing property:

- Talk to your local real estate agents. They will always know what is going on in their local area.
- Make sure you select your designated investment area and investment type.
- Proven and established high growth suburbs are preferred for property investing.
- Look for properties that:
  - have strong rental demands with 5% yields.
  - are close to major amenities and transport links.
  - are within a 5km radius from CBD, e.g. city fringe.
  - are in trendy areas with high disposable incomes close to shopping centres.
- Diversify your portfolio - townhouse, unit, studio etc.
- Consider buying in other capital cities other than just your own.
- Varying property cycles affect different types of properties.

Additional purchasing keys

- Establish 5 areas you want to invest in.
- Target areas and suburbs with the fastest capital growth.
- Areas should have a 'lifestyle centre' with cafes, bars, restaurants, sports centres, schools, Universities and parkland.
- Go to local council and find what is proposed to be built in the future.
- Select properties in areas within 15km of the CBD, but not in the CBD fridge areas.
- Before you buy research what is happing around you i.e.: new buildings etc.

Supply and Demand

- The best areas are the ones which have heritage and height control restrictions, limiting land that is suitable for development.
- Target suburbs where brand new properties (especially apartments) show a minimum of 4% rental income. Some of the more expensive (established) suburbs currently show a 2% or less rental dividend due to the high price of brand new property.
- Target streets and suburbs with many established houses. The highest prices are usually achieved in streets and suburbs, which contain less 'high-rise' apartments.
- Select properties which are in high demand from corporate tenants.
- Corporate tenants pay more money, and are often a secure tenant.
- Call relocation agencies (check the Yellow pages and internet).
- What features do renters and purchasers want, garaging, storage, lifestyle?
- Select projects which have strong owner-occupier appeal.
- Purchase properties within projects, which have at least a 50% owner occupier component.

You are about to start your very own property investment business

Take the same approach as if you were purchasing a business for $1 million. Perform market research and carry out market due diligence as though you are about to purchase a business with $1 million of your personal CASH.

This is an ACTIVE business and you must be very active until you reach your retirement goal. The only person managing your money is YOU, so be in control and get the best advice, you can.

Also remember to be prepared for what can go wrong. Investigate vacancy rates, interest rates and what the true value of the property is.

Supply and Demand

- Vacancy – The average vacancy rate over the last 15 years for Melbourne is 2.55%, Sydney 2.3%, Brisbane 4.2%
- Rising interest rates - Fix 80% for 3 years
- Don't pay too much – Buy, hold and never sell… time and patience is the key to long term wealth

Work out your personal investment plan. Decide how many properties you need to purchase, at what price and in how many years. How much money do you need on a weekly basis to 'do all the things you truly love? In how many years from now do you want to retire?

Make a specific plan and work it.

Exercise

List some questions you could ask regarding a property that you are looking at purchasing for investment:

Choose a type of property (e.g.. 2 bed Townhouse, 1 bed unit) and a suburb. Write it down below. Do some research and investigate what you think is an average price for this property, what are the rental returns likely to be, and whether you think this property would be worth investing in.

It's Safe

The money that you invest must be absolutely safe...
Residential investment property held over long term can't go BUST...

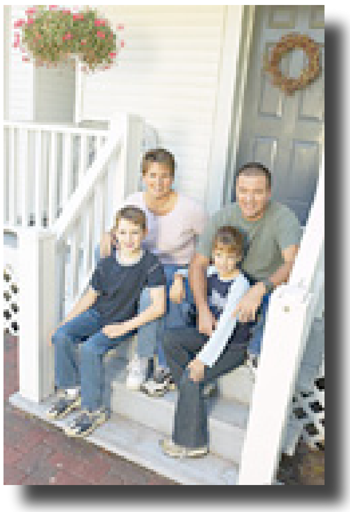
Banks lend 90 to 95% on residential property because they know that the values have NEVER fallen over the long term. In fact the entire Australian banking system is underpinned by the continual growth of residential property.

Banks lend 90 to 95% to any person on an average wage to purchase residential property wherever it's situated... however banks only lend 30 to 70% on a small number of 'blue chip' shares and borrowers must demonstrate very strong financials... banks only lend 50 to 60% against commercial property due to inherent vacancy risks. Also banks rarely lend to fund businesses without some kind of property asset security because business lending is extremely risky due to the fact that over a 5 year period 95% of all new business go broke.

The residential property market is valued at around $500 billion, three times the size of the share market, providing a stable and secure market environment.

Residential property investment is a low risk investment because 75% of the market comprises homeowners who underpin property values and 35% are tenants who ensure consistent rental income.

Residential property is as 'safe as houses'



It's Safe

We all live in one

Quite simply we all live in one, which makes it a very high demand item. It's the great Australian dream 'to own your own home', so why is it that some of us succeed and others fail. Yes, you are correct, knowledge!

You don't need a degree to become a millionaire; in fact it is true that many A grade students end up working for C grade students. We all have countless stories of people we know who have amassed large sums of money from humble beginnings, and yet many of us do little about it for ourselves until it is too late. Just ask twenty 65 year old people what they would do if they were forty again.

The philosophy behind our property investment strategies is based on the "Four Pillars" of success for which you can begin to build your personal wealth.

The first pillar is: **The foundation of knowledge**

You see without the right foundation your house will not stand and that is why so many fail. You must build a solid base so you can build a skyscraper, learn the basics, understand the concepts and increase your confidence. Think about our own top 200 wealthiest people and ask yourself where they would be if they did not have the knowledge they have today.

The second pillar is: **Finance strategies**

Learn the principles of how to attract and control money, the truth behind cheap rates and why paying a higher interest rate in some cases can build your personal fortune faster.

Obtaining and putting together a loan structure for your home, investment property or development project.

Using other people's money to raise the deposit, and benefiting from mezzanine finance or seed capital funding.

The third pillar is: **Asset gearing**

"Gearing' or using the equity in your investments to purchase other investments with no money down, benefits from legitimate tax deductions whilst paying as little as 15% in tax using super fund structures and trust structures to minimise tax and protect your assets from third party conflicts.

It’s Safe

The fourth pillar is: The power of compounding

“The power of compounding” The millionaire’s secret. Now your investments are buying more investments and your wealth is growing by itself. Through applying the first three pillars your investments and assets are automatically increasing in value giving you equity power to purchase more income producing assets.

If you want to be rich then it’s time to change. Wages are not enough. Individuals who achieve absolute financial freedom learn how to powerfully convert the money they earn by day into ASSETS that grow whilst they sleep. The average Australian after paying their day-to-day living expenses, struggles to save enough for their future security. It is true that for many Australians they spend more than they earn.

Design a life

Many people are caught up in the treadmill of life; it’s like going on a bus to nowhere, only to find out that when you arrive the destination is wrong. If you feel you are in a hole, stop digging, maybe its time to change. Generally we all need to stop and look at what we are doing, where we have come from and where we are going. Remember the 5 P’s - Proper Planning Prevents Poor Performance.

‘You Pty Ltd’ – back in Module 2 we looked at the importance of your team. When you look closely at successful people you will discover that they have a ‘Team’ of people they rely on. What I have learned, contrary to other opinions, is that positive people help positive people. It’s rare you see a wealthy person who is negative and depressed.

‘Become a winner’. Making the change is all about a ‘decision and taking action’ whether you are 16 or 60; your time and self worth will pay off. People change at different ages. When you have decided the time will be right, just decide what you truly want and go for it!

‘Self image’

Our entire lives evolve around images - just as every company has a corporate image, every individual also has their own self-image. Psychology has isolated the main cause for success or failure in life. It is the hidden self-image that you have of yourself.

Creating change in life is quite simple as long as you can follow a system that can track what you are doing and also what you are not doing. If you had the tools to make the necessary adjustments along the way like your car, you too will be running smoothly and efficiently.

How can you climb Mount Everest?
Take one step at a time.

Exercise

What are the four pillars of property investing?

Why do banks lend 95% on residential property?

Different buyers and needs for property markets

A leading Architectural Practice has combined with a Property Research company and an Advertising Agency to identify what types of homes the four key age generations in the property market want to buy in the next five to ten years.

Smart investors and developers ... take note of the results!

The research reveals some don't want a kitchen —just a place to unpack and process pre-packaged foods; others have personal security as the major priority; some want gizmos and gadgets, some are comfortable buying from plans or electronic presentations, others refuse to buy anything they can't walk through first and others, primarily younger people, are happy to rent for the rest of their lives.

The four key groups identified were:

First Generation:	Those born between 1900 and 1924
Matures:	Born between 1925 and 1945
Baby Boomers:	Born between 1946 and 1964
Generation X:	Born between 1965 and 1978

Their input has helped companies formulate a Generation Matrix determining the different residential styles which different generations want and what factors influence them to purchase residential properties.

The research was undertaken by MPS Architects, Matusik Property Insights and Peter Huybers Advertising in an effort to establish which types of homes should be built over the next five to ten years to cater for these markets.

There are two powerful forces in the matrix which according to the above companies, are about to explode in the market,

The Baby Boomers are about to inherit the assets of the Matures (their parents.)

The Generation X'ers already are fast growing consumers of specialist rental properties and are maturing quickly.

They are likely to take their attitudes with them as they mature and could potentially become top buyers rather than renters. Because they are disciplined to take up other traditions or delay marriage, they are likely to present a demand for twice as many houses.

The generation groups which result from the research showed the following:

The Different Generations

Generation X

- 70 percent of them rent and are happy to continue doing so.
- They tend to rent investment homes owned by baby boomers.
- They respond to styles, design and locations close to cafes and other meeting places as well as employment.
- They are well educated, less competitive than their parents and have endless patience. They rarely rush into any important decisions such as buying a house.
- Many still live at home.
- They are the ‘options’ generation and more inclined to rent to keep their options open.
- The buyers in this age group want to be close to work, cafes and meeting places.
- For them home is a dormitory.
- They don’t want kitchens, they simply want an area to unpack and process pre-packaged meals.
- They accept computer-generated sales material as a standard form of communication.

Baby boomers

- Generally too independent to live in a medium density development that has a body corporate.
- Happy to buy an investment property managed by a body corporate.
- They need space to accommodate children at home and even more space to get away from their children in the house.
- High proportion of divorcees which doubles the demand for the number of households, but halves their purchasing power.
- Welcome zero-lot homes and sophisticated forms of townhouses on waterfront, golf course or other high profile sites.
- They purchase homes for lifestyle, exclusivity and status.
- They are style and brand conscious.
- They rate residential and personal security very high.
- Gizmos and gadgets are irresistible.
- They need space for their diverse interests and toys, which range from motorcycles to jet skis, home entertainment systems and sports cars.
- They are late savers but enthusiastic investors.
- They want it now.

The Different Generations

Matures

- Typically selling to buy smaller homes.
- Increasingly amendable to having someone maintain the property on their behalf.
- The most likely age group to consider moving into an apartment as owner-occupiers.
- Prefer single level living and are moving from the suburbs closer to town.
- Regard personal security as a priority.
- Welcome the opportunity to live in communities with large gates at the front.
- Appreciate luxury fittings and quality and see them as rewards for a lifetime of hard work.
- Want to live downstairs including the master bedroom, but are happy for other bedrooms to be upstairs for younger visitors.
- Need the approval of their peers if they are downsizing.
- Want to see the finished product before they will buy and are very skeptical of any promises from developers and marketing companies.

First Generation

- Seek comfort, lifestyle, security, companionship and a sense of community as priorities.
- Sensitive to value, on-going costs and paying only for what they need.
- Sensitive to body corporate fees.
- Want to live closer to family and friends.
- Want newer styles of compact residences.
- Want health and convenient services on site.
- Want to live their last years in one place.

The generation research proves that an apartment which is designed for Generation X is not going to suit the First Generation, and vice versa.

Exercise

What Generation do you think would be best to target for investment properties and why?

What Generation do you fall into and what characteristics do you have that would influence the type of property you would buy?

final reflections

What key points have you learnt from this module?

What will you be looking for when purchasing your next property?






You are ready for the next module.