PROPERTY
AND YOU

Creating Wealth in Difficult and Changing Times.

By Frank A. Latorre (2009)

www.franklatorre.com.au

Chapter One

The Way we have Been Taught and Brought Up

While this is a book on creating wealth, I'd like to start with a chapter that may seem a bit more esoteric. The fact is, a lot of people's issues with wealth and money stem from their mindset and attitude towards these things. Before we can deal with the practical side of creating wealth, we need to deal with the emotional side of it – because either side without the other will eventually prove unfruitful.

It's not always what you do not know that hinders your life, your growth or your future decision-making. Rather, it is the knowledge you possess that is untrue, outdated, incorrect or not applicable to you or your situation.

The so-called facts that serve our intellectual needs seldom provide for our growth.

That is why so much of what I teach in my educational seminars (and in this book!) focuses around dispelling the myths that so many people believe and replacing them with correct and applicable information.

I really believe that in this industry only the truth will set you free.

Only when you have truth and knowledge can you move forward with confidence in yourself and in what you want to achieve. Confidence tinged with belief will allow you not only to have desires, goals and dreams but to act on them and in so doing, live a fulfilling life.

First, you must trust that you are more than you think you are.

Have you ever been told by your family, teachers at school or anyone else who cares for you, that you can and are worthy of having two, three, four, 10, 20 or 40 properties (or more!)? Or that you can have more than one stream of income to live on? What would your life be like if you had three or four incomes and not just the one? And what difference would it make if those income streams were not dependent on you getting up and going to work every morning?

What we have heard all our lives is this:

Get a good education so you can get a good job and earn good money. Get married and have kids. Pay off your home loan and never mortgage it again. That's about it, right?

Have you ever been told that working for a living doesn't have to be the only way to make money honestly and safely?

Would you say that this is a very limited way to live? Why don't we look and explore possibilities so we can live life beyond financial limits?

Are you afraid?
Do you believe you are not worthy?
Is it your belief system?
Do you believe that you have to battle if you weren't born rich?
Do you believe in change?

Are you afraid to dare to dream of greatness, great wealth, travel, of great achievements beyond what you have ever achieved before in any field of your life?

How much difference could you make to the needy and the sick and the uneducated of the world if you had a great source of constant riches?

What if you could use some of this to help some of these people on a constant basis how would you feel?

Or is the way you've been bought up, the example set to you by your parents and the society around you, too strong an influence for you to break free from?

How would you feel if I told you that you can service up to three or four investment loan repayments with approximately the same amount of money – or less – than you are currently paying out on your home loan?

Question: Would you rather own four properties that come with constant and increasing rental income, taxation refunds (savings from negative gearing and depreciation allowances) and real profits from capital gains?

Or one home with no income, no tax savings and only one "Capital Gain"?

Seems like a no-brainer, right?

At this stage, let me tell you of the great loves of my professional life

1. Helping other people achieve greater financial success and improving all aspects of their lives. That is, helping people to help themselves.
2. I really love and believe in property

INVESTMENT PROPERTY CASH FLOW CHART

EXAMPLE ONLY, FIGURERS ARE APPROXIMATELY FOR ILLUSTRATION PURPO SES ONLY.

PURCHASE PRICE	RENTAL INCOME	APPOX TAX SAVINGS.	YEARLY OUTGOINGS	YOUR SHORTFALL.	NEW VALUE AFTER 7 YARS	NEW V ALUE S.LATER 14 YEAR
1. $ 400,000	$20,000 P.A.	$10,OOO PA	$34,000 -	$4,000 ($76 - 00 PW.)	$800,000	$1,60000=
2. $400,000	$20000	$10000	$34 ,000	$4,000 - ($76 -00 PW.)	$800,000	$1,60000 -
3. $400,000	$20,000	$10000	$34, 000	$4,000 - ($76 -00 PW.)	$800,000	$1,60000 -
4. $400,000	$20,000	$10000	$34 ,000	$4,000 ($76 -00 PW.)	$800,000	$1,600,00 -
SUMMARY TOTALS.						
$1,600000	$80,000 PA	$40,000	$136000	$16,000. ($304 P.W.)	3.2 MILLION	6.4 MILLION

$400,00 HOME LOAN TO LIVE IN, APPROX COST PER WEEK $653 - PW.

"Aim for success
Not for perfection
Never give up because
Then you will lose the ability
To learn new things
Move forward with your life"
(Buddha)

Chapter Two

The Best Way to Predict your Future is to Create it

Now lets get started on understanding some of the key elements of the business of property investment.

Yes it's a business. The tax department treats it as a business and so should you. People go into business to make money and to have more freedom in and control over their lives.

So, what business are we going into? Builders, developers, renovators and land developers are in the property business.

I recommend buying new properties to rent and hold so with time and correct location the property will grow in value. So really, we're in the permanent rental accommodation business.

In order to be in this business, there are several key aspects we need to be familiar with:

1. What are the conditions of today's rental market?

2. Who are your clients (the tenants)?

3. What do they need and want?

4. Why do people live where they live?

5. Is it a good business to go into?

6. Is it a growing demand business?

7 Where will the rental market be in 10, 20 30 or so years?

These questions will be covered within this book.

Your first most important lesson about your new business is this:
do NOT buy an investment property based on personal reasons.

Remember, this is a business. Therefore, all decisions have to be business decisions, with sound business principals and foundations.

Do not buy investment properties because of great views.

Do not buy investment properties because of great weather.

Do not buy investment properties because of the size of the property.

Do not buy in an area because it's named as a 'hot spot' in the papers.

Do not buy because somebody offers you a gift, a discount or a guarantee.

Definitely do not buy on price alone.

As you learn more about the business of property investment you will begin to understand what is important and the right way to approach this very rewarding business.

Now let's examine one of the greatest myths we face in our lives.

Like the thousands of people I have spoken to over the past 15 years I once believed that if I had no mortgage, no bills, no commitments, I would be stress free, could take it easy and would have more free time on my hands.

But what's the good of having more time on your hands if you have no money with which to enjoy it?

Money worries are one of the main causes of relationships breakdowns. They also contribute to health issues, stress, low self-esteem, lack of security and the lack of quality of life, especially later in life.

If you had plenty of money, much more money than you needed, to meet all of your loan repayments all, daily bills, expenses to meet, needs and to have money left over to afford some luxury items like holidays, outings, restaurants and theatres, what kind of difference would that make to your life? Would you feel as stressed? Would you worry as often as you do now?

Precisely.

So, it's not the fact that you have a mortgage, bills and other financial commitments that makes things difficult – it's the lack of money to meet these financial commitments that causes stress and anxiety.

The fact is, so long as you keep going along, working at your day job, hoping for an annual raise, an annual bonus – you are never going to get ahead. You'll always just keep on top of things. If you're a really good saver, you might manage to have a few of life's luxuries – but even then, they often come at a price.

What if you could learn to make more money than you're earning from your main employment by working smarter, not harder?

The other thing to think about is, of course, retirement. We are now living, on average, a lot longer than we used to. Where once, you would retire at 65 and expect to live to perhaps 70 or 75, you can now expect to live until at least 85. Without a solid income, what kind of a lifestyle will you have on the pension after your super runs out? The average couple have only around two years of super saved.

Of course, it's now worse as many soon-to-be-retirees have watched their super funds run low after a plunge in the stock market.

Why do 84% of retirees today live in poverty in this so called lucky country?

Why do over 91% of all retirees live on less than $22,000 per year?

Knowing that this is the case and despite media educational campaigns, why do more than 87% of today's employed people still not have enough superannuation to last them two years after retirement?

Are you going to let this happen to your family?

The answer is a sad fact of life – you rarely get what you 'deserve'. You get what you settle for. If you choose to ignore the future now, you will pay for it in a highly diminished quality of life, right when you should be able to enjoy your life the most.

The solution?

Property. And this is why I love it! With property, you can make a passive income with yearly increasing rental. Also, you can make your hard earned taxes work for you! The Federal Government gives us very generous tax savings for providing rental accommodation to the ever-increasing rental market.

The Melbourne property market has averaged capital growth of 12.5% every year over the past 20 years (you only need an increase of 10% per year to double your property value over 7 years) and has been the most consistent capital growth state in Australia during this time.

Chapter Three

Building a Secure Financial Future in these Difficult Financial Times

Today, more than ever before, people can afford to hold and service a negative geared investment property, rather than just paying off their home mortgage.

Why?

Well, when you have a loan on the house you live in, you have to pay all of the interest, along with all the bills – rates, insurances, maintenance costs and 100% of the loan.

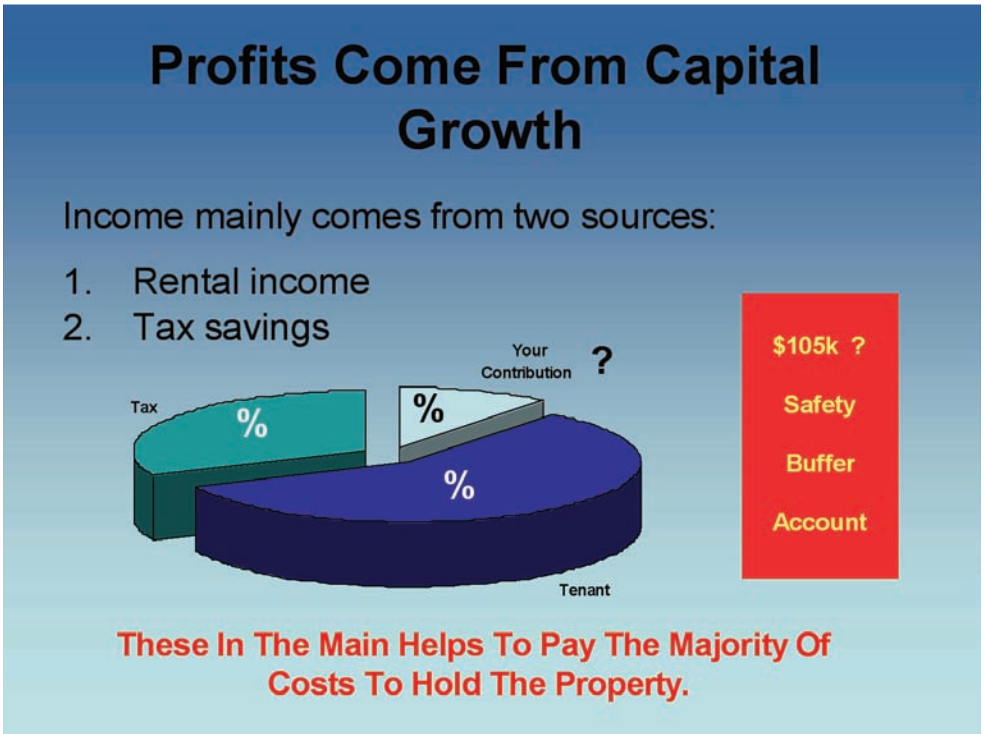
However, when you invest in a residential property – you have help. In fact, you contribute the very least. In most cases, investors only contribute between 8% and 14% of the payments. In some cases, the investor contributes nothing at all!

The balance comes from:

1. The rent paid by the tenants

2. The tax refund

3. Any shortfall is then the investor's responsibility to meet



When interest rates are very low, as they are now and rent is extremely high, while great tax rebates are in place, your total contribution can be as low as $35 or $50 a week.
In some cases, the property may actually become cash flow positive – that is, you may actually begin to make money from your investment property. This is when your purchase turns into a real investment.

You need to have a property financial analysis completed, where the price of the property, your income, the rental income and all expenses are taken into account. From here, calculations are completed and you will be presented with the shortfall amount. This will allow you to determine if you can afford that contribution and therefore afford to have the property within your investment property portfolio.

When I'm working with clients I always provide a property financial analysis to determine what they can afford before we even begin to tackle anything else.

You also need to have a financial assets and liability analysis conducted to determine what borrowing capacity you have and what you can afford to buy. One of the most common mistakes I see made is that people buy a property without first figuring out if they can even afford it.

I strongly recommend that you get some exact funding and taxation advice on negative gearing and depreciation allowances from a specialised property mentor and / or a property advisor who will always do a property investment analysis first so you are not flying blind or using guess work.

Chapter Four

Structure your Finances Correctly and Maximise your Returns

In Australia, home ownership is amongst the highest in the world. Yet most people fail to see the true potential of property investment.

You can utilise the existing equity in your home to build financial security. By borrowing against this equity to purchase an investment property you are able to create a wealth building program that will secure your future, ease the stress of "not enough money" and live a comfortable and more relaxed lifestyle, while securing a future for your children.

You can also use this loan as an opportunity to consolidate your debts, freeing up cash flow and in some cases, saving on charges and interest.

How to Build a Passive Income Portfolio with the Help of your Home

You can draw down a loan of 80% of your home equity without mortgage insurance and up to 95% of your equity with mortgage insurance. You can then use this as a deposit on your investment property (you can borrow 80% or more against the new investment property being purchased as security for the bank).

Whenever possible, I urge you to set aside an emergencies fund that I call a "safety buffer".

A lot of business people fail to do put aside spare funds to use as working capital when times get tight. In the property business, it is important to have this emergency fund to call on if and when it's needed, to get through any temporary tight financial times.

Often, property investors have to sell their investment before realising a return because they failed to plan for the possibility of tough times by setting some extra money aside. Don't let this happen to you!

A few tips when investing:

- Don't give all of your business to one bank.
- Try, whenever possible, to establish and add to your safety buffer fund.
- Re-establish your existing loans.
- Get professional advice from a good, independent finance broker (not from a bank!).
- Ensure that you can afford the holding cost of the property you purchase (i.e. Not only that you can meet the shortfall but that you can continue to do so if you suffer temporary difficulties such as illness or the loss of an income).


Structure Your Finance & Maximise Your Return!
Lender 1
Lender 2
Lender 3
Lender 4
Your Residential Property Val $500k
Home Loan (Bad Debt) $50k
Investment Loan 85% LVR $375k (Good Debt)
"Tax Deductable Debt"
Safety Buffer $101,500k
Investment Number 1 $350k Bank Lend 85% LVR $297,500k
Funds to Complete Purchase $74k
Investment Number 2 $450k Bank Lend 85% LVR $382,500k
Funds to Complete Purchase $94,500k
Investment Number 3 $500k Bank Lend 85% LVR $425k
Funds to Complete Purchase $105k
•Re-Establish Bad Debt (Home Loan) $50k
•Set Up Good Debt at 85% LVR Using Equity From Home $375k
•Complete Purchases Using Funds To Complete From Lender 1 – $273,500
•Establish Safety Buffer (Holding Costs) - $101,500
Please Note: These Figures are Examples ONLY and are NOT indica tive of ALL Peoples Circumstances.


"What is the Holding Cost of My Properties? "
and
"What Net Equity Results Will I Achieve? "
Property Number 1
Property Number 2
Property Number 3
• Investment No 3: Val $500k. Est Capital Growth – 7 Years - $1,000,000
• Investment No 2: Val $450k. Est Capital Growth – 8 Years - $ 900,000
• Investment No 1: Val $350k. Est Capital Growth – 9 Years - $ 700,000
Example Net Equity Results
Property Val $500k: Capital Growth – 7 Years – New Property Val $1,000,000
Less Amount Owing I/O Loan $ 500,000
$ 500,000
Less Holding Costs (Shortfall) $150 Per Week for 7 Years $ 54,600
Net Equity Results $ 445,400
*Net Equity Per Annum : $ 63,571
*Net Holding Cost Per Annum : $ 7,800
Please Note: Example Only – Holding Cost Will Vary From Project to Project

Chapter Five

The Rental Market Business

Is it a good business to go into now?

In the 1980's only 20% of people rented on a permanent long term basis. Today's figures show that the rental market has grown to 34%. It is believed that in the next 3 years this number will rocket to 50%.

It is believed that Melbourne's population will outgrow Sydney's population in the next 10 to 20 years or so.

There are several reasons that more people are renting for longer periods of time.

1. Divorce. Approximately 48% of marriages end in divorce. This is now the number one reason for the increase in rental properties. Divorce is most common in those aged between 40 and 55 years (after the children have grown up).

2. Lifestyle. People today have very different lifestyles, desires, goals and careers then their parents. They live very busy lifestyles – they work hard, go to the gym, play hard and go out, on average, 4 times per week.

   They want easy, maintenance free, affordable inner city living. Smaller and in the right area is the demand of the future. The market is going this same way in all of the major cities around the world. Melbourne is now in the top 28 most populous cities in the world and is growing at a rate of 1,500 people per week.

   So, where are all these extra people being housed and by who?
   How is the public transportation system going to cope with all of these extra people?
   How will the demands for schooling be met? And how will our already ailing healthcare system cope?

3. Affordability. The cost of purchasing a property and of servicing the loan has made it more financially viable for many people to rent, rather than to consider buying.

4. Land and property shortages.

Chapter Six

Location! Location! Location!

What makes a great capital growth area, a good capital growth and a bad capital growth area?

A great capital growth area is an area that doubles in value every 7 years and where history shows that the area has done so over the past 40 years. These areas are high demand living areas for those with higher than average incomes, mostly professional people with highly paid professional positions or successful business people.

Money attracts money. People like to live in the best area that they can afford. This demand will push prices up.

A good capital growth area is an area that might take between 7 and 10 years to double but is still a strong, consistent growth area.

Good capital growth areas usually have a mixture of higher paid, professional income earners and some above average income earners.

Low socio economic areas are usually lower growth areas. Less money means less demand, which translates into less money being spent on improving properties. Low-income earners can least afford interest rate increases.

Cheaper areas are usually lower growth areas. That's why they are cheap to buy in the first place. These areas tend to be the riskier areas in which to buy an investment. That's why you should never buy on price alone.

Some of the important points that need to be understood that influence areas and how they will effect areas for capital growth include:

- Supply and demand
- Socio economics of the area
- Rental demands
- Rental returns
- Employment and type is most important to know
- Quality of surrounding areas
- Area demographics
- Area changes
- Lifestyle changes

Forget about the latest newspaper reports that show the latest hot spots or best selling areas for the last 3 months. This is too small a time period to determine if an area is a real good capital growth area or just an anomaly.

When you buy property for profit (which comes from capital growth) the property has to be in a strong capital growth area for the next 10, 20 years and into retirement.

Short term investment is risky and costly and not recommended.

When considering where to buy you should consider every state in Australia.

Take into consideration:

- Population base and population increases each year.
- Employment. Versatility of industries and history of employment.
- Affordability.
- Cost of housing.
- Cost of living, state taxation, fees, food, clothing and lifestyle.

Melbourne is the fourth most affordable and cheapest city in Australia in terms of housing and cost of living and at the same time is the number one most versatile employment state.

Important facts that you should be aware of:

- 70% of people live within 30 minutes of work.
- 80% of people live within 15 minutes of their family and friends.

As you can see employment, travelling time and family are the major considerations for people when choosing where to live.

You should not buy in areas where employment is mostly dependant on one or two major industries only, such as tourism or mining.

Chapter Seven

Ownership Structures

Tenants in Common is defined as the equal or unequal holding of property by two or more persons.

You see, you can own a property in one, two or more names and also in company names, family trusts and unit trusts.

You should discuss this matter with a very experienced investment property advisor or a very good property accountant.

Under the "Tenants in Common" law it doesn't matter whether you are family members or total strangers – we simply issue different percentage share holdings in the property.

Example

You can have four different owners legally registered on the title:

1. John Smith 40% Shareholding
2. Sandy Brown 20% Shareholding
3. Mary Lee 30% Shareholding
4. Jack Thomson 10% Shareholding

As long as the percentages add up to 100%, the split can be done however you like. You could split ownership equally at 25% each for four owners (and of course, owner numbers can be as many as you like – four, six, or more).

Structuring this kind of ownership is tricky – there are lots of rules and regulations which is why it is imperative that you get professional advice.

This is a great way for people who have not got enough money for a deposit or the borrowing capacity to get started by themselves to get into property investment. If you wait to save a deposit of $30,000 or $40,000 on your own, the property will grow in value more than the deposit you've saved and therefore the chances are that you'll still find it difficult to get started in the way you want.

However, think about this as a possibility.

Four people get together with the same desire to start building wealth through investment property.

They each have a small amount of cash savings, say anywhere between $5,000 and $6,000 each. On their own, they cannot get started. However, if they joined forces under Tenets in Common Law.

By pooling their $6,000 each, these four people end up with $24,000. If they get a loan for up to 95% of the property value, all of a sudden where they couldn't get started separately, they can now get started together.

As the property they purchase grows in value with time, they can then use the increased equity in this first investment property as security to obtain a loan for a second investment property – and another and another as time goes on.

This is a model that is often used by parents who want to help their children get into the market. Some parents have given the equity needed

Some parents have given their children the equity they need in order to give the banks the security required to qualify for the loan required to purchase their first investment property. The income of the parents, along with the income of the adult, working child is all taken into account to help the child qualify for the loan.

In these cases, of the ownership structure works along the lines of Parents: 2%. Children: 98%.

This gives the parents all the legal security to wholly protect them. Later, when the property has gone up in value, the parents can transfer the 2% ownership to the child who can then continue to build their portfolio for the future.

The result of this example is that the parent took no risks at all as while their names are on the title of the new purchase, they have contributed no money at all towards the purchase or the loan or any other costs. With no risk and no financial commitments, they have set their child up financially for life.

This is a great option to consider as one of the safest and best ways to help our adult children get started for life. It also teaches the children reasonability, forced savings and build self-esteem from achievement while at the same time setting them up for life.

Nothing succeeds like success.

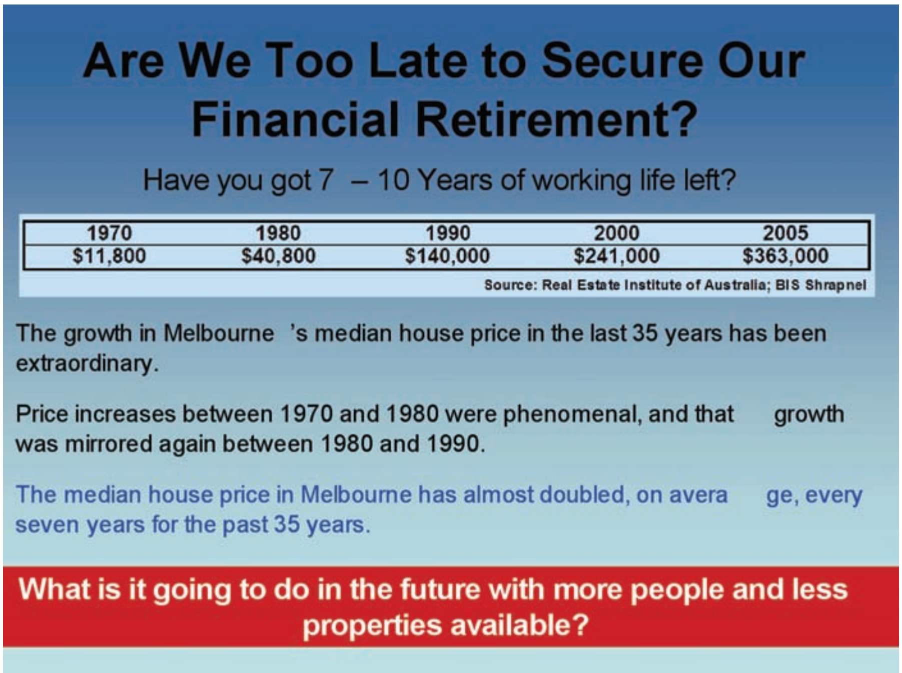
Chapter 8

How Late is too Late to Get Started?

As long as you intend to work for at least the next 5-7 years, you can get started and begin to make some nice money to add to your retirement fund. Imagine making a capital growth profit of $300,000 or $400,000 or MORE in the next 7 years. And that's with only one investment property. Imagine if you had two or three?

How much better would your quality of life be? What can you enjoy with this extra money?

The growth in Melbourne medium house prices in the last 40 years has been extraordinary. The medium house prices have almost doubled, on average, every 7 years for the past 40 years.



Let's get started somewhere. It's not where you start, but where you finish that counts!

You can't become an expert from any book, notes or by attending trade shows or property seminars. Yes, they will be of some help – education is very important. However, you won't become an expert until you get out there and start doing it.

You need to sit down with an experienced property mentor or advisor and have a discussion. Ask questions, get a financial analysis and budget done before you make any decisions.

Don't see this consultation as a cost – an expert can save you hundreds of thousands of dollars in potential mistakes. Learn the smart way – from the money other people have spent rectifying their mistakes.

You don't have to be interested in property to make it work to your advantage – but you should be interested in improving your financial wealth and quality of life not only for your own sake but also for the sake of your family. Property is an OUTSTANDING way to do just that!

Good Luck
Good Health
Lots of Love

Frank A Latorre