Build a Portfolio of Four Properties from just one initial deposit – and retire with tax free income of over USD$100,000 a year

by MICHAEL BENTLEY www.citylifeprojects.net

"I am very reassured that your strategy isvirtually identical to that which I used to acquire my 16 properties in the UK"

Pete C

"Wow, I'm now on my 3rd property! All have been outstanding performers. I really believe in your methods"

David R

Disclaimer: The information provided in this publication is for use of a general nature only for information purposes and is not intended to be relied upon as, nor to be a substitute for, specific professional or investment advice.
Michael Bentley is not a lawyer, financial planner, investment adviser, licensed estate agent or accountant. Before taking any action, following any strategy or advice, or risking any money, you should always check with your own qualified professional advisers.

No responsibility for loss occasioned to any persons acting on or refraining from action as a result of any material in this publication can be accepted. Readers should seek professional advice from suitably qualified professionals regarding their own specific needs.

Introduction

This system will work well as described in this report in many countries. But especially Australia and the UK.

ABOUT

The concepts explained will show readers how the strategy works, so they can best adopt it for their own needs. Residents outside the UK or Australia could simply invest in those countries if preferred as both countries welcome foreign investors and make it easy to invest.

Many, many years ago I told my old flat mate (a South African living in Hong Kong) that a person "only needed four Aussie properties to be able to completely retire." He asked me what I meant, and I said:

"One to pay the mortgage; one to pay the tax. And you live of the rental income from the other 2"

At the time I was only half serious, but it sounded good! The reason I am mentioning this is because many years later

I met him again and he reminded me of my words. He said:

"You were right, you know - all those years ago. That's exactly what I've done, and I've now retired."

Over the years, this strategy has been refined and not only pays the tax, but it also largely guarantees an income for life. And it is possible to achieve this with only sufficient capital for an initial first deposit – and within 15 years!

Every person's idea of life in retirement can differ; however this 'Four Properties Concept' can create a very comfortable tax-free income. So,what retirement income would satisfy most people? Let us select a target annual income of **USD$100,000.**

How is it done?

By progressively acquiring over time 4 investment properties, from one initial deposit, where the rent covers the bank payments, and by adopting a unique strategy achieve tax-free income for life.

Now, some will think: 'This cannot work'; even at $400,000 for each property, a total of $1.6 million in properties, the p.a. figures work out approximately as follows:

Values @ 400k	$	1,600,000
Rent @ 5%	$	80,000
Less		
Expenses 25%	($	20,000)
Tax on balance*	($	18,000)
*estimated tax for indication only		
Nett rent	$	42,000

"Over the years, this strategy has been refined and not only pays the tax, but it also largely guarantees an income for life."

That's not even half of our target figure and assumes the $1.6 million has been paid for in full, **in CASH**, with no bank loans or outstanding mortgages, and no bank interest to pay!

THAT IS CORRECT! It doesn't work. Who can raise that much cash? AND didn't I say it can be achieved from just one initial deposit, NOT by outlaying huge amounts of cash?

And that's exactly why –

1. Most people give up and don't even start on the strategy.
2. Financial planners and so-called "investment advisors" discourage others from attempting this.

Many think: 'Raise USD$1.6 million in cash to buy 4 properties, to generate $42,000 in income!? There has to be a better way to do it!' **And there is!**

Historically property has proven to be one of – if not **THE** safest long-term investment vehicles.

Most people simply do not understand the power of leveraging – using low-interest investment loans to buy excellent long-term, low risk property investments – with ‘cheap’ borrowed money!

Some financial planners, accountants and well-meaning, often ill-informed relatives and friends also will often advise against property investment. **After reading this document, you will be one of the few people with the knowledge to build a property portfolio.**

Whether you actually do it is of course another question.

“Historically property has proven to be one of – if not THE safest long-term investment vehicles.”

And of those of you who do actually buy one or two properties, most will sell too soon.

For example, the Australian Bureau of Statistics confirms that 70- 80% of **all** investors in Australia **sell in the first five years of their ownership!**

Without even seeing one full property cycle!

My advice is to read this strategy very carefully, as it **does** work. But you will need to act – and be committed to seeing it through.

THE RULES

1. You need a cash deposit to get started.
2. You must be able to borrow 60% and ideally 80% of the properties price.
3. You must select property that is likely to appreciate by 4% per year or higher.
4. You must buy in an area with less than 5% rental vacancy to ensure tenants.
5. You must be able to get a loan whereby you EITHER only pay back the bank interest and not the capital unless you choose to OR you can secure a principal and interest loan over a long period of time.

See the NEW FINAL CHAPTER to compare the two loan types

The Beginning

Many readers will have no property – others may already have one – or even 2 properties. If you own none, you need to begin by STARTING to build your portfolio. If you already own one you may go straight to Step 3. If you own two or more skip to step 6.

I have used accurate figures in USD from Australian residential real estate for the illustrations below, as Australia offers low risk, low cost freehold property, with reliable financing and a strong rental market. For those interested in the Australian residential property market, much data on real estate and financial markets are publicly available, going into depth not seen in many other countries.

As mentioned previously, you may adopt this to your own country or simply invest in real estate in either the UK or Australia.

Ideally, start with a cash deposit of (or access to) USD$116,000. I also suggest you allow around $5K to $10K each year to be available to cover any extra costs or rental vacancy especially in the early years. [These approximate to amounts that many overseas investors have available when getting started].

Although the funds may not be available now, we'll assume you are interested in learning the strategy, and have some available cash. We will use $116,000 as our starting point illustration. If you have less or more, the figures and timelines can be adjusted accordingly. You could also combine deposits with friends or family to get started. **Remember, this is your ONLY cash outlay, and will eventually lead to income of $100,000 or MORE a year!**

GETTING STARTED – STEP 1

Use your $116,000 for the deposit + costs on your first property. Go out and buy an apartment or house! Follow the advice of trusted and reliable property investment experts and select a good property or get a "buyers agent" to help you.

The truly great thing is it does not have to be a bargain! As long as it is a decent and rentable, new or near new property (for the tax benefits) in a good location at a fair price, the 4-property strategy will work.

But you must buy a property that is likely to appreciate in value. Some cheap properties may simply never appreciate. Do your own research or employ a buyers agent who will be able to tell you the **past appreciation in the area and the future appreciation potential.** No one can guarantee the future of course, so make sure you do your own due diligence.

But according to the Reserve Bank of Australia report “Long Term Trends in Housing Price Growth” : “Housing is the most important asset owned by the majority of Australian households. It is a large component of household wealth and serves a unique, dual role as an investment vehicle and a durable good from which consumption services are derived. Over the past 30 years, Australian housing prices have increased on average by 7¼ per cent per year, and over the inflation-targeting period by around 7 per cent per year”

Now you’ve got your first property, this is what the figures will look like.

Purchase price P1.	$	400,000
Your deposit -25%	$	100,000
Costs 4%	$	16,000
Borrowing - 75%	$	300,000

STEP 2

You Just Wait.

Actually there are three tough steps in this strategy. Steps 2, 5 and 7 all require one thing: **Patience**.

You simply **cannot** do anything - except **wait.**

Unless you have additional cash, then of course you can immediately purchase your second property.

STEP 3

As soon as the value reaches $600,000 (which will usually be 3-8 years depending upon what and where you have bought in the cycle), refinance the property to buy your second property.*

Here's how:

New value of P1	$	600,000	
Bank lends 75%**	$	450,000	
Less:			
What you already owe	($	300,000)	
Additional Loan	$	150,000	- **deposit for P2**.

Use this as **your deposit** for the second property.

*Properties in many cities can appreciate quickly which will greatly shorten the waiting time. For example, Sydney and Melbourne houses rose significantly for many years starting in the early 2000's which would have greatly sped up your time frame.

**If the bank will lend you 60% to 80% you can adjust the figures accordingly.Historically in Australia bank lending for residential property has varied between 60% and 80% for foreign borrowers and up to 90% for Australian citizens. I strongly suggest you consider taking the maximum the bank will lend in the early years.

STEP 4

Buy P2 for	$ 600,000
Deposit (as above)	$ 150,000
Borrow 75%	$ 450,000

Your New Position:

Value P1	$	600,000	
Value P2	$	600,000	
Total values	$	1,200,000	
Loans P1	$	300,000	original loan
	$	150,000	(re-finance)
P2	$	450,000	
Total loans	$	900,000	

IMPORTANT NOTE: You are now controlling property to the value of $1.2 million from an initial investment of just $116,000. For every 10% the properties increase in value, your gross return is OVER **100% of your capital outlay**. (increase of 10% is $120,000. Initial outlay $116,000)

STEP 5

Sit tight and wait. Many people give up during these steps and sell at least one of the properties. **A huge and fatal error.**

STEP 6

As soon as the combined values of the two properties hits $1.5M (or an increase of just 25% which in some markets may happen in a couple of years, others may take longer), repeat the formula as follows:

New values of P1 and P2:	$	1,500,000	
Bank lends 75%	$	1,125,000	
Less:			
You already owe	($	900,000)	
Balance available*	$	225,000	
You use as new deposit	$	180,000	**deposit for P3**
Bank lends for P3 (75%)	$	540,000	
Buy P3 for	$	720,000	(as per P2)

*This is the total amount available to you as deposit. As you only need 180k from the 225k available, you can use the balance to cover costs such as solicitor's fees, bank fees, stamp duty etc. For simplicity in explaining these calculations, we have not included these costs which would normally average between 2% to 5% of the new properties purchase price. See the final summary below.

NOTES

1. Combined value of P1 + P2 must reach $1.4 to $1.5 million before you take this step.
2. Or if your personal cash flow position allows you can take Step 6 earlier.

STEP 7

*The most critical step of all is **to buy the*** **4th property.**

NB: Many who have passed the early stages, and have their 3 properties, find this final step difficult. Others inject additional cash, or had some luck and bought during a boom period, seeing large increases - e.g. 30-50% in 2 years and so find this easy. But some investors seem to 'stumble' here for a combination of reasons:

- Several years have gone by. There have been occasional difficulties.
- Repairs may have been needed. Or interest rates have gone up.
- The apartments or houses have sometimes stood empty.
- Property cycles operate up and down and there are stagnation periods.
- Loans can be hard to obtain during economic downturns.
- It can occasionally be difficult to make repayments.
- Some are tempted by advice to switch to 'faster growing' investments!
- Others are scared of too much debt
- Making enough to retire on in 10- 20 years with a huge income for life was always going to need some luck!

But this is exactly the time you need to 'hang in'! You are just a step away.

STEP 7 - THE FINAL STEP

You now buy your 4th and final property for $800,000.

As soon as the combined values of P1+P2+P3 reaches $2.5M (or anincrease of 13%) repeat the formula as follows:

New values of Ps 1,2 and 3	$	2,500,000	
Bank lends 75% (refinance)	$	1,875,000	
Less:			
You already owe	($	1,620,000)	
Available balance to you	$	255,000	
Deposit P4 from refinance*	$	200,000	**deposit for P4**
Buy P4 for	$	800,000	(as per previous Ps.)
Loan on P4	$	600,000	

4 Properties – Final Position

Total Loans:	$ 2,420,000
Total Property value	$ 3,300,000
Equity Held	$ 880,000*

(*Again, as you have available 255k and only need a deposit of 200k you can use the extra available to you to cover the costs as shown below in the final summary)

This equates to **a return of 658%** on your original investment even before the "magic" starts.

Your final position now is:

	Prop 1	Prop 2	Prop 3	Prop 4
Price paid	$400,000	$600,000	$720,000	$800,000
Loan	$300,000	$600,000	$720,000	$800,000
Costs (4%)*	see below	$ 24,000	$ 28,800	$ 32,000
Cash (inc. costs)	$116,000	nil	nil	nil

*Costs can be used out of own funds or by borrowing from the equity available just as per the deposits. Again for simplicity, it is assumed the costs for properties 2, 3 and 4 have all been borrowed in the final summary below.

		After 3 years	After 5 years
Value all properties	$3,330,000	$3,707,880	$4,416,144
(at 6% per annum)			
Total loans*	$2,420,000	$2,420,000	$2,420,000
Your equity:	$ 880,000	$1,287,880	$1,996,144

*This assumes you have an interest only loan, or a revolving line of credit where you only pay the interest not the principal back. See the FINAL CHAPTER also.

Final summary and conclusion

From a once only initial investment of just $116,000, you are now controlling a property portfolio valued at $4.416 million, compounding in value at realistically 4%- 6% per annum. All without having to make a single loan repayment out of your pocket!

Another way to look at it is at a 6% increase each year you are getting capital growth of $264,960, a 128% return on your original investment **each year.**

Does it really matter if to reach this stage it has taken you 15, or even 20 years? I think not!

Even better, the effect of compounding means this figure is ever increasing. In addition, by holding for the long term, it is highly likely that there will be periods when you will see 10%, or even 15% growth over a year, boosting your returns greatly in a shorter time frame.

An added benefit is that if you take an investors interest only loan, the rents should have covered all the bank interest as well as the costs of running the property, and in all likelihood be cash flow positive.

YOUR OPTIONS

You now have several great options. **You can sell two of the propertiesto pay off the debt.** You can leave the portfolio to your children and let them continue to grow it. You can go on to acquire many more properties yourself.

Or you can consider not selling but to embark upon what I call the Ultimate Property Strategy (UPS). © Michael Bentley

Because if you do not sell the properties how do you get any money back? Let alone "retire"? (I also cover this strategy in great detail in my book "The Non Residents Guide to Investing in Australian Real Estate" however below I cover a summary of this.)

The Ultimate Property Strategy

Here's how. Your portfolio is valued at $4.416 million, with loans of $2.420, meaning your LVR (loan to value) ratio is around 55%.

So you can withdraw from the portfolio say $100,000 each year as your retirement income. The bank will lend you a total of between 60% ($2.649m) to 80% ($3.532m) less what is currently owed ($2.420) meaning you have available between $229,000 to $1,112,000.

So you simply draw out of the available funds any amount you want to live on. It could be $50,000, $80,000 or even $200,000 a year!

So I propose you take out from the available amount in the portfolio just say $100,000 each year as your retirement income! Tax Free!

As long as the portfolio goes up at an average of only 3% per annum, you should never run out of money!

If it goes up on average at 5% per annum, you could in theory take out $200,000 per year and again never run out of money, PLUS leave **your children a substantial and profitable portfolio for them to continue doing the same**.

The important point to note is you should borrow less than the amount the portfolio is increasing each year, so you don't over expose yourself.

"As long as the portfolio goes up at an average of only 3% per annum, you should never run out of money!"

But it doesn't have to be the same amount each year either.

What about cash flow?

Your position is approx. this:

Values	$	4,416,000
Rents 5%	$	220,800
Expenses at 25%	$	(55,200)
Nett rent	$	165,600

Interest on loan $145,200 @ 6% interest rate or $95,800 at 4%.

What about as I draw more out, how does that affect cash flow?

So let's say next year you draw $100,000, your NEW position after12 months is like this:

Values	$	4,592,640
Rents 5%	$	229,632
Expenses at 25%	$	(57,408)
Nett rent	$	172,224

Loan is now $2,420,000 plus the $100,000 = $2,520,000

New Interest on loan $151,200 @ 6% interest rate or $100,800 at 4%.

KEY POINT: This clearly illustrates a vital point: rents are also going up, and you are only paying the bank the interest meaning the rents are covering the bank interest, including the new interest after your drawdown, and the property expenses. Not to mention the cash flow positive amount $21,024 - $71,424.

Which ALSO means instead of taking $100k from the portfolio, you can reduce it by the amount of excess rent you are getting, making **your income still 100k without increasing the debt**!

WHY IS IT TAX FREE?*

It is a loan from the bank not income. **You pay the prevailing bank interest rate,** surely substantially less than up to 35% tax on income!

*Tax rules in different countries vary. Applies currently to Australia and the UK and many other countries.

WHAT CAN GO WRONG?

We have already discussed many aspects of investing in property, and potential profits available from Australian real estate. But is it really as easy and as rosy as that?

This strategy was originally based solely on Australian property as it is one of the most open, regulated, transparent and easy to understand markets in the world, and welcomes foreign investors.

However, many readers commented over the years the strategy works as well in many other countries.

But like all investments, property also carries risks. As does building a portfolio.

What can go wrong?

Whether a real estate investment portfolio succeeds or fails depends upon both the property, the banks and the investor. The major risks influenced by the investor's performance are:

1. Deferring the decision to buy (often due to spurious advice) and, in the worst case, making NO investment when the opportunity to refinance is available.
2. Not having the patience to wait, or worse, selling! Property moves in cycles and it is generally necessary to hold for at least 7 years to see appreciable profits. The key to success in building a portfolio like the one described here can best be defined by sustaining your ownership. The key is to buy trouble free properties that can sustain themselves over a long period of time. By taking the long term position, it can mean almost guaranteed wealth. Security goes hand in hand with the patient and long sighted pursuit of accumulating wealth. It is an endeavour that cannot be hurried without risk.

As stated above, both the property and the way the investor performs can be critical.

If a property is mismanaged, any profit can disappear quickly. If building a portfolio, balance the risks on one property against another, and always remember your objectives. **No one else can do this for you.**

Sensible diversification decreases the risk. The more properties you own, the less dependent you are on any one of them. Even if you do end up with one bad investment, the chances of it affecting your wholeportfolio are minimal.

Other RISKS you should note are **property risks** and **buyer risks**:

Property risks

These come under REDUCING VALUES and VACANCIES.

- Prices stagnate and reduce: This normally occurs at some stage of the property cycle. The economy and property cycles will run their course, and, in time, values will often recover.
- Bad management, rental market fluctuations, and stock market volatility – many factors affect the rent return. Options include changing the management, furnishing the property (or taking the furniture out), switching to long-term/short-term tenants, etc., depending upon the situation.
- -The biggest risk is vacant property, so rents are less, OR increasing interest rates.
- Take a 'hands-on' approach; don't only rely on others! Stuff happens! You need to deal with it and move forward.

Investors worry that with the aggressive level of borrowing this portfolio requires, what happens if values drop, and there is negative equity?

This can happen and has happened in the past, although very infrequently in Australia as a whole. It is more likely to happen if the investor has made a poor property purchase, and then the market suffers a downturn as well.

If such a situation occurs, the banks may well require a top up of cash or ask you to sell. However it is important to note, that statistically, very few times in the past 50 years have the values overall dropped by more than 5% in Australia, which is one of the main reasons you should consider Australia, **and so as long as you have already had 5% growth you should be fine.**

But you do need to be aware of it.

Finally building a portfolio like this **is very dependent upon bank funding** over the period and the type of loans you take out or are able to take out. In simple terms, look for an investment loan, whereby the bank only requires you to pay the interest or take a long repayments of capital loan.

As soon as you are able, convert all your loans to a "portfolio" loan. This comes under different names depending upon the bank but simply works like this:

All the properties are lumped together, as are all the loans. You use this account the same way you would a bank overdraft, or credit line. As long as you are making the basic interest payments the banks don't pay too much heed. **This is the type of loan you MUST have in place at the end of the strategy to enable you to be able to withdraw the yearly amounts you require.**

But certainly in Australia every time you buy a new property, the bank will want the whole portfolio revalued and from time to time may also ask for your updated financial statements.

If you have already acquired your portfolio of four properties, then just keep making the interest payment out of the rent and it is unlikely you will ever hear from the bank again.

It is worth mentioning again: It is really only when increasing your portfolio that the bank takes an active interest.

(Banks change their policies from time to time, so the usual warnings apply, but this is pretty much the current situation and has been for years)

So a huge thing that can stop you is the bank simply doesn't lend to you anymore. So do remember this: The bank is not allowed to reject a loan because of age in Australia, only because of lack of income. Nor can they reject a loan based on your sex or religion. But of course, they may have strict income requirements that you cannot match, or you may be resident in a country they don't lend to.

What ELSE can go wrong?

You can buy the wrong type of property that seems to never go up invalue, or goes up too slowly: Typically, student housing, serviced apartments, hotel room investments, resort or beach properties, and tiny studios under 40 sq. m typically fit this category (in Australia).

The cycle may move against you, and you don't see any growth for an extended period. This can be disheartening, because although it isextremely likely that market will turn again, you have lost a lot of time.

For example, each city in Australia tends to move on different timelines and cycles and jumping into to a "hot" city when it may be near the mid-point or end of its cycle may slow your growth, whereas another city, while not as "glamourous" could be about to start its own property cycle, and you can get excellent short term growth (to speed up your portfolio) as well as good long term growth to sustain the portfolio.

CAN FOREIGNERS BUY AUSTRALIAN PROPERTIES?

Yes indeed! Laws change from time to time but generally Australia has always welcomed foreign investors into its property markets to help provide rental accommodation for locals.

CAN FOREIGNERS BORROW MONEY TO BUY AUSTRALIAN PROPERTIES?

Yes indeed! Check with the local regulations, but historically for the past 40 years loans between 60% of the price and up to 80% have been available to the residents of many countries, providing they can provide correct documentation and proof of income.

IS THERE A CURRENCY RISK IF I DON'T LIVE IN AUSTRALIA?

Yes, for sure. There is also upside potential. Seek professional advice on this subject.

DOES BUYING PROPERTY IN AUSTRALIA MEAN I CAN MIGRATE?

No! Buying property **does not mean you can migrate**.

WILL THE PROPERTIES REALLY GROW AT THESE RATES?

Statistics gathered over the years by the Australian Bureau of Statistics, Residex, Bis Shrapnel and other institutions, has shown that the Australian property cycle commonly shows a growth period of approximately 12 - 14 years, generally interrupted by a 2-4 year correction before starting again. During these growth cycles, prices in most Australian cities will increase substantially in value. Remember –unlike many other investments, you are NOT using much of YOUR OWN money as you only need to place a percentage of the purchase down and borrow the rest- and many of your expenses, including bank repayments, are covered by the rental income.

You are benefiting from leverage and compounding values.

It is very interesting that the last Bureau of Statistics survey on Australian property investors showed that **only 10% reported having made a loss**. Given that the majority of owners **sell far too early** -within five years- this is a good indication of the outstanding profit potential of Australian investment property. **Even selling way too early, very few lost money.**

Because of the compounding effect, 7% growth a year for the first three years of your ownership amounts to 22.5% (not 21%). **The effect of compounding is exponential - each year you hold the asset, the more your profit exceeds a linear growth**. At 7% compound, a PROPERTY DOUBLES in price in just over 10 years. However, you have only outlaid between 20% to 40%.

So your initial cash investment can MORE THAN DOUBLE in just 3 to 5 years. This is a very powerful reason to invest, but is little understood by many investors.

Many investors in Australian property, once they have made A$100,000 profit on the purchase price seriously consider selling. It doesn't seem to matter whether this growth is achieved in 2 years or 10 years, this seems to be the figure most investors look for. Without delving into the tax aspects, A$100,000 is a very reasonable profit to take.

HERE IS A SIMPLE ILLUSTRATION OF THIS:

Buy a property for $500,000. Sell it for $600,000. The profit is $100,000, or 20%, right?

Well, NO – it is not. Excluding costs (for simplicity) it actually looks like this: Deposit paid was 25% or $125,000.

Sell for $600,000 and pay back the $375,000 borrowed. Return on an investment of $125,000 is $225,000. **Profit is 80% not 20%!**

Even if this takes 7 or even more years, this is still a very good return! And it has been achieved with only on a modest appreciation on the original purchase price because of the benefits of leverage and gearing. Imagine in a strong upturn, when prices rise 10% a year or more for a few years!

Following my reference to tax above, there are many different strategies to adopt to minimise Capital Gains and other taxes in Australia, and the investor should always seek professional tax advice. However, if you structure your mortgage correctly, buy a new property and rent it out on completion, it is highly unlikely you will have any significant capital gains tax to pay, unless you make windfall gains in a short space of time: perhaps a good problem to have!

Many overseas investors have been pleased with the gains they have made on their Australian properties, and often after a few years decide not to sell, but to acquire more property, using equity release from properties purchased already. Yet, statistically, 76% of Australian investors stay with a single property only!

I recommend that every investor in Australian property should seriously look at acquiring more than one investment property.

"Many overseas investors have been pleased with the gains they have made on their Australian properties, and often after a few years decide not to sell, but to acquire more property, using equity release from properties purchased already."

It is an excellent way of generating long-term wealth, even if they do not want to acquire a full portfolio as outlined here.

Australian property provides low risk, reliable rentals, high occupancy and good capital growth. The best properties are likely to be within 10 to 20 km of the major city centres.

RESOURCES:

Researched properties that meet the criteria for building a portfolio: www.citylifeprojects.net/Projects

ACKNOWLEDGEMENTS:

Although the ideas here are mine, it would indeed be churlish of me not to acknowledge the great debt of gratitude I owe to my good friend Captain John Pym. John, a voracious reader, waded through my original book, and basically rewrote whole sections and always came back with a wealth of grammatical corrections, enabling me to produce my second book. In creating this document, I owe a further debt of gratitude to John who rewrote and updated the whole of Chapter 19 in my book into this document. We may not always agree on correct English usage when writing for general readership but that doesn't diminish for one moment his enormous contribution!

My son Kristian, an English literature student, ran his eyes over the final document and recommended 12 further changes! Any errors still remaining I take full responsibility for! Great thanks to both of you.

BONUS CHAPTER ADDED DUE TO CHANGING BANK CONDITIONS

WHAT IF YOU CAN'T GET AN INTEREST ONLY LOAN?

In the last 7 to 10 years there has been a huge trend by investors to move away from repaying capital and only paying the interest on a loan as I have outlined.

So this Special Chapter has been added as in recent years the Australian banks have cracked down on interest-only loans, and many investors feel they may NOT be able to continue to build a portfolio. **However, all is not lost!**

The investment concept behind interest-only loans is quite simple:
Simply, as explained elsewhere in this book:

1. The interest is fully tax deductible so you can maximise your interest payments and get the highest possible tax benefits.

2. It is better for cash flow.

Let's explore the options in case you are unable to get an interest only loan but you still want to build your property portfolio.

Let's Look at Cash Flow

In simple terms EVEN if you are paying **6% interest on a $322,000 dollar mortgage** which was used to buy a property for $460,000 the interest figure **per annum is $19,320**. (322,000 x 6%)

Could not be simpler.

In monthly terms it is $1,610 per month.

With **rent of 5% return** such as available in Brisbane (Melbourne and Sydney will be less) you are getting **$23,000 per annum** (or $1,917 per month).

So you can clearly see that the rent is covering the whole of the bank interest, with a bit of surplus to help with other expenses.

But if you take a principal and interest loan over (say) **25 years the total bank repayment is $24,896 per annum** (or $2,074 pm at the same interest rate of 6%)

So, clearly you are paying $464 more per month for the principal and interest loan.

But for those building a portfolio of properties, this CAN make a difference if

you have 3,4,5 or even 6 or more properties, especially if they are higher priced properties.

But for many investors, who have just one or possibly two properties, or those just starting their portfolio, it is crucial to understand the following.

THERE ARE 3 CRITICAL PIECES OF INFORMATION YOU SHOULD KNOW.

The first is this

"A fixed-rate mortgage amortizes over the loan's repayment period, meaning the proportion of interest paid vs. principal repaid changes each month while the total monthly payment stays the same. As the loan amortizes, the **amount of monthly interest paid decreases** while the principal paid increases."

The second is this

Making principal payments greatly reduces the total interest you pay.

MEANING in fact **your 6% interest rate is actually just 3.73%!** (See below)

All for $15 a day!

FULLY MAXIMISE YOUR TAX CREDITS IS THE OTHER POINTMENTIONED

This is true. But did you know that when you take a principal and interest loan actually you are paying mostly interest in the early years anyway?

Most people are just simply not aware of this.

So in many ways it is just like an interest-only loan.

YEAR ONE:

Interest-only: **$1,610** per month

P and I loan: interest **$1,597** per month

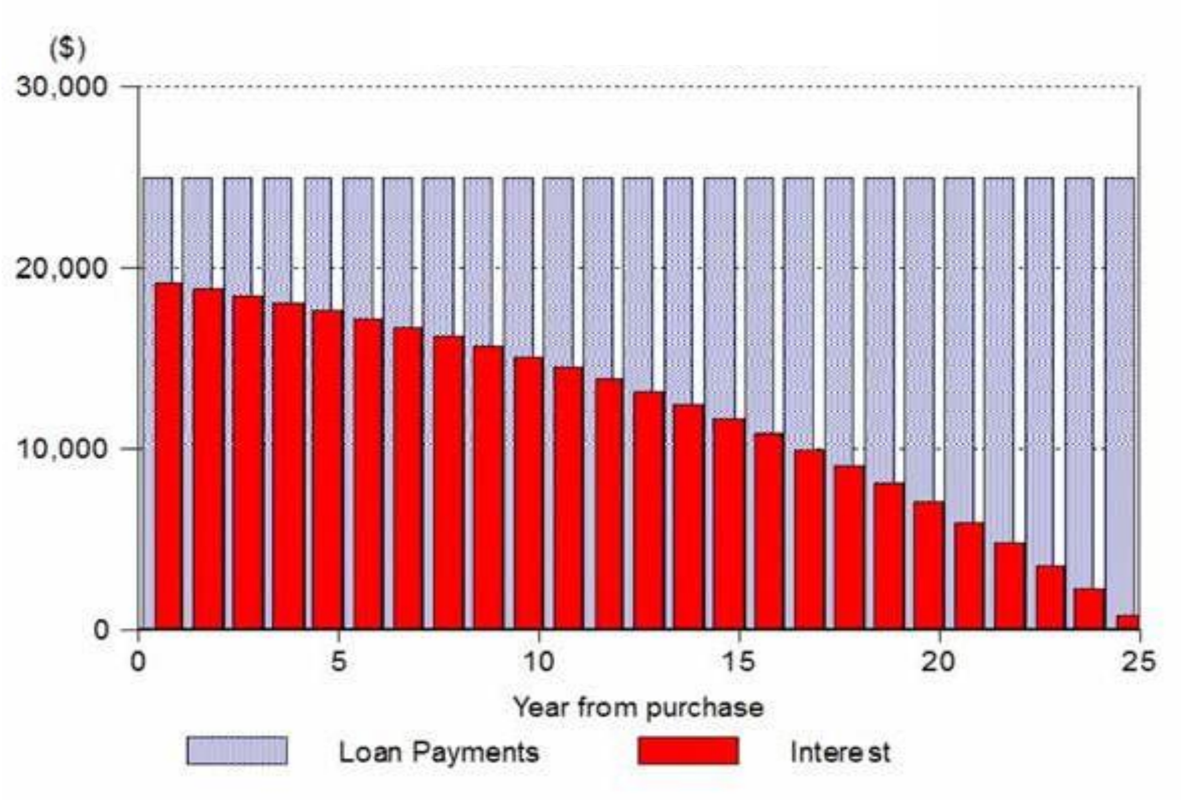
Just $13 a month for tax credits. At 32.5% tax rate that means you are getting just $4.22 per month extra benefit.

YEAR TWO:

Interest-only: **$1,610** per month

P and I loan: interest **$1,567** per month!

PRINCIPLE AND INTEREST PAYMENTS

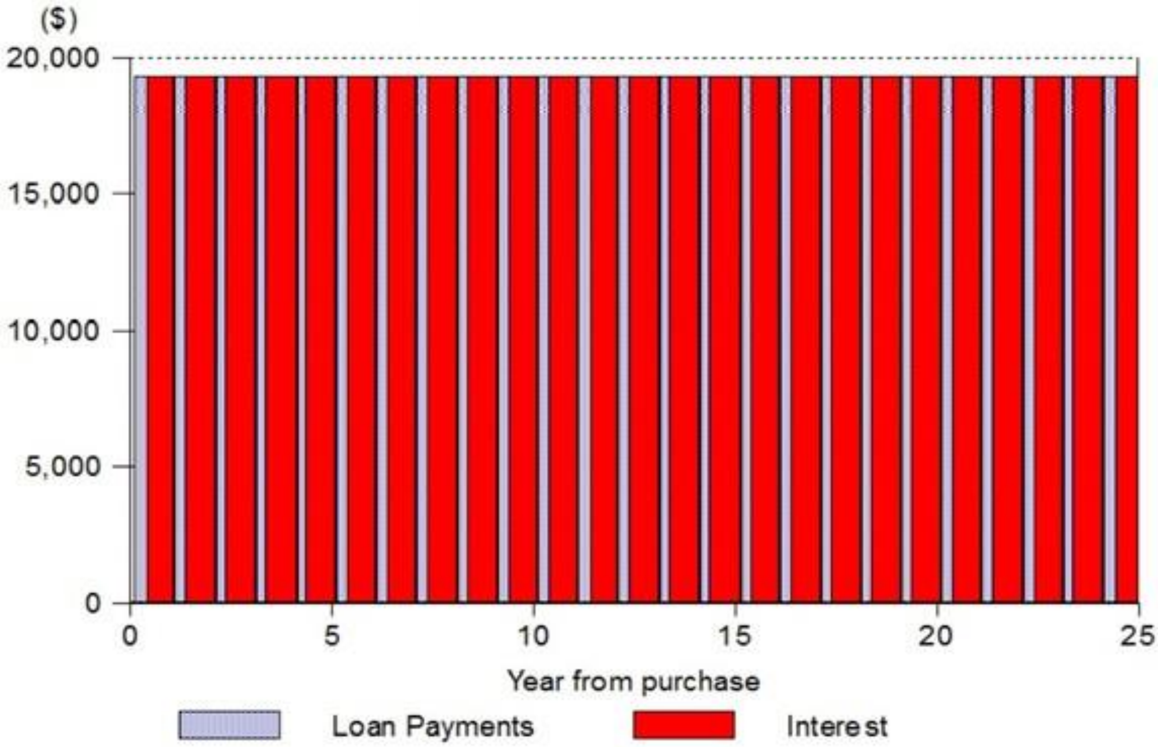


Investment loan interest and payments over 25 years

So you are getting nearly all the same tax credits available, so it is far from all bad!

<But here is a critical point to consider: that extra money you are paying can effectively be called "savings" because you are using that every month to reduce the amount of your debt to the bank, which then also reduces the total interest you pay>

INTEREST ONLY PAYMENTS:



NOW THIS IS IMPORTANT:

Let's compare how much interest you will pay.

If paying interest-only over 25 years you pay a total $483,000 in interest.

At 5% appreciation in the property value you sell for $1.567 million.

Many people find it hard to believe that by doing NOTHING this is how it will work out!

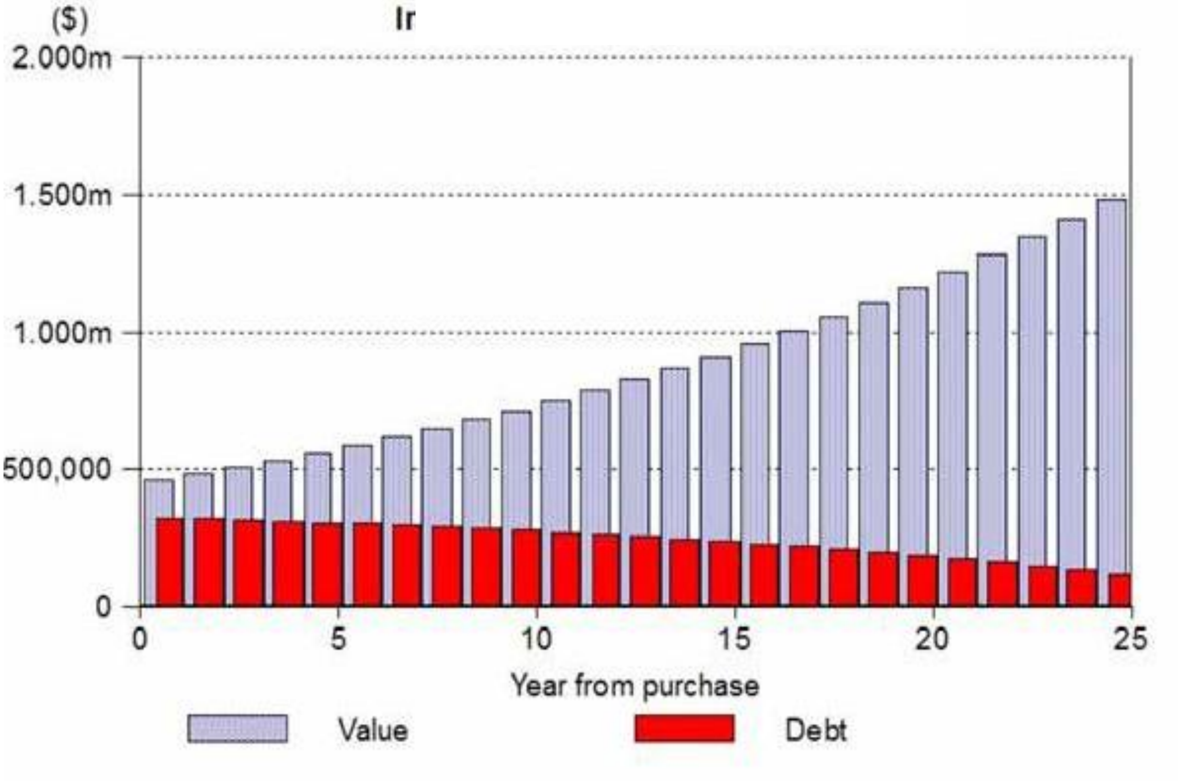
Time and compound growth are the "magic ingredients".

Repay the loan of $322,000 and Voila!

You have $1.245 million left.

You have "magically " turned your initial deposit of $138K into $1.245 million. (Imagine with 4 properties!)

INVESTMENT PROPERTY VALUE & DEBT



Property value & debt projections over 25 years

On the principal and interest loan you have repaid the whole principal, so you are left with the full $1.567 million in your hand.

PLUS…

You paid a TOTAL of only $300,396 in interest.*

A saving of $183,000 in interest.

*If interest-only the whole term it would have been an effective rate of paying 3.73% pa. ($300,396/25 years = $12,016 pa /322,000 = 3.73%)

CONCLUSION

While interest only loans are preferred to help with cash flow when buying many properties, principal loans are also an excellent way for most to purchase several properties as you also get the most tax benefits when you need them in the early years.

You are reducing the debt steadily, getting equity build up, meaning you can refinance more quickly to buy another property, and overall you save a huge amount of interest over the long term, potentially lowering significantly your interest rate as shown earlier.

They are NOT so good when:

You are buying a number of properties, unless you can manage the cash flow.

You are buying higher price properties unless you can manage the cash flow.

You are over 60 years old, as many banks have an age limit around 75 years, as you will usually want to get a 20 year loan, unless you can manage the cash flow.