Building a property portfolio for equity

By **Wendy Priestly** PMC president

In my property investing experience, there are two strategies that allow investors to have access to their desired amount of equity over the long-term: time and safeguarding your equity growth.

In the short-term, which could be two-to-five years, property values experience fluctuations as a result of many external circumstances. These circumstances can cause property values to go up, remain the same for some time or from time to time even go backwards. Allowing time to pass and grow your equity over a longer period of seven-to-12 years means these various fluctuations make smaller differences to the long-term growth of your portfolio equity.

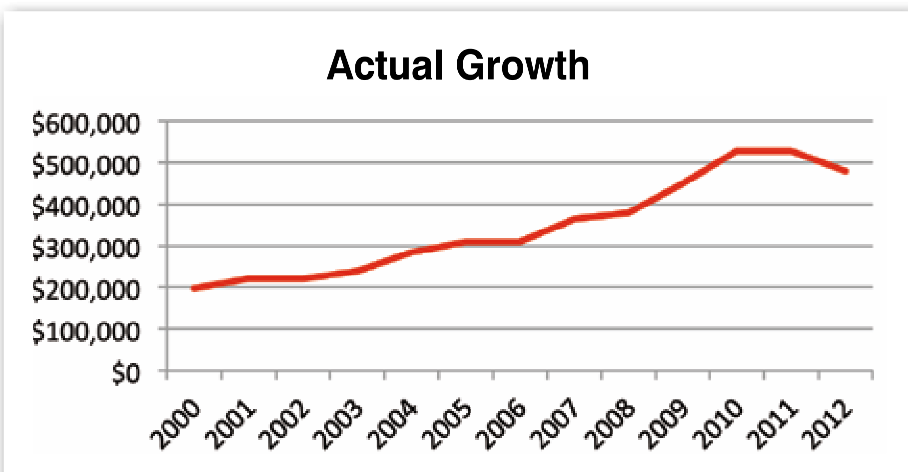
You also need to leave the equity in your property alone for a period of time so that it will compound and grow to a handsome amount before you access funds. There are many pressures that may tempt you to consider accessing your equity growth prematurely. One of these pressures is using the equity to hold the property. Another is enjoying the limited equity growth now to purchase items such as cars and holidays and not later when it can be sustainable to do so. Another is not knowing how to manage the holding costs and using a line of credit without knowing how this affects your equity growth.

If these are actions you are taking over the shorter-term then you will retard your property equity growth. This is the same as continually cutting back a fruit tree. It will take so much longer to bear the fruit crop you want. Similarly for property equity, it will take much longer for you to acquire the property equity you want. The Investors Club's approach is to buy and hold until the property doubles in value over the longer term, and then to access some of this equity through a variety of strategies for extraction. If you have continually drawn down equity as it is accumulating then there will be none or little left when the property does double in value.

If you want to access your equity for living in retirement, then I suggest rather than focusing on your property values growing over the longer term that you focus on growing your equity over the longer term. If you are constantly using your equity to hold the property or buy lifestyle items then you will be delaying the time until you can do this. If you wish to pass the asset onto beneficiaries through your will you need a low enough loan to value ratio to ensure that your beneficiaries can retain ownership. Prematurely drawing out equity also delays the time when you can do this.

Let me use an example from one of my own property purchases to illustrate this point – Unit 5 Parker Street Newmarket Queensland (pictured right):

I purchased this property in 2000 for $198,000 (see table below). In 2010 the property had a market value (compared to other sales) of $529,000. This meant that there was approximately $331,000 equity, from which I could access a percentage of



this. In 2012 the market value has dropped to $480,000, with equity of around $280,000. The market moves up and down over time as does the equity available in the property. If I need more equity, I need to allow more time for it to grow further.

If I am to focus on the benefits of owning the property and growing equity, then my focus needs to be on ensuring I end up with a large amount of equity in the long-term. Here are some strategies that can be used to help grow equity in your property:

- Know how much the property costs to hold each week/year.
- Return your tax savings on a per pay basis to your line of credit.
- Make sure your property is in the best condition it can be to ensure tenants are willing to increase rental payments.
- Continually monitor the outside condition of your property (whether it be a strata or torrens/green title) to reduce expenses in the longer-term.
- Continually compare bank loan rates and ask for the best deals from time to time.
- For strata properties ensure that a good amount is held in the sinking fund to allow for necessary maintenance and not cause a drain on funds in the longer-term.
- Inspect your property on an annual basis to ensure it is in good condition to attract rental increases and equity growth.
- Associate with like-minded property investors who are informed about growing their property values.
- Put the needs of your property ahead of other needs for the longer-term gains.

PMC Antarctica Expedition

December 2011

The PMC Antarctica Expedition team left Australia from the south of Hobart and progressed over five days in open ocean waters to arrive in Antarctica. Due to the climatic conditions of the ice, the cruise ship was unable to land to allow passengers to visit the historic collection of buildings Mawson's Huts. Despite this, PMC members commented that the cruise and the Orion ship offered great facilities and the daily zodiac expeditions off the ship were a great experience.

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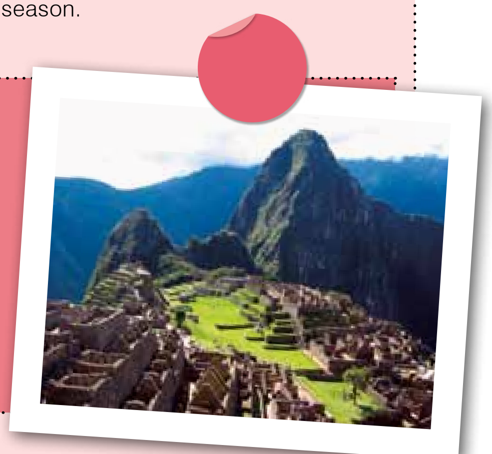

PMC European Vacation June 2013

Tired of one-night stays in the cities? Then join this PMC tour with fellow members and experience an 18-day private tour visiting five-to-six cities with three-night stays so you can actually experience the beauty of each city.

PMC Travel

Submit all enquiries to PMC travel consultant Sharyn Bojczenko:

P: 03 9850 1046 **F:** 03 9850 7242 **Mob:** 0407 551 567

Email: sharyn.bojczenko@bigpond.com

In conjunction with Pan Australian Travel, 2/212 Cardigan St Carlton Vic 3058

ACN 008 871 183