INVESTOR SERIES

TOP TEN TIPS

# Growth Strategies

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## 1. The 10% Strategy

One of the many growth strategies that people with an interest in real estate investment talk about, is the 10% growth yield. It is the strategy that most real estate agents hang onto with a death grip, and think that the only way they can actually sell a property is if they say it is going to go up in value. That is not always the case.

Ideally, an investor should aim at buying properties in areas where they expect to have at least a 10% growth. A good way to find that information is researching 'historic growth'.  When looking at areas that have had a 10% or greater growth rate over the last 5 to 10 years, you will generally find that these are areas that have always shown decent growth.

You will want to look at the 'Median House Price' which is the price at which half the house prices in the target area are above the median price and half the house prices are below the median house price (remember that this is different from the average house price). Ensure that you are aware of the data you are looking at when making decisions on growth properties, as your calculations can be thrown out greatly if relying on average prices and not median.

A tool that I use to quickly work out the significance of growth in a particular area is the ‘rule of 72’:

**72 ÷ growth rate = years to double investment**

This will help you find out how long it takes to double your investment if using a fixed growth rate. This is just simple economics – the demand and supply of housing has a direct correlation to price, and therefore the growth of your investment. Understanding this will help you to make a smarter, calculated decision on your property purchases.

## 2. Strata Titling For Manufactured Growth

This is my favourite. It is the process of taking an existing multi-family dwelling, block of units or number of townhouses and applying to the local council to have the building broken down into a number of separate titles. This process usually involves an increased rates bill for water and sewerage etc. It does, however, mean that each unit or townhouse can then be sold off individually.

There are two main advantages to strata titling;

1. **The banks look at the investment differently.** It is not classified as a commercial deal, but a residential deal. Consequently, they are more willing to lend at a higher ratio (the process can often lift your borrowing capacity from 70% to 80% and even higher if you wish to pay mortgage insurance.

2. **As the property can now be sold in individual increments, valuers will value the property higher**. Also, because the investment can now be sold to a wider section of the general public (not just investors like you), the individual properties will be worth more than they were under one title.

# 3. Renovation Strategy

The renovation industry in Australia is a $3.6 billion industry. That is mainly due to the advent of all of the television shows about what is happening in the market, like Ground Force, The Block, Location, Location and even Burke's Backyard.

Renovation of your principal place of residence, if you are starting out, is an easy place to start. You will be entitled to your first homeowner's grant, which you would use to buy something you can live in and do renovations on, to increase the value of the property. Buy something that is structurally sound, but just a bit messed up, a bit dirty, and in need of a cosmetic fix up that will drive your sale price up.

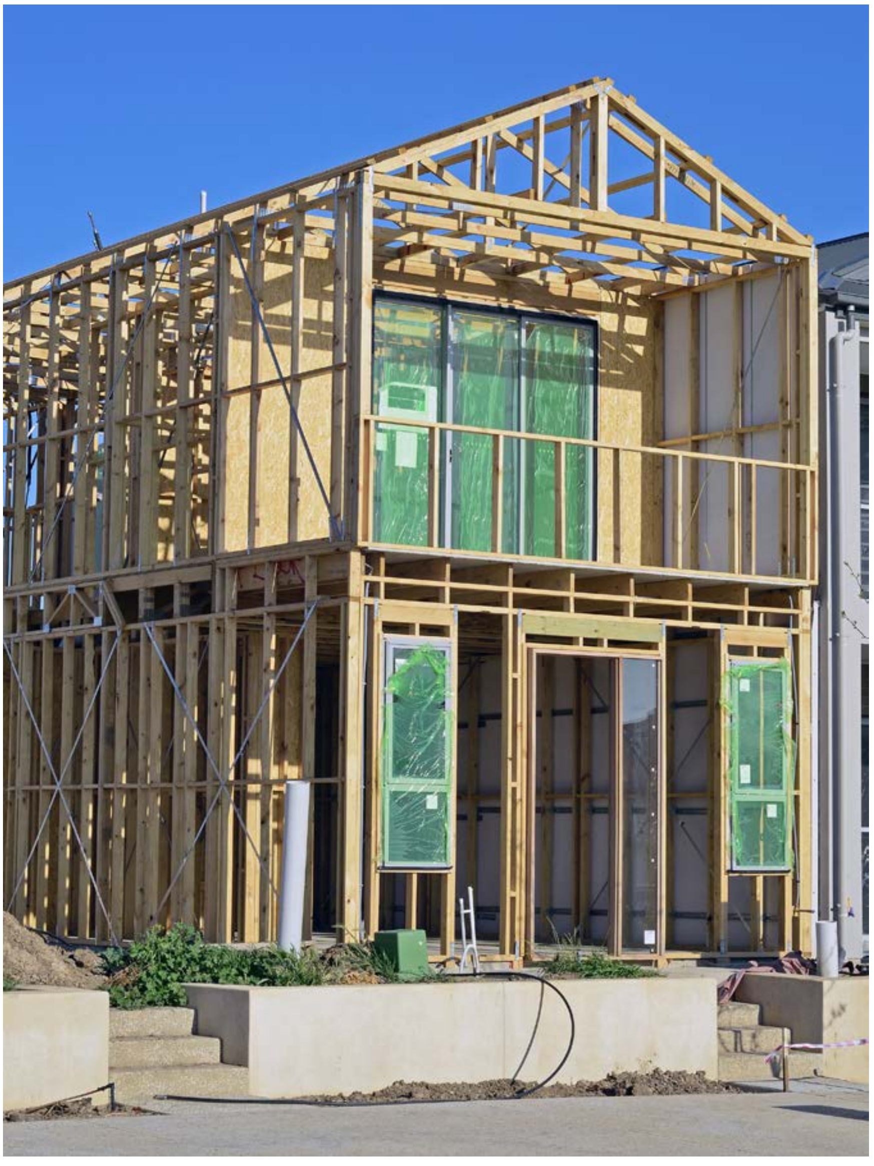
Renovating a property can also be a form of manufacturing growth. It is a good way for investors with a smaller amount of initial capital to get into the property market, gain equity (by using their own physical exertion) and rebound into the next investment.

That said, it is important that you do your feasibility study and be careful not to over capitalise. Find out how much the renovation would cost and look at comparable sales to find out how much you could sell it for. Is it worth it? You will need to know numbers before you start.

# 4. Subdivision Strategy

Generally, subdivisions range in size from splitting a large house block into two blocks, up to smaller acreages being subdivided into 4 or 5 blocks. Subdivision is best employed in larger built up areas with high demand for land.

It is important that you do your due-diligence before purchasing land that you plan to subdivide. For starters, on your option contract, you're going to have to pay something, so that's a cost. Though you may not want to go ahead with the deal if you're not going to get approval, there are some things that you can put into place so that you can get out of a deal if you were so inclined which won't cost you any money. You could put a contract clause in that states 'subject to council approval'. This may be acceptable to the seller, but also may not be.



# 5. Rezoning for Profit

Zoning is the council term that determines what a particular piece of land can be used for. Real estate investors can often make a profit by changing the zoning of a particular piece of land.

Although the terminology varies from state to state, most councils will use Residential A and Residential B. Residential A means the land can be used for single residential houses, whereas a zoning of Residential B means the land can be used for multi-family dwellings i.e. blocks of units and townhouses.

If you were to get approval to change a zoning on a block of land from Residential A to Residential B, it will be exponentially more desirable to a builder or developer who wants to build townhouses. When I say land, quite often the land in question will have pre-existing buildings on it, however the proportional value of the land is normally much greater than the value of the buildings currently on it.

I have seen a number of 'Residential A' blocks converted to 'Residential B' blocks thus rendering the owner tens and hundreds of thousands of dollars growth in the property.  I have also seen rural cane land re-zoned to commercial and light industrial thus doubling and sometimes trebling the value of the land.

The problem, though, is that the decision relies heavily on the council and is mostly speculative. You will need to get clues from pre-submission appointments with the officers of the council, and by reviewing the current town planning policies with employees from the Town Planning Council Department or private specialists in the area.

## 6. Deceased Estates

Another source of buying immediate growth is through purchasing properties that are sold off by independent bodies such as administrators of deceased estates. The administrators are often local lawyers, solicitors, relatives or public and private trustees such as the Public Trustee and Perpetual Trustee.

Both these trustee bodies have internet sites with properties that are listed for sale or properties that will be put to auction. Sometimes they have an indicative price stated on the property and other times it is up to the investor to determine fair market value. The reality is, as an investor, you will need to know the market very well. You will need to be able to determine if a particular property is genuinely below market value and how much similar properties in similar areas are being sold for (and this goes beyond just the list price).

Quite often, properties purchased from these sources will need at least some sort of cosmetic renovation.  The properties have generally been previously owned by an older person, who has not necessarily kept the maintenance up to date. You must be market ready to take advantage of the opportunities that come along so that you are ready for the best ones.

# 7. Capitalising On External Forces

Both advantageous and disadvantageous external forces can affect the growth of property in a particular area. The introduction of a nuclear plant, for example, may well have an adverse effect on the property prices in that area, regardless of historical performance.

Alternatively, the announcement of a major university or shopping centre being built in an area would have a beneficial effect on the growth rate, so local knowledge, with respect to potential property purchases, can be advantageous. This means that it is up to you as an investor to keep current on the local council plans and news of any major funding being put into an area.

## 8. Targeting Multi-Unit Developments

The developing or building of multiple unit dwellings, sometimes referred to as high density housing, can also represent a manufactured growth strategy. The comparative unit cost of the dwellings is less than building single-family houses and as such, the potential for profit can be higher. You will need to be aware of zoning when conducting your feasibility studies.

# 9. Mortgagee-In-Possession

There are critics out there who say current market value is the purchase price of a property. However, I have found that as we live in an imperfect world with an imperfect market place, this is not always the case.

Quite often, a mortgagee-in-possession sale can be a source of property being sold off at fire sale prices – as the bank may only be interested in covering its outstanding mortgage. These properties are normally advertised in the local papers and are usually sold at auction.

Fortunately, an investor can sometimes buy these properties directly from the bank after it has foreclosed on a property, provided any offer is greater than the independent valuation that the bank has done on the property.

More often than not, you will have to give the properties a jolly good scrub. They are usually in a rundown condition and may call for some cosmetic renovation at the least. If you are required to buy the property under auction conditions, then you will need to be market ready. You will need to have all your due-diligence completed, along with your reverse-feasibility studies prior to the auction date.

# 10. Purchasing Rates Default Properties

Another form of buying immediate equity is through purchasing rates default properties. These are properties that have been put to auction because the owners have not paid the council rates on the properties for a considerable amount of time.

This method is not without its disadvantages, that is, if the owner did not have sufficient finances to pay the rates on a particular property, then they are unlikely to have had the funds to keep the property in good repair. Furthermore, a very large percentage of properties that are listed for auction never go to bid, as the owners miraculously find the money to pay the rates at the last moment.

The market is always a lot hotter for properties with houses on them than for vacant land, however bargains can be obtained in both markets.

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Yours in success,

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