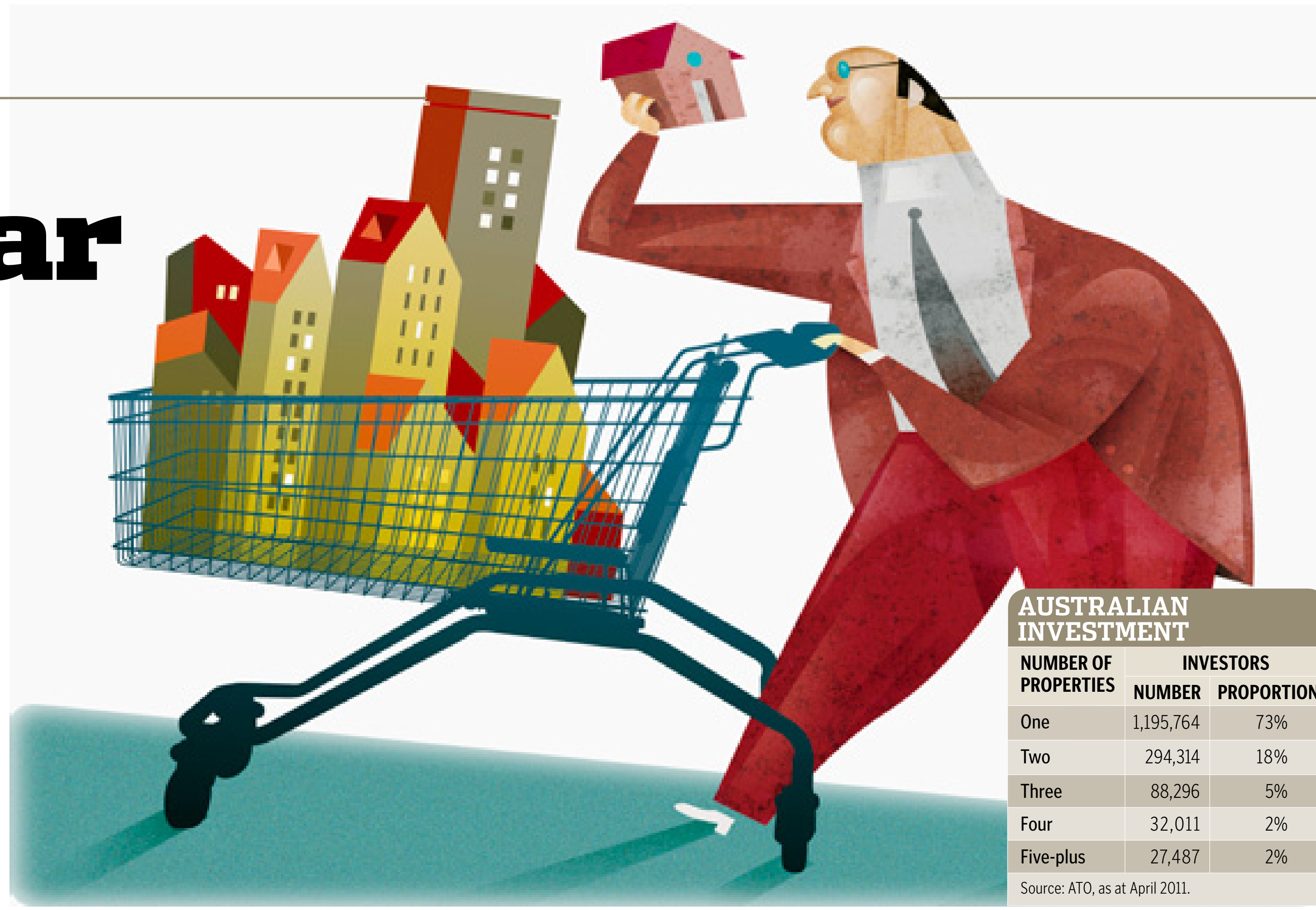
Million-dollar portfolio

Expert Bryce Holdaway explains his seven steps to a multimillion-dollar property portfolio



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AUSTRALIAN INVESTMENT

NUMBER OF PROPERTIES	INVESTORS NUMBER	INVESTORS PROPORTION
One	1,195,764	73%
Two	294,314	18%
Three	88,296	5%
Four	32,011	2%
Five-plus	27,487	2%

Source: ATO, as at April 2011.

I CAN STILL REMEMBER THE excitement of settling on my first investment property back in 1998 – a three-bedroom apartment in the inner-city suburb of Victoria Park, just a short drive from Perth CBD. I paid $199,900, which seemed an awful lot of money back then. But the real excitement stemmed from my focus on this purchase being the first of several. I was incredibly focused on what I wanted: to build a multiple property portfolio, to become financially free and live a lifestyle of choice.

History has shown that I was no "Robinson Crusoe". I've since met countless investors over 14-plus years who all started with this same ideal of setting themselves up for life. Since that first purchase I've added further properties to secure my family's financial future. However, I'm fascinated to observe that, despite the best of intentions, the vast majority of investors have trouble building a multimillion-dollar property portfolio that would set them free financially.

According to the tax office (ATO), only nine out of every 100 investors have three or more investment properties. Almost three out of four investors stop at one. Why is this?

After years at the coalface with investors from all walks of life, I've identified what I see as the top seven obstacles that hold them back from achieving what is quite simple to conceive but clearly difficult, statistically, to accomplish. The good news is that you might be surprised at how easy it is for you to overcome these obstacles.

See property investment as a business, not a hobby

If you bought a conventional business you'd quickly want to master every aspect of it, and property investing is no different. It's more than simply searching online for a property and having your accountant deal with the details after you've bought it. The few who are successful portfolio builders know that the preparation done before a purchase and the crucial steps required after the purchase are just as important as buying the property.

It requires an understanding of not just bricks and mortar but finance, tax, purchase entities as well as property markets and trends that drive the growth in value and yield (returns). Even those who are time poor still treat it as a business – they simply outsource to their team of professionals to make sure they stay on top of it.

‹‹‹ TIP: Understand that investing in property is a process, not an event!

Ignore media hype

Bad news sells, right? But some of the biggest fortunes in history have been made in times of struggle and, importantly, there is always opportunity in every market. Property is a long-term investment and, despite some very compelling reasons in the past that would have scared off many a would-be investor (eg, "the recession we had to have", high interest rates in the '90s, oil crisis, GST and, of course, the GFC), the property market didn't collapse and, in fact, has continued to grow in value, which was great for those who ignored the headlines of the day.

The portfolio builder plans for these situations and knows that "this too shall pass". Unfortunately, though, it can be paralysing to many and they can end up reciting their story at weekend barbecues about "the one that got away".

‹‹‹ TIP: Plan for negative headlines, factor in a contingency for short-term fluctuations and remember that today's news is tomorrow's fish and chips wrapper.

Recognise that Australia is not simply "one big market"

In fact, there are hundreds and hundreds of sub-markets as well as "markets within markets" in each state of Australia. So when a blanket statement is made about Australian property, how does that relate to your property? It simply can't – because, according to industry group HIA, there are over 8,600,000 dwellings in 15,000-plus suburbs, with an additional 2500 dwellings coming onto the market in Australia each week.

Do you care if median house prices have "fallen" in Sydney (general statement) if you own a two-bedroom apartment in Bondi and the local market is strong? No! You simply want to know what other similar properties are doing within a 1 kilometre radius of you to gauge how your property is tracking.

So, understanding how to pick a market and opening your mind to areas outside your backyard may see your property grow in value quicker and you getting your next property sooner.

‹‹‹ TIP: Generalised commentary about property markets helps no one. Know what's happening in your market and act appropriately with local conditions in mind.

Grasp how to afford multiple properties

Have you ever had too much "month" left at the end of the "money"? If so, you're not alone. For most, the thought of having another monthly drain on the family budget is enough to put any additional property off the agenda. But what if you could purchase another property without it denting the budget at all? It is possible if you understand the science of finance structures and cash flow, whereby debt is seen as a tool rather than a burden.

A few simple tweaks to your financials could be the difference between achieving your goal of multiple properties instead of being part of the 73% of investors who buy only one.

‹‹‹ TIP: On your team of professional advisers get a property-savvy finance strategist who understands the cash flow and debt management requirements of building a portfolio.

Keep future trends in mind

Ask any baby boomer to describe their home and it's common to hear it's a "detached house on a quarter-acre block in the suburbs, surrounded by a garden with a Hills Hoist and a barbecue". Ask a Gen Y the same question and they're more likely to describe an inner-city apartment close to the cosmopolitan lifestyle they've come to expect. In fact, it's perhaps more common than you'd think to have an entire family living in an apartment.

So in the 20th-century "land content" was a priority, but in the 21st-century "land value" is king. It used to be Jack and Jill went up the hill to fetch a pail of water; but perhaps now it's more likely that Jack and Jill went down the lift to fetch a babycino.

‹‹‹ TIP: Don't invest with 20th-century concepts because the market has changed in the 21st century.

Buy the right property first

When you research the reasons why most people get turned off property as an investment it's generally because the first property they bought sadly turned out to be a "lemon". It's critical to understand not all property makes for great investing. The residential property market is the only investment market not dominated by investors, so it is a highly emotional and opinionated market.

Home owners buy property with their hearts while investors should buy with their calculators. So the wise investor knows that the best property to buy is the one that appeals to home owners' hearts – not simply investors' back pockets.

‹‹‹ TIP: Property selection is critical to success, so look for property with scarcity value, is "investment grade" and has owner-occupier appeal.

Develop a reliable blueprint

You wouldn't build a house, make a big business decision, plan a wedding or go on holiday without one, and an engineer building a bridge wouldn't survive without it: major undertakings require a detailed cash-flow plan. Without a blueprint, the investor is susceptible to any new fad or distraction that comes along, as the vision can easily get lost along the way. The plan needs to factor in everyday life, too. What if there's a newborn, a holiday or a car upgrade that comes into play? They need to be accounted for and "cash flowed".

This is an investor's most crucial step but, sadly, the most neglected because it's not easy to calculate and forecast. But the reality is, without it you really don't know where your financial future is headed.

‹‹‹ TIP: Begin with the end in mind; develop a detailed plan that models cash flow, debt, investment performance, equity as well as future provisioning. And stick to it. ***M***

Bryce Holdaway is director of Empower Wealth, which helps investors develop multiple property investment plans, and co-host of Location, Location Australia, *which screens Wednesdays at 8.30pm from July 11 on The LifeStyle Channel, available on Foxtel nationally.*

SHOW TIME IN SYDNEY

You can catch Bryce Holdaway at the Sydney Home Buyer & Property Investor Show from Friday, July 20, until Sunday, July 22. You'll also be able to hear from other presenters including *Money* editor Effie Zahos, Margaret Lomas, Chris Gray and Jonathan Chancellor. For details on how you can get free tickets, see our Reader Offer on page 98.

HOME BUYER & PROPERTY INVESTOR SHOW