PROPERTY SECRETS

12 Questions All Property Investors Must Ask Themselves

Peter Jones

Welcome to this series of posts in which I will take you through the 12 Questions I think every property investor should be able to answer, whether they are a beginner, or more experienced.

I don't know if you believe in serendipity but literally just as I was sitting down to start putting together the content for this short series, I received an email from somebody looking for advice on how to start in buy to let. He said "What I really need is simply the first push, how do I start?" "I just want to know how do I start in buy to let?"

This is a really good question, and a question that I am asked a lot. But the answer I am going to give isn't just relevant to somebody who is starting out in property, it's also a good check against which those who have already started and who are perhaps more experienced in property can measure their progress and make sure they are on the right track. One thing I often find when I talk to investors who have been in property for a while, is that unfortunately they didn't set things up the right way when they first started and so things aren't going that well.

Now please don't misunderstand me. I am not trying to be critical. The fact that they've taken action at all puts them into the top five percent of the population. But I think it's very easy to assume that property investing is easy. After all a lot of us have experienced buying and selling our own houses, and if you watch the plethora of television programmes about property, they can sometimes give the impression that making money in property is relatively straightforward.

But of course, the question I like to ask is "If buy to let is so easy, why do so many people get it wrong?" Well the answer is, as I've already said, that many people go into it thinking it's like buying their own home, but it isn't. Buying for investment purposes is completely different to buying a property to live in. And that is why, some months or years down the line, investors find that things haven't worked out as they wished they had or wanted them to.

That's why, in a moment, I am going to introduce you to 12 questions which I think every property investor should ask themselves, and have an answer for, before they start in property investing.

But before I tell you about that, let's go back to a really basic level and think about the question which my emailer sent me. He said he wanted a push which is an interesting way of expressing it.

Here's the very first thing that we need to do if we're serious about being property investors. We have to make the decision that we're going to do it. The starting point is as simple as that, putting our stake in the ground and saying "I am now going to do property investing; I am going to be a property investor."

Having made the decision, we then need to commit to do it, and to commit to keep doing it. I am sure that none of us are naive enough to think that once we start it's always going to be plain sailing. It's not always going to be straightforward or easy, and anyone who tells you that it is, either hasn't invested in property, or they are very naive, or they are telling porkies. Or I suppose they could have been extremely lucky if they've not encountered any problems along the way, but I'd take that with a pinch of salt.

I like to say that property investing is simple, in that the concepts behind it are simple to understand, but that doesn't necessarily make it easy.

So if I had to summarise all of that it would be we need to believe, that is we need to believe that we can do it and that we can achieve what we want to achieve in property, and we need to be persistent, in other words we need to keep on going and commit to keeping ongoing no matter what.

And in my experience I think that having belief and persistence are two of the most important factors which distinguish successful property investors from the rest.

The next thing we need to do is to get ourselves educated. Hopefully this series is the first step, or even the next step in your property education. But why do we need property education? Simply because we want to do it right, we want to do it the right way. As I say, many people think that property is easy and they already know enough to do it, and they are quite flippant about it. The sad truth is that they usually get it wrong. I have to confess that when I first started I got it wrong. It took me six or seven years to discover "The System" and I'll tell you more about the system in this series of posts.

As I say, buying property for investment purposes is nothing like buying your own home but very few people bother to go out to learn about the differences or how to do property investing properly before they start, and the usual result is disappointment.

So property education is important, and property education is a lifelong journey. None of us know everything. I've been in property for almost thirty-five years, I am a qualified Chartered Surveyor, but there's no way that I would say that I know everything in property. If you think about it the market is constantly changing, the law is regularly changed, and techniques and strategies used by investors are constantly changing and evolving. It is extremely difficult to keep up with all of this and anybody that says that they do know it all, or who thinks that they know it all, is just deluding themselves. And again, the inevitable consequence of that is that they are going to be disappointed with their results.

So as I say, in my opinion there are 12 questions that every would-be investor needs to ask themselves, and come up with an answer for, before they start in property. Spending time at the beginning of their property journey to think and to plan will help you to get off on the right track. And for those who are already investors, these are the questions you should be asking yourself on a regular basis to help you to review your progress and to make sure that you are maximising your returns and your potential to the full.

So let's jump right in and look at the first question...

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Question 1

Why do I want to buy property and what am I trying to achieve?

This might sound like a very basic question but you would be surprised at the number of people that I meet who are either in property already, or who are about to embark on spending thousands of pounds of their own and the banks money on property, but who aren't really sure what it is they want to achieve and why they want to buy property. For many it is just the idea that property is a good thing to get into.

After all, that is the implication of a lot of the property television programmes we watch, and the headlines on the front of a lot of our tabloid newspapers. Apart from when they are telling us that property isn't a good thing to get into, of course!

Or perhaps they've got friends who have gone into property who look as if they are doing well with it, or perhaps it is just the frustration that most other forms of investment at the moment, particularly pension funds, are just doing so badly that property seems to be the only viable option.

For whatever reason though, I meet a lot of people who haven't really thought it through to any great extent; you could say that they've just followed the herd.

But in my opinion property investors need to consider exactly why they want to be property investors before they even start looking for property.

As I say, it sounds obvious, but to achieve what we want to achieve we need to know what we are trying to achieve before we start! And human nature being as it is, we are far more likely to keep on purpose, and on track, if we set ourselves specific targets to aim for. In other words, we need to set goals, in this context property related goals, and in my experience these are usually related to financial needs and wants.

Setting goals is only half the story. Tony Robbins, the famous motivational expert, tells us that in order to achieve our goals we also need to have a "why". In other words, we need to know why we want to achieve those goals or, even better, why we need to achieve our goals. The greater the need to achieve our goals, the more likelihood there is that we will achieve them.

Our why can be related to financial need, particularly if we are experiencing financial hardship, but equally could be related to non-financial needs which may be needs of lifestyle, or practical needs, such as the need of a parent to look after a sick child, or a child to look after a sick parent, and who needs to generate an alternative source of income that allows them the time to be carers.

In my experience most investors needs can be categorised under two main headings:

A need for income and/or

A need for equity.

In practice many of us have a need for both. To be as successful as possible in property, all investors should identify and quantify their particular needs and set a time limit for their achievement. They should then resolve to accomplish their goals no matter what.

Question 2

How much time can I spend on developing my property business?

If we don't count the cost at the beginning, we'll pay the price at the end.

This is a question many investors fail to ask themselves before they start, and before they rather aimlessly start looking around for property. The answer to this question should, and can, affect your overall strategy and plan.

For example, if you have very little time to devote to your property business it is unlikely that you will be able to undertake a thorough search for suitable properties, especially if you are looking to buy out of your locality, and you may have to rely on the efforts of others to source properties for you.

Similarly, if you have little time to put into your property business it might be that refurbishing properties yourself is unrealistic as well. Even if you delegate the work, you may not have time to project manage. As we will see in a moment, if you don't have much time, you may need more money in order to achieve your property goals.

And whether you have a lot of time or a little amount of time, it's worthwhile from the outset to think about how to systemise your property business and how to leverage other people's resources to help you to free up your time, especially if you want passive income and don't want to create just another job for yourself.

Question 3

How much money do I have available to put into my property business?

This is a crucial question as it can impact significantly upon the type of property that you buy as well as the amount of time that it will take to achieve your goals.

As a general rule, the more time and more money that an investor can put into their property business, the more quickly the business will grow and the more properties they will own in a shorter amount of time.

There is a converse rule at work in property. Generally speaking, the less time you have, the more money you will need to achieve your property goals, and the less money you have, the more time you will need to achieve your property goals.

If you literally have no money to put into your property business then inevitably you are going to have to be more creative in how you put property deals together. This might require you having to find alternative forms of finance such as funding from a friend or an acquaintance or a relative, or by taking on partners, whether active or sleeping, or by using other forms of non-conventional finance.

But it is worth bearing in mind that although it is true that property investing works best when you have money, as Dr Dolf De Roos says "It doesn't have to be your own money, other people's money works fine as well!"

In fact, other people's money is often actually better than your own money for many reasons which I don't have time to go into now, and one of the best sources of other people's money is the bank.

For whatever reason many would-be investors often overlook the fact that they have equity in their own homes which they can easily draw down and use to kick start their property business.

When I first started, many buy to let lenders were wary of investors using borrowed funds to pay the balance between the purchase price and a mortgage. But things have changed, and as long as a lender can see where the deposit, for want of a better description, has come from, so they can satisfy themselves it's not laundered cash, they are usually happy to accept borrowed funds.

And if you think about it, if you can borrow the deposit and borrow the balance, then you are effectively one hundred percent funded, making your property purchase a classic no money down deal, producing an infinite investment return when calculated against your own money invested!

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Question 4

How active or passive do I want to be in my property business?

This question is related to question 2 about how much time we have available to put into the business.

If we have little time to put into the business then the chances are that we will want to be more passive than active. However, many investors, even those with time on their hands, might want to choose to be less active in their business, particularly when it comes to managing their properties. There are definitely pros and cons to managing properties one's self. Sometimes whether you should manage properties yourself comes down to personality type and some people feel comfortable attending to minor repairs, dealing direct with tenants and chasing up rent payments. On the other hand, some personality types do not, and I'd put myself in that group.

There again, the answer to this question may be financially related. To maximise the returns from the business an investor might think that there are advantages in managing their own properties. After all, some managing agents charge as much as 15% plus VAT, which will be a substantial amount of money for a sizeable portfolio.

But when answering this question you will need to consider your position carefully in light of all the other questions you are going to be answering. If you need to be more active than passive for financial reasons, then this would imply that you are going to look for properties that are nearer to home rather than out of your area. Whether this works or not will depend upon your strategy which we'll think about in the next post. On the other hand, if you wish to be more passive than active, your choice of properties, and your choice of areas in which to look for them, will be greater as there will not be the need to buy property quite so close to home.

I have strong opinions on management. I know that managing properties doesn't suit me at all, and I'd rather spend the time when I would otherwise be organising repairs, or collecting rent, or doing whatever managing in that context means, finding properties and looking for other deals, or just relaxing and having a good time. Some investors argue the point that once the property is let and established, the amount of management required can be minimal. That's absolutely true until a problem does occur and then they may well wish that they had a third party looking after the property for them instead.

My simple rule of thumb is that it can be beneficial for an investor to manage say the first one or two properties they buy for maybe six months or a year, just to learn the business. This will help them when they are communicating with managing agents when they later appoint agents to look after their properties, and they'll have a better understanding of what a managing agent does and what they should be expecting of them. Otherwise I would much rather have the time to myself to use more profitably.

Another thought about whether it's right to be active or passive in your business is what you want to achieve from property. I meet a lot of property investors who tell me that they want passive income but at the same time they also want to be actively involved in their property business which, of course, doesn't make a lot of sense.

Now, in my opinion there's really no such thing as a truly passive income, you are going to have to be involved to some degree, but if you can systemise and leverage your business correctly, you can reduce your involvement to a bare minimum.

I have a sizeable portfolio of properties in the north east of England, 150 miles from where I live, and I can realistically manage, for want of a better word, the managing agents with perhaps one or two telephone calls a week. Sometimes we go weeks without talking. It all depends on what's happening.

And that suits me fine because the more passive the income, the more time I have for doing other things. It's a lifestyle choice.

Question 5

Which strategy best fits my needs and will help me to achieve my goals?

Because a lot of investors haven't really thought through why they want to be in property, or what they want to achieve from property, it's not surprising that, as a consequence many of them are not very strategic when it comes to buying property.

Many of them buy property in a rather aimless way, without much thought as to what the property is going to achieve for them, or whether it's going to fit with their overall plan. Often that's because they don't have an overall plan.

So, for example, I meet many investors who have bought the property in the next street because it's close to home and it's a nice property in a nice area. They've given very little thought to whether it will achieve their strategic needs. Or perhaps their managing agent was selling a property for another client so they bought that, and are then disappointed to find that the return is poor.

The foundation for devising a successful strategy is to start with knowing why we want to be in property and what we're trying to achieve and then using and choosing the right strategy to achieve our goals.

In my opinion there are three principal property strategies, although some property teachers argue that there are more than three, although I'd say that what we sometimes call a strategy is often more a technique or a sub-strategy. But I don't want to get into semantics now.

So in my opinion the three basic strategies can be summarised as:

Buy and hold for equity growth

Buy and hold for income

Buy and sell for quick cash

If you think about it these three principal property strategies largely relate to the three basic needs we may have in property which are for capital (capital growth), income and cash lump sums.

When you know what you're trying to achieve it's easier to choose which strategy fits best.

So, for example, if your goal is to provide long-term for your pension then developing a short-term income from your property might not be an important consideration. Instead, you might choose a buy and hold strategy through which you take advantage of increasing property values to build your equity and wealth, with a view to cashing in in the future.

On the other hand, if you have a need for income, perhaps to supplement your current income, or to replace your current income to allow you to spend your time doing other things and to leave your current job, then you may want to adopt a buy and hold for income strategy.

Or perhaps you have a need for immediate cash lump sums. Perhaps you have debts that need paying off, or perhaps you want to make a large cash purchase. In that case, buying and selling property for quick profits could release the cash you need.

Those are the basic principals but of course we can develop a more sophisticated strategy by combining it with other elements. What do I mean by that? Well for example, an investor might combine buying and selling for short-term cash with refurbishing and renovating property; buying run-down properties to do up and sell on is an extremely popular strategy with many investors and can be far more profitable, if done properly, than merely trading in property. And of course, refurbishing can also be combined with a buy and hold strategy. Many investors seek out run-down property to do up, and then hold the property and let it out. By doing this they will have added value, and therefore equity, and they should be able to let the property out at an enhanced rent and so enjoy an enhanced return.

Even more importantly, if they've done the right works and added enough value, they may well be able to refinance at the end of the project and pull all of their money back out, meaning it's effectively a *No Money Left-In* deal. If they are able to do this often enough, they should be able to go on to build a sizeable portfolio.

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Question 6

What type of property best fits my strategy?

Again, this is a simple question but the answer can have a profound implication for our property business.

There are two simple rules that we need to bear in mind when we are thinking about the type of property that we want to buy.

The first is that high-yielding property tends to be lower-value property, which by definition is going to be property in lower-value areas.

The second is the converse of that which is that lower-yielding property tends to be higher-value property, which tends to be property in higher-value areas.

It's interesting how many times investors forget this when they go out shopping for property.

I do some one-on-one coaching and mentoring and I'm quite often approached by mentees who have bought lower yielding property, in other words higher-value property in better areas, and who are then disappointed by the poor returns they receive, especially if their strategy is for income.

On the other hand, I am sometimes approached for help by investors who bought higher yielding, lower-value property which they bought because it was cheap, and who are then disappointed by the lack of capital growth, and by the management problems that come with that type of property.

So, as a general rule, if your goal is income, your strategy is likely to be buy and hold for income, and you are more than likely to be looking for cheaper properties in cheaper areas. Now, before you panic, I'm not suggesting buying the very cheapest properties in the very worst areas, but you might be buying properties which take you slightly out of your comfort zone.

If your strategy is to accumulate wealth or equity, because you have a need for equity, then the chances are you will need to be buying lower yielding, higher-value properties in better areas. If this is the case then you need to go in with your eyes open knowing that the returns, and in other words the cash flow, from these properties is not going to be great.

On the other hand, if your need is for cash lump sums now, and your strategy is to buy and sell, you may want to be buying properties in better areas to flip and sell on, whether that be by buying them cheap and selling them on, or whether that's selling them on after a refurb. The reason why you'll be looking in better areas, higher-value areas, is because by and large these properties are going to be easier and quicker to sell.

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Question 7

Where are those properties located?

Now that we've thought about the type of property that we need to buy to achieve our goals, we need to think about where we are most likely to find them.

It probably goes without saying that if we live in a relatively prosperous area with few cheap properties, we may have to look outside of our area if our strategy is to find high yielding, lower-value property which produces a good cash flow.

How far we can go in search of our properties will of course depend on how much time we have to put into our business. This is why an investor can find that they have conflicting needs and it is better to identify these from the outset. It could be, that if they have little time to put into the business, they have no option but to delegate the task of finding suitable properties to a third party; either an agent or by using the services of an investment company.

Quite often my mentees come to me complaining that they can't find the right type of property in their local area. Put another way, they can't make their preferred strategy work in their local area.

But despite the fact that their preferred strategy was probably never going to work, for example there are areas where you are just not going to be able to buy high yielding, cheap properties because the properties in that area are too expensive, they keep banging their heads against a brick wall and waste a lot of time and effort trying to make it work.

If you're doing that give yourself a break and accept that you are trying to achieve the impossible.

Instead you need to do one of two things.

You either need to change your strategy to fit your area.

Or, you need to change your area to fit your strategy.

Whichever of these you choose might depend on how much time you have available to put into your property business, or how prepared you are to leverage and out source and use third parties to find your properties.

But, as a general rule of thumb, if you want income you will need to go and find high-yielding properties in lower value areas, and if you want equity or capital growth, you will need to go looking for lower-yielding properties in higher-value areas.

Alternatively, if you really don't want to leave your area but you can't make your strategy work, you may have to adapt and tweak it. So for example, if you really want to produce cash-flow in an area of low yielding, higher-value properties, you may have to leave more money in the transaction by using a lower loan to value mortgage in order to get a cash-flow that works. The trouble with tweaking and adapting like this is that it then goes against the principal benefits of gearing, which can be considerable.

Likewise, if you really want to create equity and capital and your properties are located in a lower value, high-yielding area where capital growth is likely to be more restricted, you could pay down your loans by using capital repayment loans. The problem with that is that you then lose tax advantages of using interest only loans, and you are not using your capital in the most effective way.

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Question 8

Have I got a clear plan to find my properties?

Now we've thought about the type of property that we need to buy, and we've thought about where we're most likely to find that type of property, we now need to think about how we're going to source them and buy them.

There are many ways that investors can find properties, and now is not the time and place to go into the details of all of these.

However, one thing which surprises me, particularly when I talk to new investors, is the idea they have that they're not going to find decent deals at Estate Agents.

If you think about it this doesn't make any sense at all. When somebody wants to sell their property the chances are they're going to instruct an Estate Agent to do it for them. Probably 90%-95% of vendors will put their properties with an Estate Agent when they sell. Very few sell themselves.

When I point this out to my mentees they usually object that surely the very best deals are going to be held back by the Estate Agent and offered to their very best buyers. "Well yes, of course", I always retort, "but that doesn't mean that there aren't plenty of other very good deals if we were just to take the time to find them."

And, of course, our long-term goal should be to become one of those favoured buyers on the Estate Agents list.

Now, if you've been working through the questions diligently, and answering them and giving some thought as to your answers, then if you've got this far you're going to be streets ahead of most property investors whose strategy is to go into an Estate Agents, point at a property in a street they may like, or perhaps they like the look of the property from the photograph, or perhaps they know that it's located in an area they'd like to live in, have a quick viewing, and then offer the full asking price. Or perhaps, if they are feeling a little more sophisticated, they may offer 5% below the asking price and then think they've got a bargain if their offer is accepted.

I am not talking about doing that, I'm talking about doing proper due diligence to be able to sift through the properties that an Estate Agent has on their books and find those golden nuggets, those properties which we can buy at a decent discount, or which will give us the required cash flow, or where we can add significant value, or perhaps a combination of all three of these.

I have found many of my properties through Estate Agents, and have negotiated great terms on most of them. I also know many other very successful property investors who've done the same.

So if you are under the misapprehension that the Estate Agent's office is the last place you should look, I hope I've persuaded you to change your mind.

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Question 9

How am I going to finance my properties?

I've already said that it doesn't have to be your money; other people's money will do fine. But some investors are squeamish about debt. The thing we need to remember is that property is a debt-driven business, and even if you could afford to purchase a whole portfolio using cash, you probably shouldn't, because you'll miss out on the benefits of gearing which will greatly increase the returns from your own money invested.

To some extent the mystique that used to surround financing investment properties is now a thing of the past. For most of us, obtaining investment finance is relatively easy using buy to let finance. Even so, in these post credit crunch days, it can be useful to apply for finance 'in principal' even before we find our property. If nothing else, this will give us confidence knowing that our efforts in finding a suitable property will not prove to be a waste of time, and it can also be helpful during negotiations to be able to show that we are serious buyers who can act quickly.

If conventional bank or buy to let finance is hard to come by, using finance provided by a joint venture partner is always a possibility, you'd be surprised how many people are looking to get a decent return on their money which is otherwise just sat in the bank doing nothing and earning very little.

And bridging can be good. I know that a lot of people are put off bridging because of the horror stories that we've heard, but you have to remember that most of these stories are in relation to owner occupiers, who took out bridging before they'd sold their own property so they could secure the home of their dreams. If they couldn't sell their own property they'd end up paying horrendous rates on the bridging, as well as paying off their existing mortgage.

As serious investors, before we use bridging we'd sit down and work out the figures and make sure that they all stack up. Bridging can be a very useful tool when the figures work and it can allow us to make a profit when we otherwise wouldn't have been able to buy the property.

The key thing is to make sure that we have an exit before we draw down the bridging, so we need to get a DIP (decision in principal) from a buy to let lender before we drawn down the bridging. If we know that the exit is there, it's just a question of making sure that the figures really do stack up.

And of course there are ways of creatively financing our deals where we don't need very much money at all, but that's an advanced topic and too advanced for this series of posts.

Question 10

Which business entity best fits my needs?

Before buying a property we should consider how we're going to hold the property, in other words are we going to purchase in our own name, jointly with a partner (whether a business partner, soul mate, spouse or significant other) in a limited company, through our pension or in another entity. It's important to consider this before we exchange contracts on our first property and I always recommend that would-be investors talk to their Accountant and Solicitor and take their advice from the outset, as there can be significant tax implications, and practical difficulties, if you try to change the nature of ownership down the line, particularly when you've got a reasonable sized and established portfolio.

I'm often asked by would-be investors what is the best way to hold property; whether it's in our own names or in a limited company. Before I answer that, don't forget that there are now LLP (Limited Liability Partnerships) which limits liability, as the name would suggest, but allow you to run your business as a partnership rather than a limited company. These are relatively new on the scene, and can be a useful vehicle to hold property in if you're investing with other people.

There are rough rules of thumb as to which are the best entities in which to buy property.

The received wisdom is that if you are going to buy a property to hold and to let, and if you think that at some point your exit might be to sell the property, you may be better off buying in own name. Especially if you are buying with a partner, spouse, significant other and so on. The reason why this could be the best entity is because if you've held the property and let it, when you come to sell you will be subject to capital gains tax.

And being subject to capital gains tax you'll be able to use your capital gains tax allowance which currently stands at about £11,000. If the property is jointly owned with a partner or partners, each partner can use their own capital gains tax allowance to reduce the tax liability. Also, the maximum rate of capital gains tax is 28%, which is significantly lower than the upper rates of income tax.

If on the other hand, you want to buy property to flip, perhaps buying cheap and then selling on, or buying, renovating and then selling on, the received wisdom is that you'd be better off buying the properties through a limited company. The reason for this is that although you may consider that you are increasing the capital value of the property, and then therefore commonsense would suggest that you will be subject to capital gains tax, in reality if you flip more than one property the chances are that HMRC will consider any money or profit you make from the property to be trading income. This means that, confusingly, although you've increased the capital value of the property, the profit will be subject to income tax.

As the higher rates of income tax are 40% and 45% it could make sense to trade through a limited company because corporation tax is charged at a much lower rate, currently 20%. Profits can then be taxed within the company at this lower rate and you can agree with your Accountant how to withdraw the profits, often by using dividends, which is a much more tax efficient way overall than trading outside the limited company.

However, these are only general rules of thumb and you need to talk to an Accountant who can look at your overall financial position as there may be other reasons for structuring your property business in a different way.

Question 11

What should my exit strategy be?

Even if you are intending to hold your properties for the long-term, you should think about your exit strategy before you start looking for your first property. It may be that you don't intend to exit at all, for example you may want to leave your properties to your children. Even so, you will need to talk to your Solicitor and Accountant to find the best and most efficient way to do this.

Or, it might be that you know that you want to wind up your property holdings in ten years time and take your profit, and retire to the Caribbean. Fair enough, but again you'll need to think about how you are going to achieve that. What will be the most tax efficient and cost efficient way of disposing of your property assets at that time?

Perhaps you should arrange a phased disposal of your portfolio over a number of years so as to make maximum use of your CGT allowances? Or perhaps it would be better to hold your properties within a limited company and then sell the company? Or perhaps you could just sell some of the shares of the company and retain part ownership? These are questions you should answer before you decide on the type of entity within which you'll hold your properties, and ideally before you buy your first property.

Here's a related thought on finance. A lot of new investors tell me they are going to use capital repayment loans to pay down their mortgages and then hold their properties debt free. Why would you do that? For one thing you'd lose the tax advantages of using interest only loans where you can offset mortgage interest against the rent.

But looking longer term, many investors draw out equity, as capital values and values as properties rise, and spend that as tax free income. I'm not suggesting recklessly spending it, although it could provide extra spending for your household or for fun, it may be that you split the equity that you pull out and use some for spending and some for reinvesting. But when you do this, you will be reducing the value of your estate for inheritance tax purposes should anything happen to you. Inheritance tax is calculated based on the value of your estate taking into account the value of your assets less the value of any liabilities, and any loans against the properties will be treated as liabilities.

To do the alternative, to pay down the loans so that you have unencumbered properties, which you then pass on when you die, means that your children benefit from all your hard work of paying down the loans but you don't get to benefit from any equity. You also leave your estate with a large inheritance tax bill when you go. So there are good reasons for continually drawing out equity and spending it on yourself!

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Question 12

How will property ownership affect your current tax position?

Again this is a question that will need to be answered before you buy your first property. How you choose to hold your properties may well have tax implications during the period of ownership and not just on disposal. Again this is something you will need to consider having taken advice from your Accountant and Solicitor.

So these, in my opinion are the 12 questions which any would-be investor should think about and answer for themselves before they even think about looking for a property.

I'd also suggest that more experienced investors also regularly ask these questions of themselves to make sure that they are fully on track and going in the direction they really want to go in.

The underlying theme is that thinking of the basics, and undertaking proper planning and preparation in advance, is the difference between haphazard generation of average to poor returns and a successfully properly organised high yielding, tax efficient business.

Here's to successful property investing

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PROPERTY SECRETS

Bonus Question

12 Questions all Property Investors Must Ask Themselves - Part 13

In this series of posts I've been taking you through the 12 Questions I think every property investor should be able to answer, whether they are a beginner, or more experienced.

These are the questions I had to ask myself when I first started, and which I continue to look at and review from time to time to make sure that my property journey is going in the direction I want it go.

When I started back in year 2000 I bought £2m of property in 4 years, and that was with starting from scratch and using none of my own money.

Back then £2m was worth something and allowed me to buy 34 properties, mainly in the north east of England. That's 34 I kept to rent out, and I was able to flip a few along the way.

By the way, I'm not saying any of this to boast. There's nothing particularly clever about me, I just happened to find a system for buying property which worked, and I'm happy to share that system with you.

And just in case you're wondering, I really did start with no money of my own. I had just been made redundant and I didn't have any savings to fall back on.

Since then I've gone on to double the size of my portfolio and as I write have 68 properties in my portfolio..

Looking at the market now, there are many similarities to when I first started, and many experts agree that if you want to be financially free using property, now is the best time in years in which to buy.

The same techniques and strategies I used then STILL WORK JUST AS WELL TODAY. In fact, I am still using them to buy even more property now.

That means that, if the experts are right, this is the perfect opportunity for you to do the same as I did and put together your own multi-million pound property portfolio, should you want to.

Or perhaps you'd just like a few buy to lets to supplement your income or to help with your pension?

Whatever your reasons for buying and investing in property I can help you to put together your portfolio much more quickly and simply than I did, and I'll show you how in a moment.

But why would you need my help? Surely buying property is easy?

Good question, so let me ask you a question in return:

"If property investing and buy to let is so easy, why do so many people get it so wrong?"

I meet a lot of people who jump into investing but who just don't get it right. I'm often surprised that so many people will commit to spending such large amounts of money, but spurn the chance of help and advice.

In my experience, when things do go wrong it's often because of one or more of the following three things.

First, many people try their hand at property investing without really knowing what they want to achieve from property. Sure, they may have vague ideas like 'I want to get into property' or 'I want to be a property investor' or 'I want to buy a few properties', but it's all a bit wishy-washy.

They might think, "I know what I want, I want to make some money from property". But does that mean make some income from cash-flow, or by building up equity, or even by making cash lump-sums from developing and trading? Each answer would require following a different strategy and buying different types of properties, possibly in different locations.

I've found from trial and error, and from mentoring many investors one-on-one, that unless you are specific about what you want, your investing is going to be wishy-washy as well. That's why so many investors don't get the results they hope for.

The second main reason why things can go wrong is that if you don't really know what you want to achieve, then how can you choose the right strategy to achieve what you want to achieve? And if you don't have a strategy, how can you possibly buy the properties that are right for you?

The truth is that you can't! After all, if you don't really know what you want, then any property will do. As a result, many investors buy the wrong property or properties, and then wonder why it all went wrong or, at least, didn't work out as well as they hoped.

Any old property won't do, but sadly many investors just end up buying the house around the corner because, "It's 'handy to manage'", or, "We got it at 5% off the asking price", or, "It's a nice house in a nice area" or, " I haven't seen it but it was so cheap, what could possibly go wrong?"

I'm sure you get the idea but the point is that, unless you know what you are trying to achieve, have the right strategy to achieve what you are trying to achieve, and buy using property investment fundamentals, you will always be at risk of making a very costly mistake.

Believe me, I've seen it happen far too many times. Many investors ignore or don't understand these basic truths and principles and, far from being financially free in property, end up stressed and struggling to make it all work.

And the third main reason why things go wrong is that many investors are tempted to hand over responsibility for their investing to third parties who, naturally, don't care as much about the outcome as the investor themselves.

For example, I've never fully understood the appeal buying new-build properties at an apparent substantial discount, only to find the figures were over-inflated from the start.

Another thing which winds me up are those agents who offer so called "below market value" deals on 'distressed property' and who charge several thousand pounds for finding you a terraced housewhich you could easily have found for yourself, if you'd just known how and where to look.

This is even more noxious when the properties are advertised as ‘cash-flow’ positive when, by using just a little common sense, one can quickly see just from looking at the brief details on the advert, that they haven’t accounted for all the costs!

If you know how to find bargain property yourself, you don't need to pay out finder’s fees, or put yourself at risk of buying a so called ‘cash-flow positive’ property which will eat into your finances.

Ending up with a poor property and paying someone else a finder’s fee for your troubles is a nightmare situation you’ll want to avoid, but one which some investors find themselves in unnecessarily.

And I haven’t even got into the point that many people think that buying a buy to let investment is like buying their own home. It isn’t! Buying an investment isn’t anything like buying your own home, but many investors treat them both the same. Big mistake. Perhaps being a nation of home owners makes us a bit complacent and makes us think we know more than we do? After all, a little bit of knowledge is a dangerous thing, especially when it comes to spending large amounts of money on investment properties.

There is a fundamental truth about property investing which I discovered in my role as a mentor. It explains why some investors make it, while the majority don’t.

And it’s this: “Anyone can buy a property, but not everyone buys the properties that are right for them”.

In my opinion, that is the difference between success and failure, or the difference between doing okay and doing very well indeed.

The good news is I'm going to show you how you can put together your own portfolio, and how you can easily avoid all of these mistakes so that you can buy the properties that are right for you.

In fact, remember I said I discovered a system? Well, I’ll show you my system for buying property and recycling my cash, so that you can do the same and put together your own portfolio.

Having built my own property portfolio from scratch, and starting with virtually none of my own money, I’ve constructed my very own ‘course in a book’, all in one easy-to-absorb volume (although it is big – 178 pages of A4), so that you can have all the information you need at your fingertips.

I’ve called it *The Successful Property Investor’s Strategy Workshop* and in it I tell the story of how I built my portfolio and I’ll show you exactly how *you* can do the same.

It’s not rocket science. Anyone can use the system, but you have to go about it the right way. Indeed, you can copy my model, if you want.

That's why I'll show you everything I did, right and wrong. I've even included real-life examples of actual properties I've bought, so you can see how it all works in practice so that you can do the same.

It took me several years of trial and error to learn all of this, so let me save you a lot of time, wasted money, and lots of heartache, by sharing with you the experience and knowledge I gained over those years. You really can use this to fast-track your success.

Now that I've created *The Successful Property Investor's Strategy Workshop* I can help you do exactly that, I will help you to plan for success and put the theory into practice.

I know that the information in the *Successful Buy to Let Investors Strategy Workshop* is of immense value to all property investors. All I'm ever interested in is value-for-money, and that applies whether I'm buying (especially property), but also whether I'm selling. That's why *The Successful Buy to Let Investor's Strategy Workshop* comes with a 30 day guarantee. If, for whatever reason you're not happy with it, just email me and I'll give you a full, no quibble refund, with 'no questions asked'. So you can read and enjoy your copy completely risk-free.

Plus, when you order your copy now, you'll also receive a special bonus worth £49.97 – two mp3 audio recordings in which I'll take you through 9 questions I am ALWAYS asked when I do my one-on-one mentoring and coaching sessions, and 7 reasons why some investors really struggle. With this knowledge you'll be able to stay leaps and bounds ahead of an 'average' investor and reach your property goals far more quickly.

Plus, as an extra special bonus you'll also receive a free copy of "*Everything You Wanted to Know About Buy to Let Finance But Didn't Know Who to Ask*". This is a transcript PLUS an audio file of an interview I conducted with one of the UK's top experts on buy to let finance, in which he covers many of issues around buy to let and gives his top tips for successfully raising the finance you need. I was literally picking his brains for over an hour. I have considered selling this as a product in its own right for £49.97 because it contains so much information, but when you order your copy of *The Successful Property Investor's Strategy Workshop* you can have it for free.

The Successful Property Investor's Strategy Workshop is available as an ebook, or as a 'hard copy' manual in a 4-ring binder, so please go to ThePropertyTeacher.co.uk to grab your copy.

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