

TRADING PROPERTY HAVE YOU GOT IT RIGHT?

There is much material available to guide those wishing to follow the buy and hold strategy. The advice more often provided by experts is that once a cash flow positive property is purchased, it should be held for the long haul. This makes good sense, because to sell will involve not only quitting a positive income, but also will result in depreciation recovered and the inevitable tax.

However for serious property investors continuously viewing a whole range of properties, they will have good deals offered to them that will be just right for family homes, but because they are cash negative, (and will require a cash subsidy from the owners to support the operation) they should be purchased with the intention to trade. This trading could create sufficient cash flow which can enable individuals to leave their traditional jobs and take on property full time. One example is a client earning \$55,000 as a salaried employee, who took on property trading, and can now gross more than his previous salary with three or four trades. These can conservatively take say half the year, leaving the other half to concentrate on the buy and hold strategy. However one should not leave the 'job' too soon, without first having in place, or creating sufficient replacement income to qualify for the loans which will be required.

The requirements to do all this are as follows:

Have sufficient property knowledge and confidence to achieve this.

Have sufficient funds, or borrowing capacity, and income to provide the funding for the strategy, and start and complete the procedure within the minimum time frame.

Have in place, the best structure to protect the wealth, and to eliminate 'property tainting' through association. I will explain all of these in depth.

Sufficient property knowledge and confidence

The individual must have adequate property knowledge, which should come from the best property seminars, courses, books and experienced mentors; and develop the natural 'horse trading' senses often described as 'gut feeling' of the trader. After all, the most expensive commodity is being bought and sold, and one has to really know the market, and cannot afford to make expensive errors of judgement. Also a trap is to commit too much expenditure. For example, in my opinion structural changes like adding on a permitted additional bedroom, will likely take too long, and be too expensive, and thus jeopardise the profitability of the deal.

I know of several clients who have committed more than \$20k in one year, to gain the 'theoretical' knowledge. The individual must have already cut their teeth by purchasing several homes and/or buy and hold properties. Confidence has been estimated as being at least 70% of the requirements. Many clients also

enrol for personal development courses, with the object of gaining the requisite confidence. There are many individuals, often termed 'seminar junkies' who have done all the property courses, but still lack the motivation and confidence to purchase buy and hold properties, let alone start trading. John Burley's strategy to be successful is: you must continue to make many, many offers on properties. Simply if you are not making offers, then you are not doing deals. At his Arizona, USA boot camp, which I attended, for example, all the course attendees have to make live offers on a minimum of 10 properties, being marketed by local Real Estate Agents, to be eligible to graduate from the course.

Sufficient funds and income

The prospective trader will likely require 20% deposit for each property. Trades can be on sold immediately, without any 'do up' work, or restoration. But to maximise the profit, as the property will likely be in need of much TLC, there will need to be additional funds available to spruce up the property, more than likely for the kitchen and bathroom, as well as landscaping the section to maximise the sale price and profit.

The trader also must also have adequate income to qualify for the borrowings. I have all too frequently come across prospective traders who have resigned from their jobs and lifeblood too early, and have not obtained loans for their new trade strategy, because their other income (from say buy and holds) is inadequate or non existent.

Timing

Timing is all important with property being traded. To control the cost of holding the property, and to try to ensure the market does not 'go South' during the time of ownership, the trader has to employ the following tactics: Get the job completed in the shortest time. Have a sufficient settlement period, agreed with the vendor where access is granted. In this access period, have all the trades people booked up and ready to commence as soon as possession takes place. Better still have access provided prior to settlement, as a term of the contract, with the right to commence the restoration/renewal work. This results in the trader not having to finance the property for the duration of this renovation. One of the major potential problems for the trader is for the market to dry up, during this renovation period. Fortunately this has not happened often, but can be caused by the slide in the market, following the peak in the property cycle.

Have the best business structure

This will protect and grow the wealth in the independent structure, rather than in the individuals own names resulting in the individual not becoming targets for predators and creditors. This best structure will eliminate 'property tainting' through association, and enable profits from the trading to offset tax losses resulting from buy and hold properties. The profits will be fully taxable, and the structure must be registered for GST, and GST paid out of net profits. I will explain all of these concepts in depth, in my follow up article, next month.

Disclaimer: This information is educational material only and should not be relied upon exclusively. The reader is directed to seek professional advice before proceeding. It is essential to seek specific professional advice pertinent to the individual's requirements as circumstances and conditions may vary.
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