

A Collection of Interviews With

MARGARET LOMAS



- **Founder of
Destiny
Financial
Solutions**
- **Wealth
Creation
Expert**
- **Best-Selling
Author**

Excerpts from the 2GO Real Estate Show

[Host] Hi Margaret Lomas in the studio from Destiny Financial Solutions the author of numerous best sellers including How to Maximize Your Property Portfolio, Margaret good morning!

[Margaret] Good morning how are you?

[Host] Yes, terrific, first of all, before we go to the twenty questions you must ask about investing, and let's just make it clear that you aren't going through the twenty questions this morning. A couple of weeks ago the liberal party's national conference was held in Adelaide and one of the questions raised was how are our children ever going to afford their own home. It's the great Australian dream and I guess most parents are in a situation, well, maybe here on the Coast you own your own home and you are on a strong equity position. But our children, some of the proposals that came forward are the parental pledge, where the parent or a grand-parent will use a portion of their equity to provide a deposit, the loan will be repaid over time. Or these shared appreciation mortgages where you get a lower interest rate but the bank gets a bigger slice. Your thoughts?

[Margaret] Look, they are going to come up with a whole lot of options and it's interesting that you should talk about that today because through the week I was looking at an article from Japan about what they call their double-life mortgages. And they actually give sixty year mortgages that you can will to your children. So what happens when mum and dad dies, instead of inheriting the house from them you actually

inherit the mortgage. And supposedly the house that goes with it as well. For the very same reasons here in Australia it's gotten to the point in Japan where people cannot buy a home of their own, they are just way too expensive there. Of course they have a space problem over there as well. They are going to come up with a lot of good ideas. The parental pledge is really about the parent becoming a guarantor and that's happening already, you can do that with some banks at the moment. The problem with that of course is that it's all very well to provide this, but are we working so hard as parents just to hand over what we've worked so hard for - to give to our children our home? This is what's happening with the parental pledge, think about that for a moment. Brendan, what do you think?

[Brendan] Yeah, you know one of the things that I've noticed recently is that a lot of people, you know this migration northward, there's a lot of people coming in and saying that it's too busy or too expensive and they will move further north. People coming out of Sydney. It all seems to be going up the coast, because of, you know, chasing that ultimate lifestyle for something we can afford.

[Margaret] Yes, look, I don't think there's anything wrong with that - it's not like we are in Japan's position where one of the problems is there's nowhere else to buy because everything is completely built and there's no more space. You're not even allowed to get buried in Japan because there's no room to bury you (you must be cremated), so it's not like we're in that position. There's plenty of room for us to build, plenty of places that we can buy that are still affordable and if the population in general is moving like that then so is industry and commerce and jobs.

[Brendan] Yeah, I suppose that one of the things that you have to recognise is that there are a lot of properties that are so out of reach for the ordinary person, doesn't matter whether they are a first, second or third home buyer. Once you're talking a million plus, the majority of the population can't afford that. I suppose that is what the government is trying to do and you can come in on this Margaret, is it a matter of fairness, is this what they are trying to establish?

[Margaret] Look, I don't know if it's a matter of fairness and I think that one of the big problems that we have is that we tend to want too much. Delayed gratification is not something that our children understand. If you look around, there are still many places where you can build a house if you're happy to have the kind of house that we all have to start out with. Seeing young people today, they have to have their five bedrooms and their two bathrooms and their family room, their games rooms, their activity room. The advertisements on television by builders really promote that for us. What's wrong with starting out with something small and doing with what we all did, when we were first home buyers? Heavens, I had a one bedroom unit when I first got married and it wasn't ideal but it's what I started with.

[Host] Also Margaret, can some people look into investing before they go for their first home because I spoke to somebody this week who bought in Tasmania. He was able to buy a big acreage for less than a hundred thousand dollars and also he could buy an investment home ten minutes out of Hobart for just over a hundred thousand dollars with a real positive cash flow.

[Margaret] It's a sound strategy but let me just warn you about something if you are going to do that, and certainly in How to Maximize your Property Portfolio I do talk about this very scenario. If you are the kind of person who doesn't necessarily need a place to hang their hat up, happy to live on someone else's property where you do have restrictions and where you could be asked to move at any time, then certainly buy an investment property first and then wait until it grows a little bit and then leverage back from that into 2 or 3 more investment properties. Then take two or three of these investment properties and then leverage back from those into a house to live in of your own. Be careful though, sure positive cash flow is important, and you know I won't write about a property that doesn't have positive cash flow - however there has to be some opportunity for growth as well otherwise the strategy isn't going to work. If you buy an investment property that has cash flow and no growth you'll never be able to leverage back from that into a house of your own. You've got to get some growing equity to make that happen.

[Host] Margaret, just one final comment on this national conference that was held in Adelaide about our children being able to afford their homes, your thoughts?

[Margaret] I think the thing that you talked about, the dual appreciation where the bank becomes a co-owner and owns some of the house too, I don't think that's very different from what's happening at the moment because when we buy a house with a mortgage, and the bank's got ninety percent of the property mortgaged and you own just ten percent, I really don't think that we need any kind of a strategy that will allow them to have even more again

[Host] Ok, the twenty questions are on the way, that's coming up next on the real estate show, thanks to Cameron and Myers, the Conveyancing specialists.

[Host] Margaret Lomas, in the studio from Destiny Financial Solutions, Margaret, the twenty questions before you invest in property this morning, we won't get into all of them but let's get a start.

[Margaret] What I'd like to do over the next couple of weeks is cover each week as much as we possibly can so that by the time we are done people have a nice big list of questions that they must ask before they buy property. Now, I want everyone to know that they are questions that you have to ask before buying investment property and these are questions that you can't miss. You've got to ask them all.

[Brendan] I was wondering if we could possibly arrange on your website so that we could arrange for you to put each of these questions on so that people could go and grab them off?

[Margaret] The questions are in my books. But we might be able to arrange something like that, thanks to Brendan for adding to my already busy work schedule for yet another thing that I have to do!

[Host] You know that's a great suggestion haha.

[Margaret] Great, we should start with question number one, which we won't elaborate on too much, which of course is, 'What is the cash flow'? Because you have to decide before you buy property whether you are going to be a cash flow investor or a capital growth investor. Last

week we talked about the differences, we talked about the price and the prize for each strategy. Once you've made the decision on whether you are investing because you want to make a big gain within a set period of time, or because you want cash flow to enable your property to become a retirement income stream for you, then you have to find out whether the property you are looking at has the potential to deliver the cash flow you are looking for or not. For me, if the answer is no, if it's a negative cash flow then I won't go any further. That's it for that property, no more questions need to be asked. You can get formulas and also free software to work out these cash flows once you have purchased a book.

Question number two, what is the vacancy rate in the area? Now this is the kind of question that we must substantiate on our own, we can't rely on the people selling us the property to tell us the answers to a question like this, particularly if we are buying property that is coming to us new, off the plan from a developer, or perhaps a tourism property where we'll get a glossy brochure with a quoted occupancy rate. We have to independently check those figures. Time and time again people have been told things about occupancy that doesn't turn out to be true in the end. You need to know whether or not the occupancy is going to be there. You need to ring other real estate agents and find out how many similar properties they currently have on their books available for lease, if there are a lot of them, then you know that there might be an oversupply of that type of property in the area that you are seeking and you might have problems finding a tenant. So it's a very important question to find out.

[Brendan] I often talk about this with Margaret too, and you can probably comment on the reliability of this too, but often times most of the local real estate institutes will produce occupancy data

[Margaret] Absolutely, and that's what I was about to say, they actually have good websites - it's just www.rei... And then the state. So, for example www.reinsw.com.au, or www.reiv.com.au. So whatever state you're in, you could be buying in another state, go to their website and you may be able to pull down occupancy rates from the website.

[Host] In fact we get those regularly here from Chris Fitzpatrick

[Brendan] Yes, that's exactly right, they are very good the R.E.I in New South Wales, the thing that I wanted to know from Margaret is whether or not you can get specific enough about a particular suburb.

[Margaret] Ok, you can't get specific about a particular suburb unless it's WA. WA is has got a really great website and it's got very specific information but the others aren't quite as specific. You can get to a general area and from there at least you know whether you're in the ballpark and then you need to do some more research on your own.

[Brendan] Margaret, you mentioned last time we were discussing this that we should also go to the local Council to see how many new approvals for similar type property.

[Margaret] That's another question, we're not up to that yet, we'll be doing that after our next break.

[Host] We'll get back talking about that liberal party conference Margaret and we'll return to those twenty questions in just a moment. The liberal party talking about can our children afford their own home

and Tony's been waiting on the phone and Tony your question for Margaret.

[Tony] I recently lived in Ireland and I actually got involved in the property market in Ireland through a shared ownership program where you take a mortgage out on half and you rented half the property and at any given time you can actually pay a section off or extend your mortgage to knock off part of the rental and that was the strategy that was brought in over there and it worked quite well for me. Mind you I found after doing my math during the five years it's pretty hard to pull back the rental part of it because it went up with the CPI.

[Margaret] Sure, I guess it's a little like some schemes where you can 'flexirent', say a television, and you make payments which are essentially rent payments which also buy a little bit of the TV at the same time. Then, once you get to a certain point, you can pay the rest of the TV out and buy it. Everybody knows that it's not as good as buying it outright up front, you are at a bit of a disadvantage but it could be better than just renting forever so, it's going to be one of those choices. If they introduced a similar scheme for buying a home in Australia it might well work too. There are certainly a lot of people who are going to be in the position of needing help.

[Brendan] Margaret, that's a fantastic answer, can we move on to question number three now?

[Margaret] Certainly Bren, Question number three, which you alluded to just before we went to the break, which was great, was that one of the things that we need to do is, it's all well that we know what

occupancy is like and that we know if there's going to be enough demand for the place that we are going to be buying, but we must know if supply is going to increase significantly. We can find that out by going out to the council and asking what they have approved in terms of development applications for the next little while. We'll often find development applications filed one or two years before the actual development taking place. Let's say, for instance, that we are about to buy a three-bedroom townhouse, and we have established that three bedroom townhouses are in big demand in the area and then we go to council and see that there are development approvals for another 50 townhouses right around the corner from that property? We must know that that's going to have some impact on our ability to attract a tenant in the future. It's very important to know this type of information.

[Brendan] Is there any way of checking how many people are coming to the area?

[Margaret] It's great that Brendan asks that - you must know all the questions that we are going to ask because that's the next thing that we have to know. We need to know what the population growth is in the area. So we need to have some sort of an idea if we have a positive population growth, a nil population growth or a negative population growth. Of course, if we have a negative population growth we have to worry about that. At the moment, we might have a demand for the property that we are about to buy, but if the population is decreasing, then there's also not going to be any new people coming in and the population in general is going to start going backwards, and that might impact on our ability to attract future tenants.

[Brendan] Just point us to where we can find information like that from.

[Margaret] Ok, we can find information like that from the Bureau of Statistics census data. Councils also know this kind of thing because they have planning in place for the future, councils will know what the population of an area or shire is and whether it's growing, going backward or remaining static.

[Host] And that's something that they have been discussing about for a while, putting a limit.

[Margaret] Absolutely, and look, it's important to know these things. If a population is going to increase with a limited capacity to grow that's fine, as long as we know that it's going to grow. Even remaining static might still mean that the demand for what you are about to buy is going to remain fairly perpetual. We should worry when the population is going backwards - that might be an indicator that the area might not be an area worth investing in.

[Brendan] A good example with Wyong Council, and I'd like your comments on this Margaret, they can't stop people coming but they can stop development can't they?

[Margaret] Yes, and that's not a bad thing because we know that if they are going to stop development and people are not going to stop moving into an area then that's going to put an increase in demand for both rentals and also on prices. So there we have a great mix of potentially positive cash flow property plus a growth in prices at the same time.

[Host] In fact, there's some letters that we've received and that we haven't spoken about on the show, and we should probably do so at some point in the future, from residents in the Wyong shire who are unhappy about the future planned development and we get quite a few letters like that to this program.

[Brendan] Yes, sometimes people will buy a property and they think that they are in a quiet residential area and then a three-story block with dozens and dozens of units is created next door, which is really not appropriate for the area.

[Margaret] And it's all very well going to see council to see what their future plans are but council can change zoning at any time. In my own area there was a proposal to change the zoning from 7a Rural Protection to something else which would have created the potential for subdividing, fortunately the residents were able to get together and change this, so you can have a voice.

[Host] Ok, so there's a lot more that we can talk about in the coming weeks, Margaret thank you very much for joining us, the twenty questions on investing will continue next week with Margaret Lomas.

[Margaret] Thank you

*** End of episode

[Host] Number one best seller, Margaret Lomas, good morning

[Margaret] Good morning

[Host] How to Maximize Your Property Portfolio is the latest book, have the shelves been restocked?

[Margaret] They have and I have some exciting news this week, in total we've sold sixty thousand books.

[Host] Whoa that is huge!

[Margaret] That's great isn't it?

[Host] Yeah absolutely, well done!

[Margaret] Thank you.

[Host] and in the next week you are going to be at the Sydney Money Show, it's that right?

[Margaret] Yes, next Friday, Saturday and Sunday the Channel 9 Money Show will be on in Darling Harbor and there's going to be some really big names speaking there and of course I'm going to be there too.

[Host] Tell us when you're on

[Margaret] I'm on Friday, I think about two and on Sunday about ten or ten fifteen so I speak twice, it's the same thing both times, there's also going to be Paul Clitheroe, Noel Whittaker, Ross Greenwood and John McGrath who we had on the show a couple of weeks ago - he will also

be speaking and Pam Walkley will also be there, she is the editor of Money Magazine. There is also the ASX investor series and every half hour a small seminar is held. So you can go for one day and spend the entire day in different seminars if that's what you want to do too.

[Host] Ok, so later on this morning we are going to give away some passes for the Money Show - just keep listening for your chance to win, but first of all when you are going to a seminar like that and you are talking yourself, who's on the bill that you really want to see?

[Margaret] When I go along, I always want to see Noel Whittaker, Noel and I have a special relationship and we do a lot of work together as well. I like to listen to Paul Clitheroe as well, I find him very interesting. The other thing that I like to do is to walk around the stands and see what the people are offering today in terms of investment, and there's often a lot of creative things being offered. I like to get amongst people and see why they are there as well.

[Host] Is it like going to see a concert and sometimes you'll see another 'muso' in the crowd or you might see a journalist in the front row taking notes as well, you might sit and take notes with these other guys as well?

[Margaret] Normally I learn a lot from other people every time I go to one of these. I always go away every time and think 'we have to do this on Monday' and I have this new strategy that I want to put in place.

[Host] Last week on our show we talked about the twenty questions that you must ask before you invest and we got to about question number four. Today we are going to go back to the twenty questions but

first, the end of the financial year this week and I suppose a big time for investors to get their house in order.

[Margaret] Absolutely, and there's a lot of things that you might want to do but for the moment if you are looking at having a tax liability that you want to try and minimize, one of the things that you may want to try to do is put extra money into superannuation and you can still claim that, you can also prepay interest on a number of things like a vehicle if you are in business, you can prepay that for twelve months but if you are an investor in property you can actually prepay twelve months of interest on your loan and claim that in this financial year. Now, a lot of people cannot afford to do that but it might be that you can pay three or even four months worth of interest and that gives you a claim in this year and that relieves a little of your tax liability.

[Host] Yes, that most certainly makes good economic sense. Just to throw you a little something that's a bit off the tangent, we listened to one of our listeners yesterday who's a big fan of you, Margaret and he said that he saw for the first time your picture in the news paper and that you appeared much younger than he had anticipated. He said, she must be in her mid-thirties?

[Margaret] Oh, did you tell him that I was?

[Host] Yes, of course, I agreed with him straight up!

[Margaret] Thank you

[Brendan] So there you go, you got a real following out there, it's actually fantastic

[Host] Lucky you're on the far side of the desk, Brendan, that's all I can say. Ok, we've got passes for the Money Show to give away, the number is 43244444, we'll take caller number ten and eleven this time around

[Margaret] and that's for double passes to the Money Show and they are worth I think about close to thirty dollars.

[Host] Yes, certainly worth your while, four three two four, double four double four, there is one catch, tell us somebody who is on the bill at the Money Show hosted in Sydney , at the moment it's a quarter past nine, the Real Estate Show, thanks to Cameron and Myers, The conveyancing specialist

[Host] Good morning, Steve Allan here, Brendan Blank from Hammer Events, the CEO, and also the Hammer Event organisation that's involved with group training and obviously one of the best auctioneers out there today. Also in the studio Margaret Lomas from Destiny Financial Solutions, this morning we've got passes for the Money Show and Darren is on the line, Darren can you tell us someone that is appearing as the star of the show in Sydney?

[Darren] Margaret Lomas!

[Margaret] Hey, very clever, how did you know that?

[Host] Margaret can talk you through it, it's the Channel Nine Money Show in Sydney.

[Margaret] And that's on Friday, Saturday and Sunday, you can come on any one of those days, We'll send you out a double pass to get in and go along to see as many of the seminars as you can and visit as many of the stands and get as much knowledge as you can while you there.

[Darren] That'll be great, I'm looking forward to it, and my wife's is about halfway through Margaret's book at the moment.

[Margaret] Excellent

[Darren] I bought that for her birthday and she's thoroughly enjoying it

[Margaret] Fantastic, so make sure that you come up and say hello to me while you're there!

[Darren] Definitely will

[Host] Yeah, well done Darren Craig, and we've got more going off - also congratulations Mariend more going off as well as something extraordinary we will give away in the next few minutes here in the studio, Margaret, talk us through.

[Margaret] Ok, in the next two, three weeks time, whatever the twelfth of July is, because I don't know in what month we are now, Nole Whittaker and I are offering a one day workshop in Sydney. Now we did this two weeks ago in down in Melbourne and it was absolutely

wonderful and everybody who came along found out that we had a lot of information to share and they just loved. It's basic financial information, investing information, we talk about everything to do with property, shares, superannuation, salary sacrificing, and a whole lot of things that people need to know in order to more effectively invest.

[Host] So, this is a one on one with yourself and Noel Whittaker?

[Margaret] Absolutely

[Host] You mentioned on last week's show that Noel Whittaker's "Making Money Made Simple" is one of the most influential books?

[Margaret] It's one of the top one hundred most influential books this century and he's an absolutely amazing person, I'm very happy to offer this workshop with Noel because it's very personal, it's very one on one, we only have about fifty people who come along to that, now the tickets are valued at five hundred and seventy five dollars each and I've got one to give away free today.

[Host] And that will go off in the next two minutes here on 2GO but first let's go back to the twenty questions you must ask if you're investing in property and we are on question number five.

[Margaret] That's right, now last week we took a look at vacancy rates in an area and at finding out whether or not there was occupancy for the type of property that you were going to buy, but this week I'd like to reiterate question number five, which is 'what is the actual population growth of the area like'? Because it's all very well to have a look at the

historical vacancy rates, or historical occupancy rate but if we don't have a sustainable population, then in the future you and I might have a problem finding a tenant. You need to find out from the Australian Bureau of Statistics whether or not the population in the area that you're looking is actually growing or at least remaining static. Because that's very important and you balance that out with one of the questions that we talked about last week which is what improvements are happening in the area. If we've got a lot of development applications and a population that's declining, clearly we are going to reach a point where we're going to have a problem being able to get a tenant. So we need to know about the population, whether it's growing or not and what the mix is of the population is too, is it growing because people are retiring there, is it growing because young people are moving into the area?

[Host] There's a lot of places where mining is one of the main industries, if that closes then there could be problems in the future?

[Margaret] Right, thank you for bringing us to the next question, which is question number six. Why are people there? Why are people in the area in the first place, if everybody is there because of one industry, BHP for example, you can be pretty sure that at some time in the future, they are going to close their doors and then everybody will move away from the area - so why do people live in the area in the first place?

[Host] Were there studies done on Newcastle, what happened after the closure?

[Margaret] Ah, yes, fortunately, Newcastle didn't rely just on mining because by the time the closure happened, there were already a lot of things happening in Newcastle and tourism was one of them.

[Brendan] Yeah, the information that I have on Newcastle was that there was only about two thousand employees, most of them were absorbed into industries that had re-established in that area, so in fact if anything it was a bit of an improvement.

[Margaret] and if you think about it, you know, Newcastle has close to a million people living in the greater area anyway so only two and a half thousand of them were actually working in that plant, but if you go to somewhere like a mining town such as Mount Magnet in Perth, where the entire town is twenty thousand people and nineteen thousand actually work down at the local mining plant, then that's where you might have a problem in the future, so question number six, why are people in the area? And is there a chance that they might not be there in the future.

[Brendan] Margaret, what's your take - I saw in the newspaper not long ago, in a particular area that I went to, it was in the Upper Hunter and it was offering rent free periods and all sorts of things, now those sorts of advertisements have to start sending alarm bells don't they?

[Margaret] Absolutely, now what's important is that you might get a great positive cash flow on a property and that's fantastic – you know there are mining towns where you can buy a property for sixty thousand dollars and get two hundred fifty dollars a week rent (and that really does happen), except it is precarious and the reason that they are offering that

kind of rent is for that very reason, because we know that there is high vacancy rate in those areas and potential trouble in the future.

[Host] Ok, well the two minutes is up and that means the number is four three two four, double four double four, talk us through this again Margaret, it's a one on one with yourself and Noel Whittaker?

[Marker 25:00]

[Margaret] That's right, it's a very personal workshop because we really do get down to business with everybody, we do a lot of hands on stuff, we have a workshop manual, it's fully catered so you get a lunch, it is a long day it starts at around eight thirty and it doesn't finish until somewhere around six, it's at the Round House at the University of New South Wales I think they are even giving us ice cream in the afternoon, but the most important thing is the content. The content is absolutely amazing. You can go on to my website destiny.net.au and take a look at that workshop because we are still taking bookings for it but we will limit to around fifty or sixty people.

*** End of episode

[Host] Margaret Lomas, you are the author of several books including one that's currently number one.

[Brendan] Yeah, the Sydney Morning Herald morning number one list and still ahead of **Robert Kiyosaki!**

[Margaret] Ah ok, I didn't even see!

[Host] No, it's fantastic you are still out there, number one. That's how good Margaret's become.

[Brendan] The celebrity status is just one of those things that she accepts as ordinary daily life, isn't it Margaret?

[Margaret] Oh sure!

[Host] And this week, you've been traveling around the country?

[Margaret] Yes, I've been up to Brisbane, at the beginning of the week and it's been raining there too, it's been raining everywhere.

[Brendan] Oh, I don't feel so bad then

[Host] In the first hour of our show, we've had Neil Jenman on and he's fairly critical about a lot of the aspects of real estate industry, he said you are a shining light.

[Margaret] Oh, he is a lovely guy and I know that he does have some controversial issues that he discusses and a lot of his strategies people don't necessarily agree with, but he has to be credited with being able to help people in the real estate industry really look into and ask the right questions.

[Host] How do you think the perception is with the public, with Neil Jenman?

[Margaret] Ah, look, I think there are people that are really for Neil and I think that there are people that disagree with Neil as well, his theories can be fairly controversial, but I think that the best thing about it, as I said, is that he isn't afraid to stand up and say, these are the really bad things in the industry, it's like a lot of people know that there are things that are in the real estate industry that aren't that great but don't necessarily want to talk about them and I don't think that there is anything wrong with someone who wants to get in there and expose a few people, a few practices.

[Brendan] Yeah, look, as I said at the end of the interview I can't agree with everything he says but that's only because obviously I don't understand a lot of the stuff that he talks about

[Margaret] Yes

[Brendan] But in real estate, the best thing about any practitioners out there who are doing any good is that they have a system

[Margaret] Yes, and look, can I say Brendan, it's good that you say that you can't agree with everything that hits the floor for debate and I think that applies to everything today, if we are going to become educated about investing, about buying real estate, it's important that we listen to everybody, become educated and take that which we will be comfortable with.

[Host] Also, just a quick question, Neil did say that the bar has been raised, would you agree with that Brendan?

[Brendan] Yeah, no question, if it can help, one of my companies, Main Events, is one of the leading training businesses here and we train real estate agents on how to do better and it's quite amazing because once you enlighten someone about better ways of doing things they go, wow, now we can take that on board and actually help people in that way.

[Host] Just quickly, Margaret, do you think he's looking green around the gills?

[Margaret] Looking a bit green, but I can't believe a hang over can last two days, you should look fine on the second day!

[Host] the big night in the box at the footy!

[Brendan] I've got my friends at the Central Coast Express Advocate to thank for that, the lager didn't stop flowing, I emptied one and another one came, it never stopped!

[Host] Have you ever sat with the crowd?

[Brendan] Oh on a few occasions!

[Margaret] But then he would have no one to blame for his hangover!

[Host] That's right

[Brendan] Yeah, leave me alone will ya! I'm delicate enough as it is.

[Host] Let's talk property managers now

[Margaret] Yes, well, look, I guess when you buy a property as an investment, the first thing people often think of is 'I'm going to manage this myself?'. if you buy a property that's nearby where you live, that's what a lot of people do, and that's not necessarily the best thing. People tend to think that if they manage a property themselves it's going to be better, they'll do a better job, they'll save a little bit of money on property management fee.

[Brendan] The property management fees in my experience run around seven percent plus GST, maybe some of them as high as ten percent. It's a fairly small amount for that security peace of mind.

[Margaret] Look, can I add to that to Brendan, that's it's also a tax deductible cost, so let's presume that you are in the thirty percent tax rate you've got a rent of a hundred and fifty dollars a week and you're paying fifteen dollars for property management, that's reduced to ten after you get your tax back on the claim.

[Host] I also notice in your book, How To Create an Income for Life, you say that you pretty much go in under cover like you're going in disguise with the trench coat on, asking the property manager some questions and they are not necessarily the one that you want but you are just trying to get that information.

[Margaret] Yes, sure, look and I certainly don't try to go in there and fool anyone or mislead them, but I guess the first thing you have to decide is 'am I going to manage a property myself or am I going to get a property manager to do it?' So, let's have a look first at why you wouldn't

manage a property yourself. First of all, you don't have the ability to be able to select the right tenant in the same way that a property manager does, you probably don't have access to a database of tenants that might have had been bad tenants in the past for another landlord like property managers will, you don't have access to credit ratings like a property manager will, there are important things that you have to know about a tenant.

[Host] There are a lot of things that we could go on with on property management, we'll do that in just a moment coming just now. How do you spot a good or bad one?

[Margaret] Probably one of the reasons why people always want to manage their properties themselves is because of the horror stories that you hear, I can remember seeing a story on one of the property shows about a year ago, this gentleman had an investment property, he was going to sell it and never invest in property again because the property was basically treated like a tip and it was really quite atrocious. And I couldn't help but wondering when the guy who was the property manager was talking about how bad it was, where was he at the time it was happening? He was talking about how bad things were - why wasn't he running for cover because it was his job to make sure that everything went ok there and I believe that the reason why the property was so badly treated was because it wasn't well managed.

[Brendan] There is a perception that if you are managing property yourself, also, a lot of not so good tenants or people that are looking to take advantage of land lords might tend to apply because they know that they can't be put through the same hoops and be checked out.

[Margaret] Sure, so you are talking about it from a tenant's point of view?

[Brendan] Yeah, from a tenant's point of view, if you manage the property yourself you might get a fraudulent tenant lop on your doorstep, you have no way of checking whether or not they have been listed as a bad tenant.

[Host] it's interesting that we are talking about this today because we do see a lot of these stories, that show up on Today Tonight or A Current Affair, you know, or on the ABC. This week, I actually saw a place where there was a guy doing a heap of renovations and he said never again because the wrong tenant came into his place.

[Margaret] Ok, can I also say that you only hear about the bad ones and if you count the number of stories that you've heard about bad tenants in the year, it's probably, what, six? and how many hundreds of thousands and probably a million properties in the country are actually under management, so you know, the realities are that ok, there's only a very small a chance that you might get a bad tenant. So let's look at how we minimize that risk and that starts with choosing the right property manager

[Host] Are there any kinds of numbers, or percentages?

[Margaret] Oh gosh, it's way less than one percent, it's way less than one percent chance, it's probably about point one percent that you get a

tenant that causes bad damage and certainly if you had landlord's insurance you are going to mitigate some of that risk anyway

[Host] That was my next question on the show, a few months ago you said there are ways to get a guarantee that you don't get stung

[Margaret] Ok, there is not guarantee that you don't get stung, but there are guarantees that you don't get hurt when you get stung!

[Host] Yeah

[Margaret] And the reason is that you can cover yourself for the kinds of damage that we worry about that comes from errant tenants, you can cover yourself from loss of rent if you can't rent your property because your tenant damaged it so badly that it cant be inhabited - you can get this insurance for like five dollars a week.

[Host] Ok, good and good property managers, how do we find them?

[Margaret] Ok, first of all, what I always do is pretend that I am a tenant and I approach a property manager first of all to check out what they are going to do for the landlord from a tenant's point of view

[Brendan] You are really starting to concern me here, all this pretending for two weeks in a row, Margaret, what's going on here?

[Margaret] I know, I just like to be different people every week - it's a thing I have, you know!

[Brendan] Your alter ego – a simple trench coat and a cape?

[Margaret] Yes, but the cape's away this week, so, look the other thing that I like to do as well is understand that as a land lord it's my job to recruit a property manager who's going to do the right job. Steve I believe that this week you've been looking for a property manager and you've just engaged one for your property.

[Host] Yep

[Margaret] So tell me, how did you find that property manager?

[Brendan] Yellow Pages

[Margaret] And did you actually interview several managers and ask the property managers to give you their business plan and outline their success and how many properties they currently have vacant?

[Steve] Yes, we received something in the post from them because the property is on the far north coast of New South Wales and they've been ranked in the top three or four within their group in the last decade

[Margaret] Fantastic, so they are telling you that they are performing really well and that's the kind of information that we need to know, we need to know how many properties that they have at the current time, what percent of their portfolio is tenanted and we need to know how many properties they manage and how many staff members that they have. I estimate that one staff member can probably manage about fifty properties, so the if they manage two hundred properties, we'd like to

see a little bit of help. You don't necessarily need four people for two hundred but certainly two managers for two hundred properties is what you would need. And that's to manage it effectively, that includes doing the right kind of inspections every three months, making the phone calls that they need to make and making sure that if your property suddenly becomes vacant they've put in some real effort to put a tenant in.

[Host] I've got some friends that are in the Hunter Valley and they've had an investment property they've since sold but they told me that their tenant was about three or four months behind in rent. How could something like that ever happen?

[Margaret] That should never happen and look, people are under the misconception that once you have a tenant in your property that you can never get them out even if they don't pay rent, that's not true. You just need to understand the process and there is a process put in place and the moment your tenant gets behind in rent you need to start that process through the right channels.

[Brendan] With the right property manager, they should take those steps from the moment where it's late, you can't actually issue any formal notification for being behind in rent for fourteen days, on the fourteenth day you can obviously tell these people that you are going to take action

[Margaret] That's correct and that's just two weeks, and two weeks is a long time without rent sure, but it's not as bad as three or four months and it should never get to be as bad as that.

[Host] Just wanted to get your thoughts on this guys, just turning this on the other foot, I've been a tenant for a long time, we paid rent for a large chunk of our lives, on the other hand, how do you think that they are treated from a real estate agent, we found out that some people have had very bad experiences, here on the coast.

[Margaret] Ok, so, I mean, I've been a tenant in the past as well and the difficulty our family had was getting a property to rent given that I had 5 kids, but I found out that as a tenant generally speaking, I probably wasn't given the proper sort of attention that was needed when something needed to be done. It's really difficult to know what your rights are because there is a whole list of rights that you have as a tenant.

[Host] We'll do that on another show, we've talked about property managers today and if you've got any questions for Margaret, four three two four, double four, double four anything to do with finance, she's the expert and she has the number one book at the moment, How to Maximize Your Property Portfolio.

[Caller] I own my own building and want to build another house, what's the procedure now that I want to sell it and how to I go about it

[Margaret] Ok, do you need to sell the property in order to be able to build a house or can you just leverage with the equity that you have in order to build the house.

[Caller] At this point, I think I have to sell it.

[Margaret] Ok, if you have to sell it, then you just have to go through the same process as any property that you are going to sell, the difference to you is that your tenants need to have seven days notice of an inspection, unless you intend to sell the property (as you do) and then you have to give them twenty four hours notice for someone to inspect the property to buy.

[Caller] Ok, I just have to let the real estate know of my intent to sell?

[Margaret] That's right, just let them know that it has tenants at the moment and make sure that he understands the law as much as you do.

[Host] Thanks Wayne, thank you very much for your call this morning.

[Margaret] Look, it's important that people understand what their rights as a landlord if selling, a lot of people believe that they can't show the property because there are tenants in there and that there is a certain amount of notice that must be given, but they have to understand that the law does give them the right to show the property still and there shouldn't be any difference as an owner-occupied property.

[Host] On hold on line seven is Pam, wants to know about a broken window. Brendan?

[Brendan] Yes, Pam advised me that she accidentally broke a window putting a curtain up, fell over, fortunately didn't hurt herself, she's been a good tenant all her life, always paid the rent and she was wondering if she has a liability to pay for that window.

[Margaret] No, she doesn't - accidental glass is covered by insurance and landlords must have building insurance before they put a tenant in to rent, so that should be covered by the insurance and because it's a glass breakage it has to be fixed within forty eight hours by the landlord.

[Brendan] I might suggest that she contact the property manager

[Margaret] Right away, she has to contact the property manager

[Host] Ok, well the phones are going berserk, four three two four, double four double four, we are talking about property managers, how to find a good and bad one, how to find one and it's certainly going to save you money in the long run Margaret.

[Margaret] Yes, the other thing about it is that it's not just finding a good one in the first place, it's monitoring that they do a good job and making sure that if they don't do a good job you change them over.

[Brendan] It's interesting what we were talking about before, about it being a bit more than a joint venture than actually handing over the management and resting back- the landlord should actually do some stuff himself

[Margaret] Absolutely, and just because you hand over property management to someone else doesn't absolve you of your responsibility as a landlord.

[Host] Margaret Lomas in the studio from Destiny Financial Solutions - we will get to taking calls in just a moment, first an e-mail that has come

from Neil and it states, Margaret, 'we have two investment properties along with our home and are fairly well committed percentage-wise with our incomes and have had good capital growth, I'm certain our properties have positive cash flow and would like another, are there ways of doing this?

[Margaret] First of all, congratulations on having positive cash flow properties that are also growing in value, that's fantastic, when you say you are pretty well committed income wise I find that what often happens is that people contact the bank and that bank may have said 'well look we won't lend you any more because on our debt servicing ratio you've already hit the wall or hit the limit of your borrowing capacity'. Go to another bank, whether it's for another property or if it's for the entire portfolio, because all banks have different borrowing criteria and what you can't borrow from one bank you probably will be able to borrow from another. It's important to understand that a multi-lender portfolio will probably be appropriate for you to move forward with your own investing.

[Host] Ok, let's go back to the callers and Wayne, your question for Margaret

[Lane] You're there Margaret?

[Margaret] Yes, I am

[Lane] Some friends of mine have this property up in the Hunter Valley, alright, and they had some damage done to their property and they tried to get the tenant out. It became a big court battle and they had to pay for

the damage and the lost rent. The tenant was ordered to pay a little each week but they have never got the money back.

[Margaret] Well, one way to prevent this is to have good landlord's insurance, it will cover the cost of loss of rent, the cost of repair work on the property and it will cover your legal costs in getting back anything else as well, good landlord insurance at about \$5 or \$6 a week will help cover all of these costs.

[Host] Well thanks for your call mate, we're going to have to move on, let's go to Dave who's on line fifteen, Dave good morning

[Dave] I found out I've got a property management agreement, I've got thirty days to give them notice to change managers, do I still have to follow that thirty days? Is there any way around that?

[Margaret] No, if you have an agreement that says thirty days notice then you have to provide that but you can get your new property manager to give that notice for you and attend to all sorts of things, like picking up the keys and supervising the change over to the new manager. Just be sure that in your next agreement you have a seven to fourteen day agreement to break that contract. Thirty days is just too long, if your property manager is not performing, don't give him another four weeks not to perform.

[Host] Thank you Dave and thank you for calling the studio this morning,

*** End of episode

[Host] Margaret Lomas from Destiny Financial Solutions on the best sellers list.

[Brendan] Margaret, say hello to John McGrath.

[Margaret] Hi John, how are you doing?

[John] Hi Margaret, really well.

[Margaret] John, what I find in Melbourne is that Melbourne is a place where people tend to embrace real estate, even more than Sydney people, Sydney people are sometimes a bit of a difficult bunch and they tend to come to you with all sorts of pre-conceived ideas and notions but Melbourne people just tend to love property. What do you think about that?

[John] I totally agree, Margaret, its like a spectator sport, watching the Auctions, just before they go to the football. If you have an on site auction in Melbourne, along would come three hundred people from the street and the suburb, watch it and yeah, it's a very exciting event, it's a culture, like the sort of restaurant culture and their clothing and their style culture, property is very much a product of the Victorian society. Yet it's sort of happening in Sydney but definitely there seems to be a strong connection to property from Victorians.

[Margaret] Do you think John that's probably because of the ethnic nature of Melbournians in general, you know, that the entire society has been built on immigration really which is why we have all those

restaurants and those sorts of things, and you know Europeans love property as well, especially the Italians and the Greeks, they all have property in their family and they'll pass it down from father to son and from mother to daughter, perhaps that's why we have this culture of buying real estate as an investment, first and foremost.

[John] Yeah, it really could be Margaret, as you said before the ethnic communities they also have a very strong sense of home and family and of course someone's bricks and mortar can end up being such a major part of that so there is a real good connection there. And you know I think they are also very savvy in regard to investment, they understand that property has performed well for decades and decades, it's a good safe investment, I think that Sydney tends to have a bit more of an international flavour and it's a bit more speculative that they get more into equities and are a bit more mobile. I think that so many of them through generations have done so well on properties, the property has been the foundation throughout Australia for so many generations, taking themselves from not having much to being quite comfortable and affluent and properties have been this central thing to a lot of that, to that wealth graduation to a lot of families. It's almost around a century that we've seen close to ten percent to compound growth in the major cities around Australia and when you add rent return to that it's a pretty attractive opportunity especially in uncertain times like these where you have a lot of people have been burnt through equities. And when you put the money in the bank, there's not too much to offer there in terms of return. Good security of course, so I think that a property is a really good fall back position and it's very easily understood. The average person can go out and understand property and understand the process

of rent collection and capital growth, so it's a real easy to understand opportunity.

[Brendan] John, if there was an overriding theme, what are these people that are more successful than the run of the mill real estate agent actually doing, could you capture that though in a single sentence?

[John] Yeah, I've seen a couple of things Brendan, time management they seem to manage their time and they know what they need to get done during a day and during a week and are very focused on getting that done. They are very efficient in the way they run their business, most of them are setting up a structure around themselves that allows them to focus on what we call dollar productive activities, some of them have assistance, some of them hire people to help them run their own business and even have a salesperson. The third is technology, most of the top agents or all of the fast-growing agents have a definite commitment to database, to e-mail, to internet and finally would be nurture marketing, yeah, they all have a very definite commitment to keeping in touch with people they deal with and building long-term relationships rather than just seeing a transaction as a short-term relationship.

[Margaret] That was great, thanks for that John

[John] Thanks Margaret, love the region up there and you know we are very excited about it and now would be great to speak with you guys again

[Host] Thanks to you John again

[John] Thanks guys

[Host] Yeah John McGrath from the McGrath Realty in Sydney our special guest this morning. Talking about the conference that was filled recently, with Margaret with us in the studio, Margaret will talk with us shortly, about the Money Show that was done in Melbourne over the last couple of days.

*** End of Episode

Cut in new episode

[Margaret] Because you can pick up any book on real estate investing today and they always quote the same statistics, the fact is property has grown over ten percent per annum over the last hundred years. Now that might be true, but if you have a look at the last hundred years, we've had some periods of phenomenal growth over that time and that's impacted on the overall outcome of how well property has done. If you've been investing in the last ten years, you probably haven't gotten this ten percent per annum growth and the expectation that you can buy property that is going to double every seven years just isn't being delivered today.

[Brendan] I have been in the business for a long time Margaret and I've actually seen property values almost double like a self-fulfilling prophecy, but by no means have I ever said to anybody that this is going to happen in a consistent curve.

[Margaret] Property does behave in cycles but not the same cycles all over the country, so you might have a property on the Central Coast, in the last ten years, sure it's doubled in value, and most of that doubling has come in the last three years. The realities are at the same time some properties have not nearly done as well as the properties on the Central Coast.

[Brendan] Taking both sides of the equation, not only are you looking at capital growth but you are also looking at paying the debt down on the property so in a sense it's like forced savings Margaret, that's one of the issues that we don't cover often. If you have a property that you bought for two hundred thousand and you sell for two hundred thousand three years down the track, some may say that it was a loss by the time they paid agent fees but when you look at your equity position in the property, you might have had a ten percent stake in the beginning and a forty percent stake by the end, but what are your thoughts on that?

[Margaret] Well, what would you have done with your money otherwise? You could have put it in some kind of share or managed fund and you might have had a better return, but I don't like to look at any investment in that way, the point that we're trying to make right now is that you should never go into property investing with the prime motivation of having it double in value or even having it increase in value and see that as the reason why you are investing. You need to go into property investing with a whole other set of agenda which will help make that property more effective to you whether or not you get the capital growth. But look, I believe that people need to become more educated about investing in general and understand that if they can make a commitment on a mortgage on a property that becomes forced savings,

they can then look at any kind of investing as that same commitment and make a commitment to invest in there. You know, I love property and I think property is definitely the way to go, I just don't want people to have expectations that may not be delivered from property and I want them to go into property with their eyes open about what they are really going to get.

[Host] We'll come back and talk about this topic in just a moment and we'll also touch on your role in the Money show which was held in Melbourne on Friday and also yesterday. This is the Real Estate Show, thanks to Cameron and Myers, the conveyancing specialist and joining us this morning from Destiny Financial Solutions is Margaret Lomas and Margaret, talking about the Melbourne Money Show shortly, you've been at that conference as a keynote speaker, first Brendan has another question for you

[Brendan] Look Margaret, one of the things about buying property and I'm a little bit concerned now - if I'm not buying property for capital growth what am I buying it for?

[Margaret] Ok, that's a great question because first of all , remember that I haven't said you won't get capital growth. If you buy property and hold it for a long enough period of time, you will get capital growth on the property, unless of course you've been sucked in by some wonderfully clever developer somewhere and bought property at over the market value, and I know you find that funny but it happens all the time. I get people who consistently buy property, particularly in Queensland, at well over the market value and they are starting behind the eight ball. One of the reasons why we really should be buying

property is to buy it to hold it and keep it forever so that we can make money from the rent. That being the case we have to make sure as we said many times before on the show before that it's positive cash flow, it's going to give us money in our pocket every week, then when we look at return at the end of the investment period, our return is the capital growth plus all of that positive cash flow that we've had along the way and that helps impact on the true yield that we are getting on properties.

[Brendan] You must think and it probably comes across sometimes that we are a little slow on the uptake but this whole positive cash flow really took me by surprise on the first show, and you really expanded on that in the subsequent weeks and it's really starting to home in there - like I'm really starting to understand what you are talking about from a positive cash flow point of view and I think the investment in real estate has got to have that component but it's new learning for people and sometimes they haven't come across this.

[Margaret] It is something that they haven't come across and it's based on laws introduced in 1985, it's just that nobody ever understood or talked about them and the band wagon has only been jumped in the last couple of years. Positive cash flow property is when you buy property that gives you money in your pocket every week in some way, it'll either be a property that gives a higher than average rent in return for it's purchase price, so you may pay a hundred and fifty thousand and get two hundred and fifty a week rent, we have some areas in this country that can actually deliver that, or it could be that you buy a property with a lot of on- paper deductions, so rent, plus the tax that you are now not going to pay to the tax department, is more than you need to pay the costs and you actually have money left over.

[Brendan] Is there a place in there for negative gearing Margaret?

[Margaret] Well, you know, it's funny you should say that because positive cash flow property is negative gearing. It's negative gearing for positive cash flow instead of the traditional negative cash flow

[Host] And that's the key point because there would be a lot of people that have positive cash flow property and do not know until they crunch the numbers and say 'Hey, this doesn't cost us any money at all,' but they may not find that until the end of the financial year

[Margaret] Yeah, exactly, and they should be because you don't have to wait to until the end of the financial year, you can actually get your positive cash flow at the end of every week in your pay packet.

[Host] And what's that called, because there is something, you fill out a form?

[Margaret] Yes, it's now called a section fifteen fifteen certificate or a Request to Vary Taxation.

[Host] Margaret, let's go to what you spoke about at the Money Show, basically what we've been talking about in the last few minutes.

[Margaret] Yes, look, the Money Show's great, it's put on by channel nine, it was running in Melbourne this weekend and I've been there speaking all week end, it's also happening in Sydney in a couple of week's

time so keep you eye out for that. Because it's a great show and I'll be back there of course.

--End—

In memory of my former co-host, Brendan Blank, who sadly passed away age 36 from a heart attack. Brendan is greatly missed.



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