

Guide on creating a profitable investment property portfolio

Before devising any plan or strategy, one needs to answer the critical question of 'why'. Hence, before we delve into how one can create a profitable investment property portfolio, we need to address the 'why'. **Why should you aim towards building a multimillion dollar real estate portfolio?** The simple answer is- financial independence.

People achieve financial independence by creating multiple sources of income. They understand how unwise it is to rely on a single income source, which is normally their day job. This practice of creating multiple income streams has been proven to be effective and even advocated by multimillionaires such as *Rich Dad Poor Dad* author, Robert Kiyosaki and multibillionaires such as investor extraordinaire, Warren Buffet.

Property investment is one way of creating a second source of income. Other means can include shares, bonds and certain funds. While every option has its pros and cons, property does offer the most stable investment choice as it is not as affected by the changing conditions as the other options are. Moreover, investing in property provides a tangible asset that offers a safer choice over the other options.

Any person who is serious about achieving financial independence needs to look at creating a profitable investment property portfolio. This does require dedication, patience and a knack for making the right decisions at the right time. Before you begin this journey, have a read through the following sections. It should bring some clarity to your ambitions and expectations.

Develop a clear, concise investment strategy

Before buying an investment property, one needs to know their investment strategy. This should be clear, concise and one should be able to articulate it easily. If one has a proper investment strategy, they should be able to answer the following questions:



- Is one buying with an aim of capital growth or rental return?
- Does one need the property to be positively geared so that the rental return cover the mortgage repayments and other expenses?
- Do you need the property to be negatively geared so that you can claim some tax benefits?

Having a clear investment property strategy will help in effective and efficient decision making. For instance, if one's aim is to acquire a negatively geared property, then one might look at those properties that are located in popular areas, expensive to purchase and offer high capital growth as these are the properties that are often negatively geared.

Aim for a low-risk, long-term approach

Many people enter into property investment with the aim of 'quickly enter and quickly exit'. These people are of the view that they will buy a property and sell it at a much higher price within a short time span. Such a scenario can occur but it is difficult to foresee and highly risky to rely upon. We recommend that one should view property investment as a long-term game. In most cases, the longer that one can commit to a property, the better it is. This allows one to achieve great results, minimise risk exposure and avoid disastrous results.

Our recommendation is to build a real estate portfolio, one property at a time. You can start with one property and then, over a period of time, leverage its positive cash flow or capital growth to invest in multiple properties, until you have a solid and stable investment property portfolio. One should be careful not to expand their portfolio too quickly though, as this can expose them to unnecessary risk. Do remember that unlike shares or managed funds, property is less liquid and takes greater time to convert into cash (moreover, one can't just sell part of their investment property unlike shares etc.).

Conduct thorough environment analysis

After a good understanding of one's requirements (capital growth or rental gain or tax benefits), ROI expectations and budget, one needs to do an environment analysis. It is important to have an understanding of the macro-environment trends concerning economic growth, population, employment, politics, wage growth etc. This needs to be followed by an analysis of the micro-environment trends relevant to specific locations. This involves analysing the average rents, median prices, property valuations and growths/declines, demographics and more, that is relevant to a location.



In most cases, it is this analysis that requires hiring the services of a real estate expert.

Calculate and analyse the costs involved

Buying an investment property does not involve only purchase or construction costs. There are several costs associated with buying, managing, maintaining and renting out or selling of investment properties. A person might have a healthy deposit and strong borrowing power but they still need to be mindful of the various costs involved. There is a silver lining in that many of these costs are tax deductible but one still need the cash flow to pay for the bills when they're due.

These costs include stamp duty, mortgage application fees, landlord insurance, council fees, solicitor fees etc. Details of these costs are given in our white paper titled, *Advice on buying an investment property*. (Have the link inserted to that page)

Utilise independent expert advice

Before making any major investment decision, it is wise to seek the counsel of an expert such as a financial advisor, tax account and lawyer who is experienced in property investment.

These professionals offer personalised advice to help you make informed decisions and ultimately maximise your investment property ROI. For instance, an accredited mortgage broker might give advice on how to save on Lenders Mortgage Insurance and how to structure loans for maximising returns. A tax accountant might give advice on how to legally use the taxation system or government schemes to reduce one's tax paid. They might also help in setting up correct ownership and asset protection structures so as that one avoid penalties for non-compliance.