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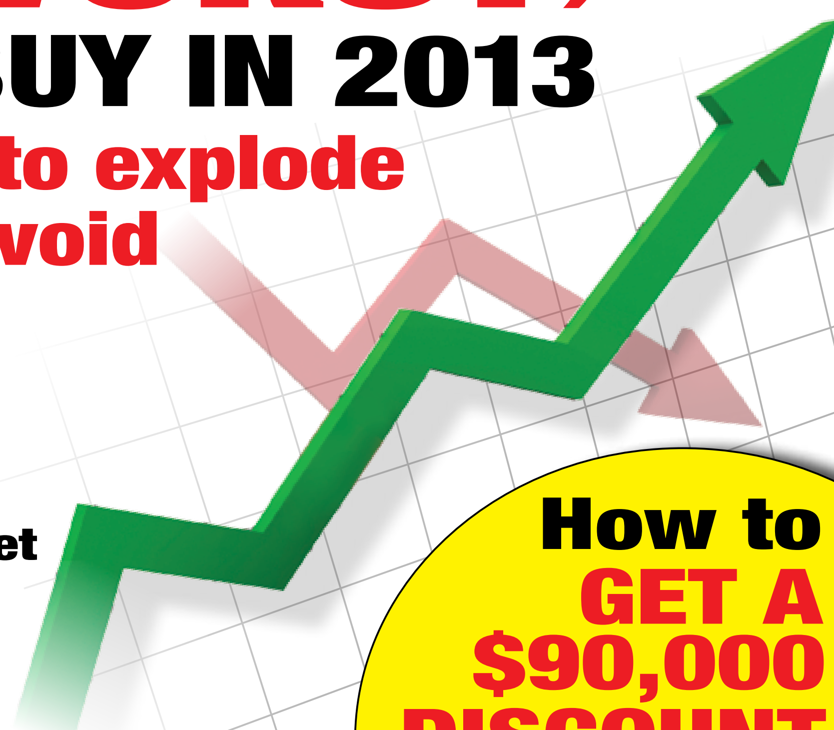

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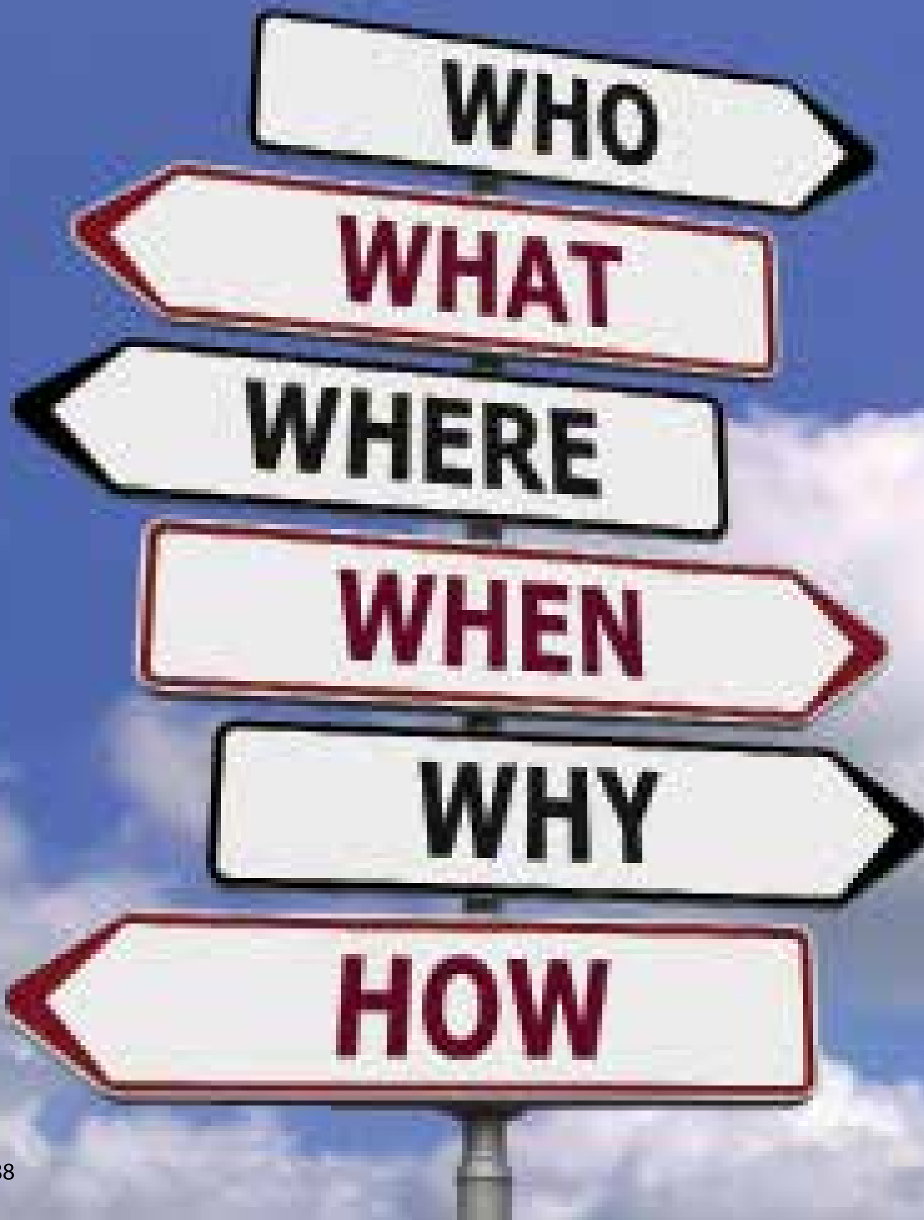
The best *and worst* advice I ever got

Ever wondered how property investors with a multi-million dollar portfolio made their way to the top? Or are you confused about what to do next with your portfolio? *Your Investment Property* grilled the experts and Australia's leading investors to share their advice and help you prosper in these challenging times



Property investors are overwhelmed with choices and overloaded with information – so if you're confused, you're not alone. It's not uncommon to feel anxious about how you can grow your portfolio and secure your financial position in the current rocky economy, as the decision you make now will have impact well into the future.

That's why we turned to the experts for advice – specifically, for the best advice that they've ever received as well as the worst advice they ever got. We rounded up Australia's leading property advisors, industry experts and high-profile investors – and asked them to share the words of wisdom that helped give them the edge.

Their answers are wide and varied, but it seems that one prevailing theme ran through: the right attitude and a positive mindset.

Tyron Hyde, director, Washington Brown Quantity Surveyor

The best advice: You never make real money working for someone else

The worst advice: Invest in shares

When I was 17 and while working at McDonald's and doing my HSC, my future brother-in-law – a developer – said two things that changed my life: "You can only ever make real money working for yourself" and "McDonald's really is a property development company … they just sell hamburgers on the side".

As I was flipping those burgers I was thinking "there's got to be more to life"… and as I tried to work out what he meant by McDonald's being a property developer I enrolled in a Bachelor of Construction Economics. The course led me to becoming a quantity surveyor.

Before this I never really had an interest in property so his advice certainly steered my career path, because it was during my degree back in 1993 that I applied for a cadet role at Washington Brown. Now I own the company.

A few years into my work at Washington Brown, aged 25, I wrote a thesis on property depreciation, and thought that this could be a good business opportunity.

This is where part of the advice kicked in. You never make real money working for someone else. So I left Washington Brown, and my mentor who then owned the company, and I started my own quantity surveying firm, Property Depreciation. I did that for about a year and half, and once my old boss at Washington Brown saw that it was successful, he invited me back as a partner. I haven't looked back since.

The worst advice I ever got

The worst advice I ever received was from a financial planner who led me down the path of investing in shares. I have never lost money in property, but I certainly have with shares.

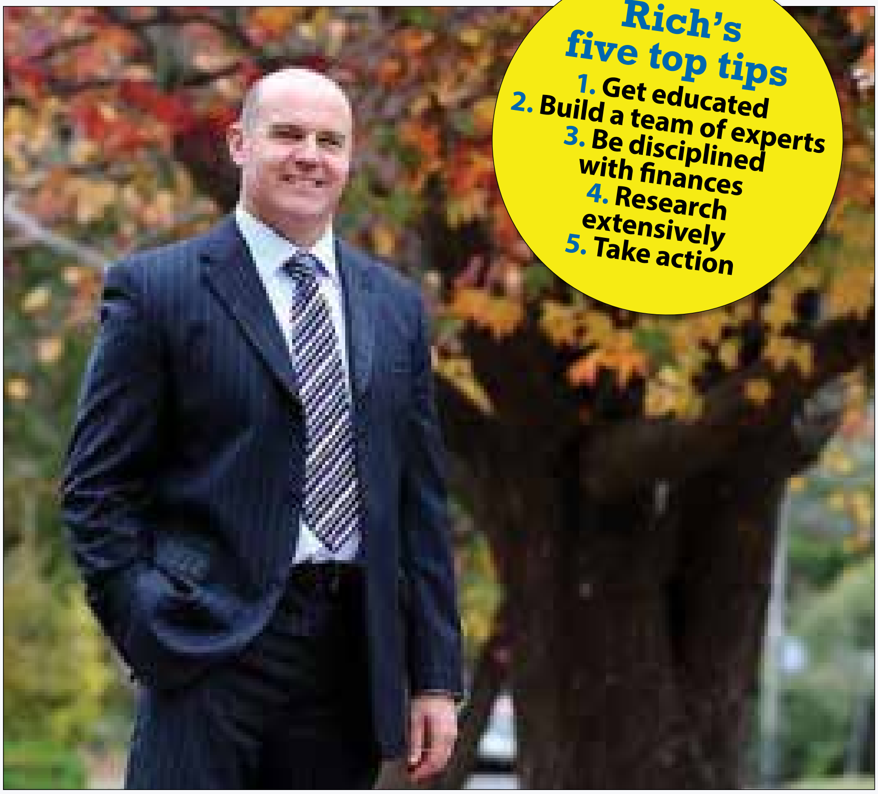
In hindsight, I should've stuck to what I know – property. But the allure of buying shares in a company that you don't own, then sitting back and letting that money grow, was appealing.

Fast forward to the Global Financial Crisis and hey presto it wasn't so alluring after all! I have always found that letting someone else make money for you ends in tears.

To me, investing in the stock market is the easy option, unless you know what you're doing

And while letting someone else make you money can work, I would rather back myself. Whether that's investing in my business or trusting my property skills to know if an opportunity is likely to pay off.

So my own advice is invest and nurture what you know best – you.



Rich's five top tips

1. Get educated
2. Build a team of experts
3. Be disciplined with finances
4. Research extensively
5. Take action

Rich Harvey,
managing director, www.propertybuyer.com.au

The best advice: Get educated about finance

The worst advice: Invest in a mezzanine fund with a developer

The best investment advice I ever received was to become more educated and financially literate. The more educated I became, the easier it was for me to understand how property markets and investing really works. By investing in my own education I was investing in my own ability to make wise decisions and invest smartly.

I quickly learned the power of leverage. I had some equity in my own home and when I learned how to use that equity safely to purchase investment properties I was off and running. In my early years I attended numerous seminars and property courses to increase my knowledge. I learned the power of research and how to analyse property from both a macro and micro perspective. I got to know Property Investment Analysis (PIA) extremely well. As an economist I loved to crunch the numbers and see the bottom line. But I also had a touch of that disease called "paralysis of analysis" which prevented me from investing. I was often gripped by the fear of making a loss.

I remember going to seek the advice of several financial planners. None of these planners gave me the confidence that they had my best interests at heart. They all seemed to be steering me into managed funds from which they could make the high fees.

Once I had enough confidence to invest in property and understood how property investment worked, I bought three properties in one year. This set me on my path to becoming a successful property investor. I also developed a passion to educate and help others in the journey of property investment. Fear seems to be the thing that holds most people back.

Fear of making a mistake, fear of the unknown, fear of property prices crashing or picking the wrong property or the wrong area. Yet investing during times of uncertainty has also proven to be the times when I've made the most money in property investment. If you complete your due diligence well, this protects you from buying a lemon!

I also received excellent advice in organising my finances. Structuring your finances to maximise your borrowing capacity safely is an excellent strategy for property investment. Rather than going directly to a bank, I was advised to use a mortgage broker to help organise my loans. My mortgage broker has proved an invaluable source of advice in getting the best loans for my portfolio. He put me with the tough lenders first then used the second tier lenders for subsequent loans.

The broker can sift through hundreds of different loan products very quickly to help me pick the best product. The broker also helped me to revalue and refinance my investment properties, so that I could extract the equity and move into buying further properties.

Another great piece of advice was about the power of leverage. I quickly understood that I couldn't do it all on my own, I gathered a team of experts around me. Apart from a finance broker, I needed a tax accountant, buyers' agent, solicitor, depreciation specialist, building inspector and property manager.

In choosing advice I always look at the motive behind the person giving me that advice. Do they have a vested interest or do they have some hidden agenda in providing that advice? Or is the advice truly objective and not tied to commissions? That's just one of the reasons I decided to become a buyers' advocate. To help people get independent advice around property research and investment decisions.

> "My advisors told me to focus on areas of high demand and constricted supply"

Doing quality research takes an enormous amount of time. My mentors advised me to not take shortcuts with research. My advisors told me to focus on areas of high demand and constricted supply. This has been absolutely golden advice when it comes to choosing the right area for property investment.

In my early days of investing I had to learn to take action and implement the knowledge I gained. There's no point buying and reading all the magazines and books about property investment if you never intend to build a portfolio.

The worst investment advice I ever received

It was from a financial planner who recommended that I placed a significant sum of money into a mezzanine fund with a developer. The returns sounded very attractive at 20% pa. I was blissfully unaware of the risk factors around this type of investment and the character of this developer. And you can guess what happened next.

We ended up losing all the money we placed with this developer. The only positive out of this story is that it happened a long time ago, early in our investment career, and we have learned by our mistakes and had time to rebuild.

Taking the advice of a sales agent on face value was other worst advice we received. Some people, including us in the early days, were naive enough to simply trust developers and the glossy brochures they produced. It's so important to dig deep by asking tough questions and get the real facts out of any property investment opportunity. You have to analyse the cash flow and the projected returns to make sure the investment is worthwhile.

When attending some of the property courses in the early days, we also received advice to go big and go fast. The presenters would say that you need to have "big hairy audacious goals" (BHAGS). But we also saw people who attended those courses go off and commit financial suicide by buying more properties than they could manage financially.

It's important not to get ahead of yourself. It's great to have ambition and financial goals, but you need to achieve them at a realistic and sustainable rate. This is where financial discipline is so critical. You need to manage your income and contain your expenses, balance the books and have a clear strategy for investing for the future.

You don't become wealthy in property by chance. You become wealthy by adopting a planned approach to investing in well-positioned and quality properties.

Heidi Armstrong,
State Custodians Mortgage Company

The best advice: Remember your home is an investment and one day may become an investment property

The worst advice: Buy off the plan

It is often difficult to ignore the impact and benefits of the very simple and basic investment advice such as "reduce personal debt".

However I learnt that there is a layer of complication that gets ignored in the dispensing of this simple advice. The complicating factor is change. What happens when you make changes such as upgrade to a new residence and turn your existing home into an investment property? Is that simple advice of "reduce personal debt" really all that helpful? I think it has its limitations.

I was lucky enough to have operated our home loan using an offset account. So although we had taken the simple advice and "reduced personal debt" quite quickly, our extra funds had always remained in our offset account and not in the loan itself.

This meant that when we ended up turning the existing residence into an investment property, the loan balance remained high allowing us to maximise our tax gearing benefits. At the same time, we could easily pull the funds out of the offset account to put towards the purchase of our new upgraded residence in order to cut back on the extent of our new owner-occupied debt.

It was extremely valuable knowing that financing an investment requires a strategy that doesn't just work for today but for the future as well.

The worst advice I ever got

Despite the fact this story has a happy outcome, I still feel that the advice I received about purchasing "off-the-plan" was poor. Around 1997, I purchased a property off-the-plan in Victoria. I secured the property with a long-term deposit bond evidencing my cash savings and PAYG income to qualify.

The property was completed about two-and-a-half-years later at which time I was no longer employed PAYG but was self-employed, operating a relatively new business. Whilst buying off-the-plan had the advantage of not inconsequential stamp duty savings, it was difficult (a greater deposit required) and more expensive (higher interest rate) to arrange finance due to my changed employment circumstances.

The upside was that the property was valued on completion significantly more than I paid for it. This helped considerably when I was seeking finance to settle on the property. If the market had been more reflective of where we are in today's property cycle, I dare say my ability to settle on the property would have been quite low.

People looking to buy off-the-plan need to understand the risk associated with it. Any approval you get for finance today is irrelevant and worthless if you have to settle in two years' time. Life brings change, and in my opinion, purchasing off-the-plan doesn't accommodate for this particularly well.

Catherine Lezer,
Personal Mortgage Adviser, Smartline

The best advice
Always buy a bargain

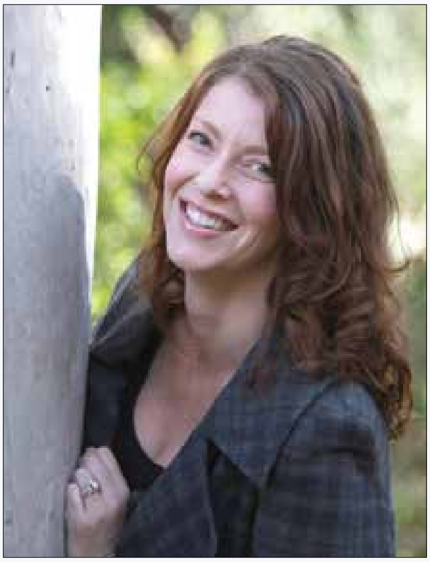
The worst advice:
Property investment is set and forget

There are basically three ways to make capital in property: market growth, renovation and buying well. When I buy a property, I never take into account market growth. In fact I do my figures assuming no growth. Renovation potential is certainly a great way to make money, but after about eight renovations, I can comfortably say I can add value by renovating almost anything. But buying a bargain ... that's much harder and requires extensive research and immense patience. Obviously you need to know what an average property of the type you are looking at and where you are looking should sell for.

And then you are seeking out property about 15% - 20% under value. These may be distressed sales of some sort or just urgent sales or there just may be a slow market where properties are not selling. Irrespective, if you buy something under value you immediately make money that insulates from market fluctuations.

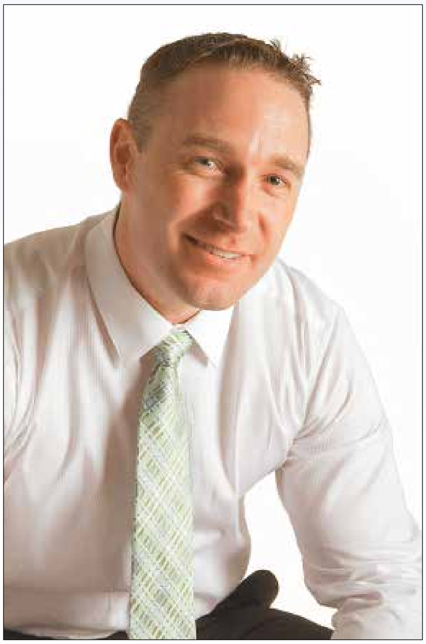
The worst advice I ever got

Property investment is set and forget after the purchase. I have learnt this is so not the case. Even if you have a property manager, you still need to be actively involved to know if you are charging market rent, maintaining the property, keeping up with law and council changes. But it doesn't stop there, you need to keep an eye of the loan suitability, interest rates, tax



deductions, insurances.

And even if all of that comes easily ... then there is the paperwork! No, property investing is certainly not set and forget. But this is a small price to pay for the wealth property can create.



Paul Giezekamp,
director, Property Secrets

The best advice:
Follow the best, not the crowd

The worst advice:
Buy the wrong property

The best advice I ever received was from a property investor/developer mentor that taught me to follow the best in the business, not the crowds. This basically means look at who are making the most money in the property arena, the billionaires of property, and research what property product they buy and buy the same as them.

They are obviously onto a money-making property system – so copy it. My findings were that developers made the most money in the property arena, not property investors. The further I examined these billionaires, the more I found out about how they started – buying properties 20-40 minutes from a CBD that had zoning approved from council to build a duplex now or in the future.

The penny dropped. By purchasing this product, I could add value in numerous ways. For example, I could do a renovation, add a granny flat or demolish the property and develop by building a duplex (two dwellings). This is what I buy these days and I cannot thank this mentor enough for what position I am in now for his sound advice.

The worst advice I ever got

It was from what I believed to be a property mentor but he ended up actually having no property at all. The man advised me to buy units in Warwick Farm that were run down and unrenovated.

It wasn't so much the Warwick Farm location, but it was more the product he advised me to buy that was the issue. He sold his concept on the low maintenance of units, no lawn to mow and so on and that the renovations would be under $30,000, which they were.

The problem existed in the fact that once the renovation was complete, I could not add any further value to the property for one, and two, I was at the mercy of what other people sold for in the unit block. If they sold low, it lowered the value of my property as well. Lastly, when you buy property you should have the mindset that one day you are going to sell it.

Units, townhouses, villas, flats, apartments, off-the-plan units or even house-and-land packages cannot have any added value apart from a renovation but the kicker here is that half of the buying market (developers make up 50% of the buying market in Australia) will not attend your auction/sale as they cannot develop your product. When selling a property, wouldn't you want 100% of the buying market, not 50%?

Michael Yardney,
director, Metropole Property Strategists

The best advice:
Treat your property investments like a business

The worst advice:
Property investment is easy

Over the years I've seen a small group of property investors, those who treat their investments like a business, become very, very rich by growing a multi-million dollar investment property portfolio. They do this understanding "the system" and getting the right type of finance, setting up the correct ownership and asset protection structures and knowing how to legally use the taxation system to their advantage.

Let's face it; the majority of Australians will always be employees but we all have the ability to become financially free by becoming property investors who treats their investments like a business. And you can set up your own property investment business while you are still an employee or self-employed.

In fact that's what I did and what almost every wealthy property investor I know has done.

They built their wealth by growing their real estate portfolio one property at a time. While this was going on they lived off the income they earned from their day job. They started off with one property, then leveraged off its capital growth to invest in another and another until one day they found themselves with a true property investment business. One that gave them financial freedom and choices in their lives.

The worst advice I ever got

I was told that property investment is easy. This was clearly wrong because most property investors fail!

Look at the facts. Fifty percent of those who get into property investment sell up in the first five years and of those who keep their properties, the vast majority never ends up owning more than one or two properties. This means they don't ever achieve the financial independence they desired.

However over the years I found property investment is simple, but not easy. And that's not a play on words.

It's simple if you follow a proven formula but it's really hard to become wealthy in property if you do what everyone else is doing. While many investors chase cash flow or the next hot spot, I've found successful investors build their asset base.

> "I look for a property with a twist – something unique or special or different or scarce about it"

Over the years I have developed a four-point strategic approach to property investment that ensures the properties I buy a property will outperform the market averages.

I buy a property below its intrinsic value in an area that has a long history of strong capital growth.

I look for a property with a twist – something unique or special or different or scarce about it. And a property where I can "manufacture capital growth" through refurbishment renovations or redevelopment.

This means I minimise my risks and maximise my upside as each strand represents a way of making money from property and combining all four is a powerful way of putting the odds in my favour.

If one strand lets me down, I have two or three others supporting my property's performance.