

Why properties sell - how to avoid the traps

with **Wendy Priestly** Property Millionaires Club President

There are many properties for sale each week. In fact, newspapers and property websites tell us they have thousands each week. So while finding a property is not a problem for most investors, holding an investment property can seem to be another matter.

From an ABS report (Cat 8711), investors stated that the primary reason for buying an investment property was for long-term investment.

So if there are thousands of properties for sale each week and property investors predominately buy their properties for long-term investment, why is it that only one in 10 property buyers actually buy an investment property and even fewer hold multiple properties?

The ABS report notes that within five years of purchase, 30 per cent of investors will sell their property and within seven years, this figure increases to 50 per cent. This is occurring even though the stated intention for buying an investment property is to hold it as a long-term investment (more than 10 years).

The ABS report indicates that investors sell for many reasons, including:

- 30.5 per cent - finance another purchase;
- 20.4 per cent - funds for family or business;
- 18.3 per cent - other (bad tenant, poor agent, cost of repairs, lack of support);
- 9.8 per cent - couldn't afford to keep the property;
- 9.2 per cent - inadequate return on investment;
- 6.9 per cent - to realise a capital gain;
- 4.1 per cent - divorce or separation; and
- 0.8 per cent - invest in share market.

In my opinion, owning and gaining value from an investment property is a long-term process, not a hobby. While it does yield excellent results, property investment will also take time (at least seven to 10

years) and require a strong business-like approach to be successful.

The Investors Club provides a range of strategies and tools to support members in being able to hold their investment properties for the long term (i.e. for more than 10 years). These include:

Ensure a cashflow analysis (CAP) and property investment analysis (PIA) is done for your property

It is crucial that you know the cashflow position of your purchase and understand how you will fund the holding costs. Don't be confused by the term 'negative gearing'; most quality investments will require some sort of contribution in their early life. By comparison, holding a property will cost you far less than contributing additional sums to your superannuation or even buying a family car for the same value.

Ensure a CAP/PIA is done for each additional property you purchase

When adding to your property portfolio, make sure you have updated your holding costs and are able to sustain the holding of all properties purchased for the next seven to 10 years. Do not buy a property and then take a salary holiday, or work part-time and expect that your properties will be fine. If you borrow as a full documentation borrower, you may need to stay as a full documentation borrower for some time. If you don't, you could be starving your properties of vital funds that are necessary to keep the engine fires going in the early years.

Ensure 15-15 amounts are deposited into your line of credit (LoC)

As a property owner, you will be able to reduce your withholding contributions (tax). These funds must be paid towards the holding costs of your properties. If you

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don't deposit these funds into your LoC, then it may only last for 50 per cent of the time you will require it.

Ensure that co-contributions are added to your LoC

If you are using a LoC you should be making your co-contributions to your holding costs. If you are not doing this, then your LoC will usually be reduced by about a third of the time you will require it. This reduction in time may mean that you do not have sufficient funds to hold your property for the long term. Specifically, your LoC needs to last for five-to-seven years, or until you can gain additional funds.

Ensure that your LoC is only used for property costs

Funds allocated for property investment such as your LoC, must remain for this purpose, or you will find you run short of holding cost funds. If you use these funds for personal use then you are starving your property investment of air for its growth period. Wait until you have the wealth funds, then you can use them for personal use.

Ensure you schedule an annual check-up with your support member

An annual check-up with your support member can ensure that you are on track to hold your properties for the seven-to-10 year time-span that is necessary to allow for the growth cycles to occur. 🏠

PMC EVENTS

PMC Hands On Workshop

The Yarra Yarra Golf Club, 567 Warrigal Rd, Bentleigh East VIC 3165
1:30pm – 5:00pm, Saturday 18 June

PMC presidents, Wendy and John Priestly will be coaching members on how to create their own financial independence date and calculating percentage shortfalls in cash flow. Please bring a laptop and property statistics to use on the day.

PMC Dinner

The Yarra Yarra Golf Club, 567 Warrigal Rd, Bentleigh East VIC 3165
6:30pm – 10:30pm, Saturday 18 June

cost: \$50 per person

contact: Phillip Byrnes on 0417 126 974 or via email at phil.byrnes@tic.com.au

PMC TRAVEL

PMC Tour to Canada

17 August, 2011

Enjoy an escorted private tour experiencing the wonders and beauty of the west and east coasts of Canada. PMC members have the option to stop in Hawaii on the way home.

PMC China Tour with the Yangtze River cruise

June 2012

Take a cruise on one of the great rivers of the world with other PMC members. Enjoy a stopover in Beijing to climb the Great Wall.



PMC International Workshop – Fiji

1 – 9 October, 2011

Held at the Intercontinental Resort, the seventh offshore International Workshop enables PMC members to learn from each other on how to further enhance their property portfolios. Following the workshop, relax with a cruise on the Dawn Princess to Sydney. Families are welcome.

PMC Antarctica Expedition

1 – 20 December, 2011

This is a once in a lifetime opportunity to cruise to Antarctica and experience this unique wilderness with other PMC members.

future events...

PMC European Vacation 2012

PMC Alaskan Cruise 2012

PMC WEBINARS

Property Millionaires Club (PMC) members have access to monthly member-only PMC webinars that are designed to provide ongoing support to PMC members. Topics cover areas of specific interest to PMC members including strategies for acquisition, consolidation and harvesting of property funds, property management, property improvements, managing cashflows and holding strategies.

PROPERTY INVESTMENT AND TAXATION

when: 8:00pm (AEST),
Tuesday 14 June
presenter: Frank Friedman, branch manager

SPI – KEEPING TRACK OF YOUR PROPERTY CASHFLOWS

when: 8:00pm (AEST),
Tuesday 12 July
presenter: Phil Hill, branch manager

FIDO – READING YOUR ROADMAP TO RETIREMENT

when: 8:00pm (AEST),
Monday 8 August
presenter: Barry Seabrook, branch manager

PMC Travel

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