Powerful Positive Cashflow Strategies That Work

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propertybuyer

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More than ever, the yield you get from your investment property is critical in holding and expanding your property portfolio. A positive cashflow investment property should be self-sustaining, meaning the rental income you receive more than covers all expenses and outgoings.

In recent times we have seen rapid growth in prices (especially in Sydney 2014) and the future of strong capital growth is not as reliable as a weekly rental income that hits your bank account each week.

If you choose not to invest in property, you could find that you run out of money before the end of each month! Don't leave yourself short – invest wisely in well researched and well-chosen positive cashflow properties that will generate a sustainable income for life.

1. The Benefits of Positive Cashflow Property

If your goal is financial independence, then purchasing a portfolio of positive cashflow properties will see you achieve your goal over a period of time. Each property you buy should get you closer to your goal of replacing your (earned) income with passive income from property investments.

You can't retire on just one residential investment property – you need a bunch of them all producing a consistent level of cashflow that delivers security and stability to your finances. That's the beauty of positive cashflow properties – they put money in your pocket each week, each month and each year. While capital gains are also great – they are a one off event. You need to time your entry and exit to the property market very carefully to maximise capital appreciation.

Whereas positive cashflow properties just keep on producing regular yield regardless of the market conditions (as long as you have a tenant).

A positive cashflow property is self-sustaining – so it shouldn't matter if you lose your job or have a bad year in business. The investment keeps looking after itself. Compare this with a property that is negatively geared – this can be a money sucker which requires you to meet the shortfall each week/ month with your own personal contributions. A negatively geared property which costs $134.62 per week will put a $7000 hole in your budget each year.

Adopting a positive cashflow property investment approach enables you to buy more properties and service the loans more easily. The more cashflow the better your borrowing capacity and this in turn enables you to grow your portfolio faster and with less stress.

2. How to Find Positive Cashflow Property

We all dream of finding the ultimate investment property – one that's being sold at a 20% discount to market value, located in an ideal position close to shops, schools and transport, has excellent prospects for capital growth and already has a strong rental yield of 10% generating positive cashflow!

While that might be utopia thinking, it's important to have a healthy dose of reality about what types of positive cashflow properties are available. There are essentially two ways to source these types of properties:

1. Look for areas/ suburbs where the rental demand is very strong such that the total net rent exceeds the interest expenses and other holding costs.
2. Create a positive cashflow property by adding additional bedrooms, second dwelling or other value adding techniques.

The trick to finding positive cashflow properties is to undertake massive amounts of research and crunch the numbers. Research will empower you with the right knowledge and understanding to move on an opportunity when the right property comes up. There are some areas where the rents are currently considered average but with new infrastructure developments and rising demand will become cashflow positive over time.

You can do this research on your own and spend countless hours trawling through the various property websites and calling agents to find opportunities or you could consider engaging a buyers' agent to undertake this research for you. A buyers' agent with strong local market knowledge can fast track your research and provide excellent insights into the property values for the area. The buyers' agent will also save you from paying too much for a property. Their networks of agent's can help you uncover off market opportunities that never make it to the internet for public listing.

3. The Pitfalls

One of the main arguments against positive cashflow property is the perception there is little or no capital growth or they are only located in mining towns. Certainly there is a strong correlation between higher yields and regionally based investment properties and a similar correlation between higher capital growth and locations closer to the CBD. However, from an investor's perspective this approach is far too simplistic. You need to assess the long term ability of an investment purchase to generate consistent rent and growth.

It is very possible to generate positive cashflow properties within a city boundary and avoid the fluctuating fortunes of mining towns. Adding value to a property via a granny flat, building a duplex or dual living property, adding a bedroom are all examples of ways to create extra rental income that boosts the yield.

Some investors chase yield but disregard all other risk factors. For example, Moranbah is a regional town in Queensland that investor's flocked to when hearing about rapidly rising prices and rents. Due to the lack of supply of housing, the median price doubled in around 3 to 4 years and investors were enjoying yields of 10%+. However, when commodity prices dipped and a number of large mining projects were delayed or cancelled, the housing market corrected sharply and both prices and rents dropped severely.

It can be one thing to enjoy a positive cashflow property yield of say $50pw (giving you an extra $2,600 pa), but when the overall value of your property drops 20% you can lose over $100,000 in capital value which completely wipes out any gains you had made to date. Smart investors need to investigate the long term economic prospects of the area to ensure there is a sustainable employment base – as this is the engine that drives housing demand for an area. Avoid towns that are dominated by just one industry and search for areas with a diverse range of economic activity. You don't want to be stuck holding a property with poor cashflow, reduced equity and the inability to sell out.

Another word of caution – be careful in dealing with property investment clubs or groups that do not disclose the fees they receive. When a brand new property is sold there is typically a sales commission that is paid to the sales agent for introducing the property and completing the sale. Some investment property groups claim they give "free" or "specialist" advice. However, their advice is clearly biased by the sales commission they receive. A great question to ask any sales agent is "how much commission are you being paid if we went ahead with this sale?"

Working with an independent buyers' agent removes this risk as they are only paid a flat fee for their services by the buyer.

4. The Strategies

Now that we have set the scene on the benefits and pitfalls of positive cashflow properties, let's take a look at some strategies that really work into today's property market.

(a) Granny Flats

For the additional capital outlay of building a granny flat, you can generate a highly cost effective means of creating a positive cashflow property. For around $100,000 for a quality granny flat, you can obtain rental yields of $300pw to $500pw depending on the suburb. This means gross yields of 15% to 20% pa on the granny flat alone – however, when combined with the yield and cost of the existing house the gross yields are typically around 6.5% to 8%pa which generates a healthy cashflow.

While the regulations have changed to make building a granny flat easier, there are still plenty or requirements to consider before purchasing a property with granny flat potential. You will need to consider setbacks, block size, house alignment, covenants, easements and which builder to use.

There are host of granny flat builders that have sprung up in response to the granny flat revolution. It's important to pick a builder that has relevant experience plus a design and façade that is suitable for the suburb. For instance, a brick and tile granny flat on a concrete slab may cost around $125k but is highly appropriate for more upmarket areas, where as a hardiplank clad granny flat costing around $90k is more suitable for average suburbs. One of the key benefits of using our builders is the savings we can pass on by sourcing quality tradesman.

It is unlikely that the government will stop or reverse granny flat regulations as these provide an effective means for low cost housing in established areas. Some suburbs in Brisbane are also allowing granny flats (called auxiliary units) but you need to be selective in which areas will best suit this strategy. Demand for granny flat rentals is very strong as they are at a lower rent compared to other properties in the suburb.

(b) Dual Living Properties

Dual living homes are cleverly designed to look like a single dwelling from the streetscape but have two separate properties under the one roof. One side is typically 3 or 4 bedrooms and the other side 2 bedrooms. These properties are only permissible in certain council areas and with sufficient land size.

They are showing gross yields from 6.5% to over 7% pa. Priced from around $450k to $550k+ they include brick and tile construction, fully fenced, turf and landscaping and covered outdoor alfresco area. They are popular with tenants as the price point is lower and they are brand new.

Rather than just settling for a single income property investment, you can easily generate two incomes from this type of property to create a positively geared property. Some of the other advantages that these dual income properties offer include:

- Positive cashflow from day one
- Low outgoings – no strata fees, and low council, water rates
- Brand new – maximise depreciation allowances
- Total rent return around 50% higher than for house of similar value
- Located in high rent demand areas
- Lower vacancy risk as one side would still produce income
- Typical configuration is 3 bed + 2 bed (or in some cases 4 bed + 2 bed)

But the best news is we can also provide rebates direct to you. As exclusive buyers' agents we don't accept sales commission so rebate this to you. Here's an example of how this works:

Typical package price:	$475,000
Our sourcing fee:	$9,900
Rebate of sales comm:	$15,000
You save at least:	$5,100
Yield:	$600pw+

(c) Subdivisions

Completing a subdivision is a smart way to create profit in a relatively short time that can be used to purchase further property, or to recycle into another venture. By taking a larger block of land and subdividing into two more blocks you create immediate equity to grow your portfolio faster. Or you can take a block of units on one title and strata title into individual units (and renovate) for greater profit. Or perhaps you can build a duplex and strata title into two. There are numerous ways a subdivision can be profitable for you.

However, finding suitable subdivision sites is difficult work. It requires countless hours of searching, calling agents, talking to council planners, engineering consultants, town planners, market research and negotiation. There are loads of traps for the unwary when it comes to subdivisions. Have you considered subsidence, run off, easements, covenants, sewerage, water and electricity access? Are you familiar with the local DCP (Development Control Plan) and other restrictions on land use? What are the section 94 developer contributions?

Completing a subdivision is not for the newbie investor. It is for investors that have some level of comfort with risk and are prepared to work with professional consultants to achieve the most profitable outcome.

At propertybuyer, we have a developed a streamlined system of finding, evaluating and securing profitable subdivision sites for our valued clients. Using the skills and networks of a multi-award winning team of Buyers' Advocates and consultants, we can assist you to achieve your property goals at a faster rate and with less stress. It makes sense to build a team of professional advisors around you that work in your best interests.

Here's a sample of some recent successful subdivisions properties we have completed:

Strata titled units

Purchase price: $640,000

Acquisition fees and subdivision costs: $51,000

Expected re-valuation after strata: $840,000

Gross profit: $149,000

Low cost land subdivision

Purchase price: $287,500

Acquisition fees and subdivision costs: $68,125

Expected re-valuation after strata: $430,000

Gross profit: $74,875

(d) Buy Established Properties in High Rent Demand Areas

Selecting the right investment property starts with research. The trick with picking the right investment area is to look at the long term economic drivers of the area. Starting with the macro factors you need to examine what is driving housing demand and rents in the area. Research relevant statistics such as vacancy rates, days on market, supply and demand ratios, vendor discounting, rental yield, demographics, population growth and many others, to understand the future prospects of the area.

The next step is to ground-truth the area and identify the property types that are in highest rent demand for the suburb. With over 15,000 suburbs in Australia, this is a difficult task.

Understand what is driving rents in the area. Is there a shortage of rental properties available? Is there likely to be a sudden increase in new properties coming from developers in the area? Speak to at least 5 property managers in the area to gauge demand and vacancy rates. Speak with the local council officers to see what developments are coming up.

Some of the areas we have recently targeted for positive cashflow investors and geared properties are producing yields of around 6% to 7% and with strong capital growth appreciation of approx. 6% to 8% giving a total return of between 12% to 15%pa.

For example we placed many investors over the last 2 years into selected suburbs of Western Sydney that were affordable and primed for growth. These investors have now seen capital growth of up to $100k on a $300k property and are set to invest again.

We are now also investigating areas of Brisbane that have lower price points and look set to replicate the cycle that Western Sydney has recently gone through. Where the median price point of an area is well below that of surrounding suburbs, the ripple effect of growth often comes into play. There is also the boarder fact of the 41% divide between Sydney and Brisbane's median prices of $812,000 and $480,000 respectively which is driving more investors north.

We are regularly reviewing positive cashflow deals and have access to off market opportunities from prices of just $250k which return a rental yield from $320pw. See examples below:

Purchase price: $324,000
Rent: $400 pw
Gross Yield: 6.42%
Predicted growth: 6%

Purchase price: $259,000
Rent: $330 pw
Gross Yield: 6.63%
Predicted growth: 6%

Purchase price: $275,000
Rent: $345 pw
Gross Yield: 6.52%
Predicted growth: 6%

5. Building Your Expert Property Team

Based on your personal requirements, we can help you design a strategy for your individual situation. We then conduct extensive market analysis to identify suburbs and properties likely to deliver the best return. We take away the guesswork and use intelligent data to pinpoint high growth and high cashflow investment areas. Every opportunity is evaluated against dozens of factors, including local market conditions, comparable sales and property specifications.

As Australia's most awarded Buyers' Advocates, we've helped over 1800 investors find top performing properties so you can be confident you are in safe hands. We can also connect you with our alliance partners to safeguard your portfolio – such as solicitors, building inspectors, property managers, tax accountants, finance brokers and depreciation specialists.

While it is possible to do things on your own, it is also wise to outsource the time consuming process of research and negotiations to experts that do this every day of the week. Tapping into the network and knowledge base of a buyers' agent can pay handsome dividends for your investment strategy.

We can help you achieve your property goals faster and with less effort.

Take the next step now and call our team friendly buyers' agents on 1300 655 615 or email your inquiry to info@propertybuyer.com.au , or visit our website and complete the online inquiry form at www.propertybuyer.com.au

We wish you well on your property investment journey and would be pleased to partner with you.

How can I get further help?

To get a professional buyers' advocate on your side sourcing and negotiating the best opportunities, please **call** 1300 655 615 (or + 61 2 9975 3311), send us your property brief, or email us to arrange a meeting to discuss your property needs.

RICH HARVEY
MANAGING DIRECTOR

Rich Harvey is founder and Managing Director of www.propertybuyer.com.au, Australia's most awarded Buyers Advocates. **Propertybuyer** helps property investors and home buyers search, appraise and negotiate the right property at the right price, every time. Rich Harvey is an economist, property investor and Managing Director of propertybuyer, Australia's most awarded Buyers' agents. Rich was awarded the 2009 national "Buyers' agent of the Year", the "Award for Excellence" 2004-2013 by the REINSW and the 2007 National Telstra Business Award. Find your next property faster, visit www.propertybuyer.com.au or call 1300 655 615.

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