GOLDEN NUGGETS

BY

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PROPERTY

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CHAPTER

1

HOW CAN I BECOME A PROPERTY ENTREPRENEUR?

Investing in property can be a great opportunity to generate wealth. In this article, we are going to take you through what a property entrepreneur is, what's involved and options to investing in your first property.

As stated by Andrew Carnegie, 90% of all millionaires get to their level of wealth from investing in property. Property has always been a popular market to generate profit due to the stability of the market, ability to generate income, tax benefits, and the increase in value of property overtime.

So, what is a property entrepreneur?

An entrepreneur is typically a person who has an idea and brings it to life. This often involves a level of risk as there is no guarantee for profit or success. Entrepreneurs are ambitious and love challenge and risk. These are essential traits you must have if you are considering becoming a property entrepreneur. As all entrepreneurs, property entrepreneurs start off small, and work their way to success through deals and negotiations.

HOW CAN I BECOME A PROPERTY ENTREPRENEUR?

Are you ready for the challenge? We'll run you through our top three tips for getting started.

Firstly, you need to learn the basics of real estate investing.
A good start is to understand how real estate transactions work, different types of finance options, laws and legislation of real estate, real estate terms, and trends.

Secondly, develop a real estate investment business plan.
Being a first time property entrepreneur can be a little tricky, we recommend you create a plan to help you outline your goals and how you are going to achieve them. Having a plan is very beneficial as it will assist you to stay organised and on track with your overall goals.

In your business plan, you should include the following:

- Identify who you are as a property entrepreneur
- Analyse your target real estate market
- Analyse your local competition
- Decide what services you provide
- Identify who your ideal customers are
- Conduct a SWOT analysis
- Determine your financial, personal, and growth goals
- Analyse your starting and ongoing financial needs
- Make a plan to revisit your business plan

HOW CAN I BECOME A PROPERTY ENTREPRENEUR?

Thirdly, build your real estate team.

As you're new to the property industry, we recommend you build a team of experts in various fields to help you with different areas of real estate investing. Experts we recommend adding to your team are; real estate agents, home inspectors, mortgage brokers, accountants and attorneys.

Having a team with several skills and specialised knowledge, will assist you in maximising your return on investment, and help you make smarter, and more strategic decision and you become more confident in the industry.

Once you have a good understanding of the property market, have your goals defined, and have a network of professionals supporting you, it's time to create an investment strategy and make your first investment.

HOW CAN I BECOME A PROPERTY ENTREPRENEUR?

Funding your first investment can be a little tricky, so we've come up with a list of options to help you.

Using existing equity, you may be able to borrow these funds to purchase your new property.
This is a good option as you're not using money from your own pocket, and there's opportunities for this money to grow quickly if you have more properties, which will increase your capital growth.

Get a guarantor loan.
A guarantor loan is a loan from the bank, but a friend or family member has signed a contract to repay the loan if you are unable to do so. Once your property increases in value or you pay down the debt, you can remove the guarantor and be solely reliable for the loan.

HOW CAN I BECOME A PROPERTY ENTREPRENEUR?

Finally, you could enter a partnership agreement with someone who wants to invest in property but doesn't want to do the work.

In your agreement, you could outline that you will find the property and your partner pays the deposit. This agreement would enable you to purchase a property without using your own money.

Becoming a property entrepreneur can be a very rewarding opportunity to generate wealth and return on investment. There are many options for investment and a lot of things to set up prior to becoming a property entrepreneur. We hope you found this blog insightful. Please contact our friendly team for any questions or enquiries.

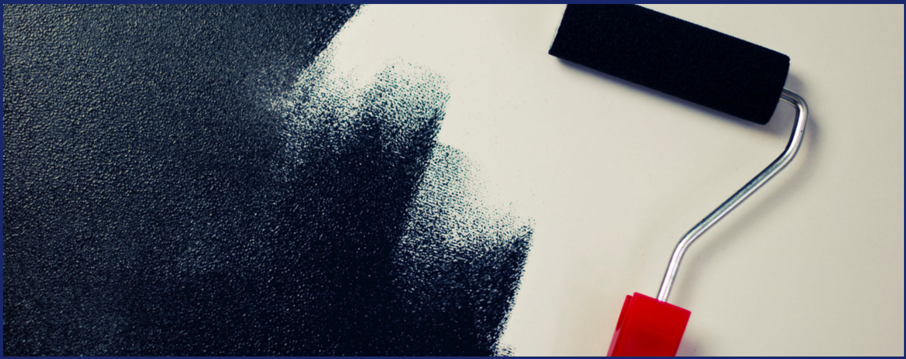
CHAPTER

2

ACTIVE VS PASSIVE INVESTOR

An active investor is one that's involved to make the money grow. So essentially, you are working for your money. A passive investor is one that invests money and has the money work for them. In this article, we explore these terms further of what it means to be an active and passive investor, and advantages and disadvantages of both.

ACTIVE VS PASSIVE INVESTOR



Active Investors

Active investors have a hands on approach as they are involved in every step of the property transaction. Being an active investor allows you to choose what type of property you want to invest in, your budget, and how the deal is organised. Active investors invest their time and energy into the investment in order to gain a bigger return, which is also known as sweat equity. They do this by adding value to a property whether it be a renovation or development.

Active investors are typically property developers or renovators and want to be as physically involved as possible in the process. Being an active investor has more risk involved, as you are personally responsible for everything. On this note, as you manage 100% of your investment, you also receive 100% of the profits made from it. An advantage of being an active investor is manufacture equity. A disadvantage of being an active investor is that all the work relies on you.

ACTIVE VS PASSIVE INVESTOR

Passive Investors

Passive investors make their money work for them, through having someone else managing their investment. The investor isn't involved in most of the property management process, as they rely on others to look after the investment for them.

Passive investors don't put any physical effort into the investment that an active investor does. Rather they invest in property developments or homes and earn a return on their investment through rent. Passive investors limit the amount of buying and selling within their portfolios, as they intend to make most of their profit from long term investments, rather than making profit in the short term.

An advantage of being a passive investor is that you can make your money work for you opposed to you working for your money. A disadvantage of passive investing is that you are relying purely on market returns rather than manufacturing growth.

ACTIVE VS PASSIVE INVESTOR

What is the better option, active or passive investing? There is no right or wrong answer here, it all depends on your financial situation and property goals. If you want to be more involved in your investment, being an active investor is the option for you. If you don't want to be as involved in managing your investment, you can be a passive investor and have someone else manage it for you.

CHAPTER

3

ACTIVE AND PASSIVE INVESTMENT STRATEGIES

When investing in property, there are two strategies, active and passive. In this article we are going to take you through your options and the pros and cons of each.

To recap, an active investor is one that's involved to make the money grow by investing sweat equity. So essentially, you are working for your money. A passive investor is one that invests money and has the money work for them.

ACTIVE AND PASSIVE INVESTMENT STRATEGIES

Buy and Hold - Passive Strategy

Buy and Hold strategy is a set and forget strategy, essentially what its name makes it out to be. It's a passive strategy as you invest your money for the long-term and let the investment do all the work for you. You don't sell the property based on short-term market fluctuations and you gain cashflow through collecting rent payments from tenants.

This strategy has the lowest risk as you are holding the property for a long period, there is an increased chance of achieving capital growth. As rent increases overtime, so does your cash flow and the money in your pocket.

Pros:

- Ongoing income from tenants
- Increase in property value
- Potential for tax saving
- No pressure to sell the property immediately

Cons:

- Vacancy costs if there is no demand for your property
- You don't have immediate access to cash for the property as it's tied in equity
- Ongoing maintenance costs

ACTIVE AND PASSIVE INVESTMENT STRATEGIES

Development - Active Strategy

Development strategy is when you purchase a plot of land and subdivide it into a series of properties. You can choose to keep the properties or sell some of them for a profit.

Pros:

- Potential to make a return in a short period of time
- Add value to a property and create equity
- Build up your capital base quicker

Cons:

- Time risk - due to the lengthy process of developing properties, which can increase your holding costs.
- Requires a bigger financial input - need to stick to a strict budget to make a profit
- The margin of error is low

ACTIVE AND PASSIVE INVESTMENT STRATEGIES

Renovation - Active Strategy

Renovation strategy is when you purchase a property that is a little run down and spend money on fixing it up. Renovating adds value to the house and also increases your rental yield. You can renovate to flip the property or renovate to hold it for the long term, using a buy and hold strategy.

Pros:

- There is potential to add significant value to the property
- You can do a renovation on a smaller budget
- Save costs by doing some of the work yourself

Cons:

- You may go over budget
- Underestimating how much renovation is needed
- The risk that you won't add real value to the property

ACTIVE AND PASSIVE INVESTMENT STRATEGIES

All three strategies require a significant amount of money to begin and maintain these investments. With a buy and hold strategy, you need to be able to cover the costs of the property regardless of what is happening in the market. Similarly, with a development strategy, you need money to fund the development and manage it while looking for tenants and buyers.

Finally, with renovation strategy, there is the potential that you can underestimate how much renovation is needed for a property and go over budget. All strategies have the potential to make significant profit in the long-term, but in the short-term you are required to have a substantial amount of money to begin and maintain these types of investments.

While you consider your next property investment, think about what type of investor you want to be, active or passive. A coach can help you identify a strategy to help you achieve your goals. For more information and help, contact us Silvertail Property Group and together we can work out the best strategy for you.

CHAPTER

4

HOW TO PURCHASE A PROPERTY WHEN YOU HAVE LITTLE SAVINGS

When buying property, most banks or lenders require a sizeable deposit plus costs before you purchase and settle. For someone starting off with little savings, you can still purchase property from understanding these three strategies. These strategies are guarantor financing, vendor finance and rent to own.

Guarantor Financing

A guarantor loan allows you to purchase a home using someone else's property as security, which alleviates the need of needing a big deposit. Utilising your parent's property can help you secure a property for yourself. You can enter the property market and start making growth in property equity, which overtime will make you closer to owning your home.

Pros:

- Avoid lenders mortgage insurance
- Get into the market sooner
- Can remove your guarantor down the track

Cons:

- Not meeting repayments can put your guarantors' home at risk.
- Having limited amount of lenders that will lend.
- Restricted by lender choices

HOW TO PURCHASE A PROPERTY WHEN YOU HAVE LITTLE SAVINGS

Vendor Finance

Vendor Finance is when a buyer and seller create a loan together. To break it down, instead of a buyer getting a bank loan and giving the seller that amount of money. The buyer gives the seller a deposit and has the seller loan the rest to them. Similarly, to bank repayments, the buyer will then make repayments to the seller, as per their agreement.

Typically, buyers get into vendor finance agreements when they are not eligible to apply for a mortgage. After 5 to 10 years, the buyer should have improved their financial situation to be able to apply for a mortgage and pay a balloon payment to the seller.

Pros:

- Faster settlement as there is no need to wait for the bank to approve the application.
- Cheaper settlement as there is no bank fees or appraisal costs.
- Good alternative for buyers who aren't able to secure a mortgage.

Cons:

- Higher interest as the interest you pay to the seller is most likely higher than the banks.
- Need approval by the seller, they may not want to be your lender.
- Balloon payment is due after 5 to 10 years. There is a risk you could lose all the money you've paid so far and the house if you don't pay this.

HOW TO PURCHASE A PROPERTY WHEN YOU HAVE LITTLE SAVINGS

Rent to Own

Rent to Own is an agreement that gives the tenant the right to buy the property at the end of the rental period, at the price that is agreed upon prior to signing the agreement.

Pros:

- You as the buyer have the right to buy the property at the end of the rental period.
- The sale price is set in stone which benefits the buyer if there are any future house price spikes.
- A great alternative for people who can't get a loan in the short term but will be able to in the long term.

Cons:

- A con for the buyer is if the market falls during the rental period.
- You don't own any part of the home until the final payment. You could potentially lose your deposit if you're unable to settle on the property at the end of the agreement.
- You need to apply for a home loan when the time comes for you to buy the property at the end of the rental agreement.

These strategies are great options you can use to purchase a property if you have little savings or aren't eligible for a home loan. Each strategy allows you to get into the property market in the short-term. If you are looking for advice on purchasing a property, the team here at Silvertail are happy to work with you and help you find the best strategy.

CHAPTER

5

WHY IS IT IMPORTANT TO HAVE A GOOD PROPERTY MANAGER?

Having a good property manager is important for any property. From finding good tenants, maintaining them, and sorting out your legal paperwork, having a property manager can be very beneficial for you. Below are our top 8 reasons why it's important to have a property manager.

1. Market Appraisal

A property manager has an expert opinion of the correct rental rate for a property. Correctly pricing your property will attract good tenants as you are asking for a reasonable price for your property.

2. Tenant selection

Landlords need to consider tenant selection carefully. Not only are tenants physically living in their property, but a good tenant pays their rent on time and respects your property. A property manager is able to find out a tenant's history, so you won't need to worry about accidentally choosing a bad one!

3. Contracts

A property manager can help you sort out all the legal contracts between you and your tenants. It is very important that this contract is signed as it outlines the responsibilities of all parties involved.

WHY IS IT IMPORTANT TO HAVE A GOOD PROPERTY MANAGER?

4. Tenant retention
For investors, the ability to keep tenants is critical. If your property has a high turnover of tenants, this gives the investor a bad impression of you, that you are not looking after your tenants. A property manager can help you manage tenant requests promptly, such as to fix a broken air conditioner. By responding to these requests promptly, the turnover of tenants will reduce, and your investors will be happy too.

5. Maintenance issues
A property manager will conduct property inspections to assess whether the tenants are looking after your property. Maintaining the value of your property is important, as if tenants aren't looking after your property, you need to invest more money into fixing it for future tenants.

6. Termination of contract
If a tenant wants to terminate the contract, your property manager can help you with all the legal paperwork. They will assess whether there has been sufficient notice for the termination of contract and whether the property is in good condition. Once the contract is terminated, your property manager will help you find a new tenant to replace the old ones.

WHY IS IT IMPORTANT TO HAVE A GOOD PROPERTY MANAGER?

7. A professional relationship

Investors who manager their investment properties commonly form friendships with their tenants which can create problems when it comes time to pay rent or maintaining the property. Having a property manager assists you in keep the relationship professional. They can charge a late fee to enforce the rent contract, and they regularly assess the condition of the property for you on your behalf.

8. Personal benefits

A property manager will relieve a lot of stress from you, as they will do all the tricky and time consuming tasks on your behalf. You have the freedom to travel without worrying about your property as your property manager will be regularly checking it and looking after it for you. Finally, you have more free time to spend with your family and friends.