The Maverick Investor

LESSON FIVE

by

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How to Make Lesser Known Investment Opportunities Work to Build Your Personal Nest Egg!

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The Maverick Investor's Home Study Course

PART FIVE

INVESTING IN PROPERTY

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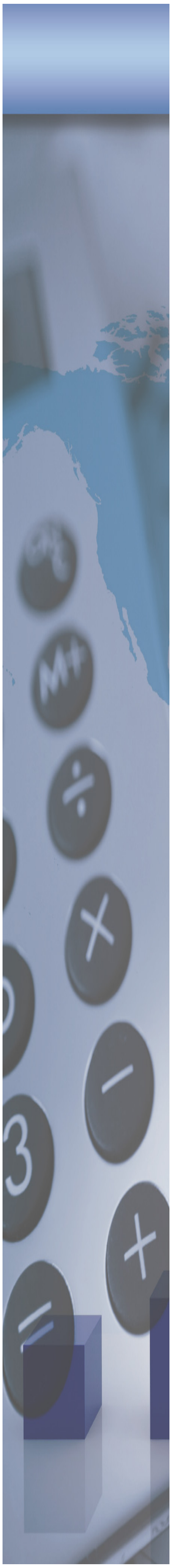

Hello and a big WELCOME for you to the fifth lesson of this course on alternative investing. I'm hoping you're getting just a little bit excited about the possibilities on offer here.

Investing in Property

As anyone who has bought property during the past 25 years will tell you, property has gone up in value manyfold over that period. Too many people think of property as simply being their home, rather than as a possible investment opportunity. But it can be the best alternative investment of all, if you know what you are doing and view it on a long-term basis. This part of your course reveals what you need to know about investing successfully in property.

Here's what I will be covering:

- **The Lowdown on Property**
- **How to Pick The Right Properties**
- **Knowing When to Buy**
- **Value Adding Tips**
- **Buy to Let Tactics**
- **Knowing When to Sell**
- **What to do Next**
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The big advantage of investing in property is that you probably already own your own home or rent somewhere to live - so you have some ready-made property know-how straightaway. All you now have to do is to take that know-how, add in some savvy investing secrets from this part of your course and you're ready to turn property into a long-term investment for you. Some alternative investors build up a portfolio of properties to use as a pension for their retirement years. Perhaps you could do the same!

The Lowdown on Property

Look at any surveys that compare all sorts of investments over, say, 5, 10, 25 years or more and one investment opportunity stands out above all others - property. Viewed over time, property is an out-and-out winner - it goes up...and up...and up in value despite sometimes a short-term 'crash' (which always look like small corrections on the graph rather than any real crash).

You can do a rough and ready check on this for yourself. Cast your mind back to remember what you paid for your current home. Get an idea of what it's worth now by checking the local press and estate agents' windows to see what similar properties are selling for. Work out how much you have made on this property - **a return that's almost certainly well in excess of just about any other investment you could name, alternative or otherwise!**

But - and here's the even better news - property isn't just about capital appreciation over so many years, excellent though that usually is. Property can actually be a two-way, profit-making alternative investment. You can let a property during your period of ownership and the rental income from this should cover any borrowings you might have on it, and perhaps even provide a little extra profit for you. At the same time, property is also that capital investment.

Whilst the property is being let, the value of it should be increasing steadily year-on-year. At some stage - either when prices hit a particular peak or later, perhaps on your retirement - you can sell the property and take the profits. You'll benefit from buy-to-let and capital appreciation - a two-way winner!

So what are the potential rewards of and risks investing in property? If you 'buy right' - right location, right property, right time etc - you could see returns from property price rises of between 5% to 10% in a year; some years have seen prices rise in excess of 20%. Yes prices can fall back. As it happens, at the time of writing they are doing just that. But this is nothing new! Corrections are inevitable. It only affects you if you happen to have bought at the peak and now desperately want to sell. For us savvy investors, the further prices fall, the bigger the buying opportunity!

Take account that you should have rental income to consider as well - some alternative investors aim to **obtain rents that cover all running costs** (mortgage repayments, repair and renewal expenses etc), and then profit from the rise in capital. Depending on the rents received, that capital appreciation could effectively be all profit as rents will have covered all other costs up to the point of sale. And remember, that 10% capital gain turns in to 20% real gain if you bought on a 50% mortgage – you're using other people's money to make you rich!

The risks are really linked to 'buying right' - buy the wrong property in the wrong location at the wrong time and you could lose money. If the property can't be let, the borrowings are high and property values there aren't increasing, you could experience financial difficulties. The key, therefore, is 'buying right'. The rest of this part of the course explains how.

How To Pick The Right Properties

To profit from property as an alternative investment, you are really looking to meet two key criteria. One, you need a property **that will appreciate most in value over a given period of time**. Second, and just as important especially if you are borrowing to buy, you need a property **that you can rent out to at least cover your borrowings and other costs**. So - to 'pick the right properties' - you need to look first at capital appreciation and, next, at buy-to-let appeal.

What you need to do is to dovetail these two together in the same properties - finding ones that will both appreciate in value *and* be in-demand with prospective tenants. Achieve that, and you should be investing in a long-term, money-making, alternative investment. Let's start with capital appreciation...

Look at property prices anywhere in the country five, 10, 25 years or so ago, compare them with today's prices and one thing is crystal clear - anyone who's been a property owner over that period has profited big-time! The chances are that you can buy just about any property anywhere now and will do just as well from it over the next five, 10 or 25 years!

Even so, as an alternative investor looking for the best possible returns, you will want to buy property in a place that is most likely to increase most in value over time. You will also want to buy the right property now for buy-to-let purposes to give yourself the best overall chance of maximising your profits on your alternative investment.

You need to know 'where' to buy. Clearly, property prices in some parts of the country have risen faster in value than others over time. As a broad rule, London and the South-East have led the way in terms of property prices. Cities and commuter areas have done better than rural areas.

Areas where new industries have developed have been more successful than those dependent on older industries. The South has done better than the North. The best way to maximise profit potential is to buy somewhere that's currently not in-demand but is likely to become very much in-demand soon. You're looking for a 'coldspot' that's going to become a 'hotspot'!

One way to start identifying property coldspots and hotspots is by studying the national newspapers. The press regularly publishes reports revealing which properties in which locations have gone up most in value over one year, five years or so on. Don't target these areas though. You're too late - they've already gone from being coldspots to hotspots and much of the profit potential has already been taken by those who owned properties when these were coldspots!

You should instead take a look at those areas that are not mentioned or are rising slowly in price. If these become hotspots over the next few years, you'll make more money from them than from buying into current hotspots that are already close to peaking. There's more price-rising potential.

The next step is to look more closely at different areas - those parts of cities as well as towns and villages that may be next year's hotspots. You can do lots of research into them without leaving your armchair these days. Have a look at an atlas to look at what towns are in a particular county for example.

You'll often find that cities named as hotspots will have towns and villages around them that will become mini-hotspots in turn. That's because high city prices force many buyers to move out to the commuter belt, which has a knock-on effect on prices.

You can also source information via Google - just enter the name of the town and see what comes up. Up My Street at www.upmystreet.co.uk is a useful on-line resource on properties and towns around the country. It's also worth contacting local councils, tourist boards and the like to see what they have to offer; although much of the information from these sources will be spun into the most positive light, of course.

You now need to pay a visit to those would-be-hotspots that have caught your attention. Is there any evidence to suggest that this particular area is on the up - or will be soon? Go to the local council - you'll get the address etc. from a local library or citizens' advice bureau. Ask for the planning department, and check the 'local plan' for the area. This actually comprises various plans outlining 'economic and employment policies', 'environment policies and proposals', 'population and housing policies and proposals', 'transportation policies and proposals', 'shopping policies and proposals', 'recreation and leisure policies and proposals', community facilities and proposals', minerals policies and proposals', 'public utilities and proposals' and 'mixed use and regeneration projects'.

There's enough information here to spot an up-and-coming location – you're looking for lots of developments in the pipeline; industrial, commercial, infra-structure and so on. Does the plan scream out "This is an area that's going to be hot, hot, hot!"?

Once you've focused on an area that looks like a hotspot-in-waiting, you should start spotting the price-rising places within that target hotspot. There will always be particular parts of town, estates, roads and even sides of roads that will do better than others will do. If you want to maximise your potential profits, that's where you want to be buying!

The easiest way to spot these price-rising places is to talk to estate agents. They will know the area better than you, and should be able to offer advice. All you have to do is to say you're thinking of moving into the area and want to buy in a go-ahead part of town. Ask "Which estates and roads are most likely to hold their values best?" Now drive and walk around the estates and the streets to see what they are like - which are the most attractive, have the best facilities and so on.

Think too about supply and demand - as relevant here as it is with any other investment. Quite simply, if the supply of (a particular type of) property is limited and demand for it is rising, prices will rise too - that's a basic economic fact. If you're looking at a town with limited space for building new properties but, at the same time, has more and more people moving in to live there, then supply remains the same, demand rises - and prices go up as well. Even if new properties are being built, you could still benefit. Imagine a town where, let's say, older, more established properties are in limited supply but are really in-demand. Now imagine a new housing estate is built nearby with lots of starter homes and similar properties. The supply of older, more established properties remains the same. Demand for them could actually increase - from owners of those newer houses moving in and wanting to move up in due course! Result - prices rise.

Now consider what's happening employment-wise in the area. If there are major employers in the locality, jobs are relatively plentiful, overtime is on offer regularly and more employers, jobs and people are moving in, that should have a positive impact on property prices. Vice versa, if the situation is reversed! Mindful that property is a long-term investment, it is wise to look to the future.

Those areas that are heavily dependent on one major employer or industry are vulnerable. If the employer or industry experienced difficulties and were even forced to shut down, the impact on the area generally and property in particular can be catastrophic. Walking the streets can give you a good feel for what's happening there. Are commercial and industrial sites being built? What about the high street - is it filling up with more estate agents moving in and so on? Is there a 'buzz' in the air? Or is it turning into a charity shop ghetto?

Working through those plans that you saw at the local council offices is worth doing carefully once you've assessed the area, estates and streets for yourself. You need to sit back and reflect on the likely impact of the local plans not only on the soon-to-be hotspot area but also, more specifically, on the estates and streets that look like the best places to buy.

Let's say a new railway line is being built, bringing the town into the commuter belt for the nearby city. That's going to help push prices upwards in the town as more people will want to live there and commute in to work - good news generally for the town, but what will be the possible impact on that street that you're looking at? Is it close to where the station is to be sited, for example? If so, it may be clogged with cars from 7.30am to 7.00pm - and that's going to have a negative impact on property prices there! Consider the possible consequences of what's happening, good and bad.

So - you've identified what you think is a hotspot to be, and have decided where you should be buying within that area to give yourself the best chance of benefiting from capital appreciation. But - as we've seen - property is a two-way alternative investment. So you need to make sure that, whatever you're looking at and wherever, the property also has buy-to-let appeal so that you can rent it out and cover any borrowings and other costs you may have. Hopefully, you might profit from it too. So, the second part of picking the right properties is to consider the buy-to-let appeal of the properties you've got in mind.

Rental Appeal

If you're buying-to-let, your first thought before buying should be "Who's my tenant going to be?" It's tempting to assume that you can buy a property, advertise it for rent, and would-be tenants will beat the door down to move in. Not necessarily so! It's more sensible to start by finding out who rents in the area you're planning to buy. If there isn't a strong rental market, you may be better advised to look elsewhere. Even if the area is a property hotspot, you still want to rent the property out, otherwise you're going to have to cover the mortgage and any other borrowings yourself, which may not be easy to do.

If there is a rental market, you need to know whether you're looking at students, young couples, DSS tenants, professionals, divorced people, families or whoever. It's advisable to talk to local letting agents (see Yellow Pages) to build up a clearer picture. It's easy to make assumptions - that tenants will all be students from the local university, for example - but these aren't always correct.

Once you know who is renting, you can then start thinking about what they want to rent. If you're looking at young couples who are renting before buying their first home, you'll often do better with a flat or perhaps an end-of-terrace property than a four-bed executive house with large gardens. Most busy young couples just want a hassle-free property. Again, talk to local letting agents who will have a good idea of what would-be tenants want and expect from a property.

Your aim is to buy a capital-appreciating property that also suits your prospective tenants rather than buying the property you like and then searching for tenants to suit it. You may like a big Edwardian house - fine, but not always a great investment if tenants want flats.

A word of caution - when you're researching the rental market, talk to letting agents not estate agents. Although they may be found in the same business, they are different - one rents properties, the other sells them; and these can be different markets.

You should think about where these would-be tenants will want to rent a property. You should by now have a mind's eye view of the tenant and what they want and need from a property. Don't just think about the actual property itself though - consider where it is located too. Say your tenants are likely to be students - they'll probably want to be close to wherever they're studying, or at least be within walking distance of the bus route.

A business executive may want to be no more than a five-minute drive from the bypass, train station or motorway. Draw up a checklist of 'must haves' and 'must avoids' for tenants and see which properties in which hotspot locations actually match them. A ‘must have’ for one group of tenants may be a ‘must avoid’ for another. Having a pub and nightclub nearby may get a thumbs-up from students, but a thumbs-down from families with young children.

It's essential that you look around and see what else is available to rent in the area. As with all investments, supply and demand are always at work. If the supply of properties exceeds the demand for them, you may be left with an empty property or could have to either cut the rent or offer something above and beyond what else is on offer to let the property.

You will have to advertise more, offer better terms, improved furnishings, and so on. If demand exceeds the supply of properties, you have the upper hand and may be able to strike a better deal and to pick and choose your tenants more carefully. **Talk to letting agents to judge whether it is a landlords' or tenants' market in your hotspot location at this time.**

You need to remember that property is a long-term alternative investment - so don't just think about what's happening now and over the next few months. <u>You really need to look ahead for five or 10 years</u>, or to whenever you are likely to want to sell. What is going to happen over that time? If the market's been falling for 18 months and all is doom and gloom, now might be a good time to buy.

Let's say you've bought a terraced property, split it into bedsits and let these to students from the local university. That's fine...for now. But what happens if the university builds more on-site accommodation for its students next year or in three years? What will be the impact on your property portfolio? Empty bedsits, and a big re-conversion bill to restore it to a property you can sell? You need to think ahead, look at what might happen, and then work through all the good and bad possible consequences on your buy-to-let property.

Knowing When To Buy

When to buy? If you've spotted a soon-to-be hotspot (and a property with buy-to-let appeal in it), the time to buy is now before prices start moving upwards. That's the way to maximise your potential profits from capital appreciation. But it's not always easy to do, especially if you're amongst the first to spot potential that no-one else seems to have done.

It's easier to wait...and wait...and wait until you read a report in the national press that 'your' target area is in the top10 hotspots of the year. Too late - you should have bought in straightaway! You've now lost most of the profit potential that was there and will have to start searching all over again. What you really need to do is to recognise that property trading often has a five-stage cycle. You need to know when to buy and, in due course, sell within that cycle.

Look at any current 'hotspot' and you'll be able to look back (with the benefit of hindsight which is always wonderful) and see the different stages. The first stage is the trigger stage - something that triggers off this alternative investment opportunity. There are all sorts of triggers - a newspaper report that a town is fashionable, the news that a new road or rail link is being built, a rumour that a major new employer is coming to town, and so on.

It's something that makes people think that they should be buying there. To maximise your profits from property investments, you need to spot that trigger before it actually happens. Perhaps you spotted something in the local plan at the council offices - something that's not yet become common public knowledge. It's at the pre-trigger time that prices will be at their lowest in relation to what they will reach later on at the other stages of the cycle.

The second stage is when property speculators start moving quietly into the market, buying up the choicest properties whilst prices are still low. It may not even be clear that this is happening, although having good relationships with local estate agents may help you to spot what's going on, with people from outside of the town starting to buy up properties.

It's at this stage - if you can spot it - when you may feel more confident that your initial instincts were correct, and that you too should be buying in. You may be up against more competition for the best properties though - which is why you should buy in at the pre-trigger stage whenever possible. Even so, there is still plenty of profit potential if you buy in at this stage.

You don't want to buy in at the third stage - in fact, if you want to make a quick profit on your investment, you may even want to sell at this time. The third stage is when the general public realise that this is the place to be. Members of the public start buying, bidding against each other to push up prices. There's a surge of enthusiasm as everyone wants to make sure that they don't miss out or get left behind in the money-making bonanza. If you have a property in a place where this happens - either now or at some time in the future - you may want to think about selling to take your capital appreciation profits. It's hard to do though as there's always the thought (as with every investment) that prices might rise even further. They might - but they might fall instead! You may prefer to set yourself some sort of limit whereby you'll sell when the price reaches a certain level. Take your profits and walk away!

The fourth stage inevitably follows the third stage sooner or later - and it's the time when prices wobble. During the third stage, you have three factors at play. One, members of the public frantic to buy in and not miss out. Two, property sellers who realise this and start asking that little bit extra for their properties. Three, estate agents who value properties today at tomorrow's prices, knowing that buyers will pay these prices to avoid missing out. Suddenly though, the market sticks.

You'll often see it with better properties starting to take longer to sell. These properties - often not on the estates - are harder to compare like-with-like not least because fewer of them come on the market than the bog-standard three-bed semis on estates. Sellers put a little bit too much extra on, and at some point, buyers think twice about paying the asking price.

Stage five is where buyers stop buying so frantically and the market returns to a relatively normal state of play. Estate agents begin to value more realistically. Sellers accept sensible offers. Buyers no long chase anything and everything. There may be price corrections to some properties at the upper end of the market and slower sales for those that aren't priced sensibly. Prices won't have slipped down to stage one levels but may well correct downwards perhaps close to stage two levels again.

Of course, if the area remains sound - demand exceeding supply, incoming employers, business growth, a steady stream of tenants etc - you may be well advised to sit tight until the cycle begins again, selling up at a time that suits you best of all. Some alternative investors move in, move out and never go back, but there is often more money to be made by maintaining the investment for the long-term.

Value Adding Tips

So, you know what to buy to achieve capital appreciation and buy-to-let appeal, and when to buy it (and sell it on in due course). It's now a good idea to look at ways that you can help to increase the value of a property. After all, capital appreciation is what's going to put the money in your pension pot. Of course, what you do to add value to a property can also add to its buy-to-let appeal - the nicer the property, the easier it is to let and, depending on the market, the more you can charge.

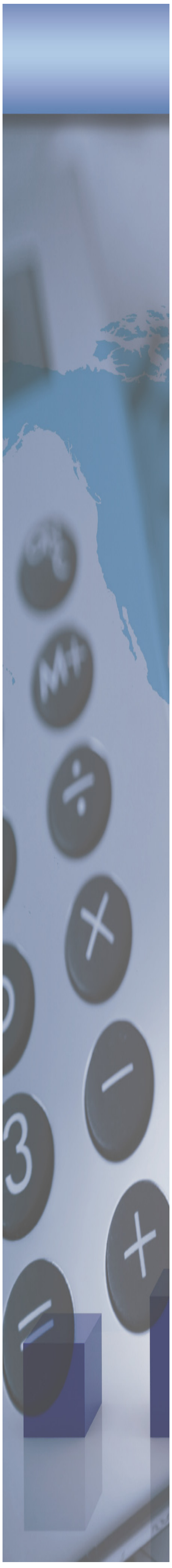
If you've bought the right property in the right place and at the right time, then time itself is often the best way to add value to it. Sit back, rent it out to cover your borrowings and costs, and watch the property increase in price over the next five, 10, 15 years or more. However, there are other ways in which you can increase the value of the property you've bought and intend to sell on, perhaps to fund your retirement years.

Home improvements are the obvious way to add value - but they should also be considered carefully as the 'wrong' improvements may not cover their costs, let alone add any value. As a rule, an extension that adds extra rooms and a garage where nothing previously existed will cover its costs and more besides. A new kitchen, bathroom, central heating and double glazing may just cover your investment - and should help the property to sell (and/or let) faster.

Many other improvements add pleasure and comfort to whoever's living in the property but rarely recoup their costs - a swimming pool is an example. The maintenance and loss of garden space are big turn-offs for many would-be buyers and indeed tenants who might be expected to upkeep them.

Before deciding on whether or not to make home improvements, think about the property as it is at the moment. Generally, the worse its condition, the more you can add value to it by making improvements. If you have bought a property that is in tip-top condition, there is less potential for you to add value with home improvements. They've been done already! It is also sensible to look at property prices for comparable properties.

All properties will sell within a certain price range, depending largely on what the going rate is for comparable properties in that locality. Take a three-bed detached house on a large estate - there are usually lots of them coming up for



sale regularly at, let's say, £100,000 to £120,000; one's a bit scruffy and sells for a bit less, another's on a corner plot and sells for a bit more and so on. One in excellent condition will go for £120,000. Even if you made lots and lots of additions to your three-bedder, you're going to find it hard to get a price that's higher than that.

The best advice concerning home improvements is to 'add space'. Generally, most buyers are moving up and want to have more space than they did before - larger rooms, extra rooms, a garage, and so on. The extra space makes them feel they've going up in the world. As a rule, the more space you can add, the more you can put on the property in terms of price. Garages, extensions and even loft conversions are worth considering first and foremost.

There are various tricks of the trade here. The first is that it's better to add an extra room or two, than to simply enlarge what you have got. It's still a three-bed house whether it's got three middling or three large-ish sized bedrooms. Add an extra room in the loft and you've a four-bedroom house which may appeal to more would-be buyers. Whatever you do should also be in keeping with the property and look as though its part of it, rather than just being grafted on as cheaply as possible. That flat roof extension made with different-coloured bricks is not a plus-point!

It is also advisable to replace old with new - rather than new with new as some property owners do. A new kitchen should cover its costs and possibly more besides if it replaces an old, outdated and shabby kitchen. If you're simply replacing a fairly new kitchen with another new one largely because you didn't fancy the existing one, you're not likely to cover your costs.

And remember – what you like personally should be of no significance at all. It's the same with windows, doors, central heating and so on - if they're falling apart or (in the case of central heating) non-existent, then installing new should be a wise move financially in many instances. But if there's nothing much wrong with them and you simply fancy a change or don't like green or any other particular colour then the return on your investment may not be worthwhile.

You need to make sure that any improvements you make match the type and style of property you own. Adding a £2000 new kitchen in a £700,000 property is going to cheapen it, and make it much less appealing. Would-be buyers will be thinking that they'll have to spend £20,000 to sort it out - enough to make them think twice about their offer. This works both ways though - spending £20,000 on a kitchen for a £100,000 property isn't going to push it up to £120,000 in value; remember there are lots of other properties about at about the £100,000 with nice-enough kitchens in them.

Think about style as well - don't impose yours on the property, especially if you have distinctive or flamboyant tastes as many people do. As a rule, you should be looking to keep it all fairly neutral so that would-be buyers can imagine themselves there, putting their own stamp on it.

The blander the backdrop, the easier it is for them to do. Swirling reds, blacks and dark greens make it hard to imagine a room in a different style. Make sure the property is fresh, clean and neutral - creams, peaches, pale greens and so on. Remember your buyers (and/or your would-be tenants) too - stripped floorboards, for example, are popular with young professionals but are not so in-demand with families with babies and toddlers.

Buy To Let Tactics

It's worth pausing for a moment here, just to remember that property is a two-way alternative investment - capital appreciation and buy-to-let appeal are the keys to success. So profiting from property is not just about adding value to a property and selling it in five or 25 years and banking the proceeds. To get to that final jackpot, you've probably had to arrange a mortgage to buy the property and will incur various costs as you go along, including repair and renewal expenses.

You will ideally want to cover these outgoings and more besides by renting the property out to tenants. In essence, they pay for everything - and you bank the profits from the eventual sale and then use the proceeds to fund your retirement years!

What you need to do is to make sure that the property can pay its way now - if it doesn't you may not be able to afford to hold on to it for long enough to profit from its capital appreciation, particularly if there is a temporary downturn. It's advisable to begin by jotting down some figures for whatever property you're planning to buy to make sure they add up and leave you in credit. First, talk to local letting agents (see Yellow Pages), not only to check that this property is going to be in-demand, but what you can let it for.

You may want to view other similar properties to let too (also useful for seeing what's on offer, chatting to tenants etc). You should get a guideline monthly rental figure to work with here. Don't just multiply it by 12 to get the annual income from the property though. Most leases last for six-months or a year, and you will often have the odd month's gap between tenants. It may also take you a month or more to let the property first time around.

From this, you need to work out your likely outgoings. To begin with you will incur some costs in bringing the property up to the required standard for letting. If you talk to local letting agents, view similar properties, chat to tenants and take account of the local market, you should be able to build a checklist of what's needed for the particular property. You should have a surveyor's report done, which will indicate any structural and other repairs that need doing. You should get in three builders or tradespeople as appropriate to quote. Source via word-of-mouth recommendations, ideally. You will often need to decorate too - clean, fresh and plain is often best.

Painting may be all that's needed which you can do yourself. You may want to furnish, part-furnish or even leave the property empty - talk to local letting agents to see what's in-demand locally. Many tenants prefer empty properties so they can bring their own possessions. Focus on the kitchen and bathroom as these are the key sellers. You may want to invest money in these if necessary.

You're going to need some cash resources to get this property ready to let. You might need more to keep you going until you receive the first rental income. You might not get a tenant for a month or two. Remember that you will have some ongoing costs as well as financial commitments (mortgage etc) to meet from the rent, so take these into account. In addition to ongoing maintenance costs, you may also have ground rents and service charges to pay, depending on the property. If you use a letting agent to find tenants and to manage the property (so you don't get the 11.27pm phone call about a leaky tap), budget their costs in too; typically up to 15% (plus VAT) of the rent, depending on where you're based, what they do etc. Talk to several agents to compare what's on offer - and talk to fellow landlords who may give you some useful feedback and comparisons. Insurance is essential, including legal expenses in case of tenant problems. Council tax, electricity, gas and other bills of this kind should be paid by the tenant.

You'll find it helpful to draw up profit budgets and cash flow forecasts. A profit budget simply lists monthly incomings and outgoings over a given period of time, usually six months. You can then see - in clear black and white on paper - whether this is going to be profitable on a month-by-month basis. You need a margin of error - maybe 10% upwards in case of unexpected extra costs.

Do a cashflow forecast too. This shows when incomings and outgoings arrive and go out. You may find that everything looks nice and profitable in your profit budget but doesn't look quite so comfortable in your cash flow forecast when some outgoings have to be made before you receive rental income. The costs of an overdraft may need to be added into your calculations. You can pick up profit budget and cash flow forecast forms from your local bank's small business desk.

As an alternative investor, your bottom line is making money. With this in mind, it's worth looking in a little more detail at various incomings and outgoings to see how you can improve your overall finances, and profit more. You'll want to get the best possible rent - that's a key to success. It's worth stressing that the kitchen and bathroom are worth focusing on.

You may like to consider changing or simply painting cupboard doors, perhaps laying new vinyl flooring and putting in a fridge and freezer; all relatively inexpensive but they can add appeal. You can do something similar with the bathroom - cleaning grouting between tiles, re-laying vinyl flooring and adding a lick of paint to skirting boards, windows and a loft hatch can all add appeal.

Remember to keep the rest of the property clean and plain so that would-be tenants can imagine themselves there. Let them impose their tastes on it rather than your own. You may wish to add carpets and curtains - again, plain and simple. They need not be expensive, and often the cheaper the better - tenants do not always look after a property as they might do with their own.

Safety First

A quick word of caution. Make safety a priority. You will find it helpful to contact the local council about fire and furnishing regulations, and can talk to the local health and safety officer, police and fire brigade for additional advice (see local telephone directory). Have electricity, gas and other utility supplies checked by professionals. Gas boilers etc need regular check-ups, in particular.

Letting agents can be a major expense - anything from 7.5% plus VAT of the rent for finding a tenant up to 15% plus VAT for managing the property (depending on where you live in the country). Should you use one or not? It's a personal decision - much depends on your experience of sourcing and interviewing tenants, taking up references, doing an inventory of the property, handling tenants' complaints about leaks and so on. There are also time considerations to think about too. It's a good idea to cost out the time you will have to spend on all of these tasks, compare it to what you are being charged, and then decide whether your time is more or less valuable than that. For most alternative investors, it is sensible to use a letting agent which has the know-how and expertise to do the job quicker and more successfully than the first-time landlord.

Go for a letting agent by word-of-mouth recommendation. Talk to them, see what they offer, and what they charge so that you can compare them against each other. See who you feel most comfortable with. If you can, speak to fellow landlords and tenants for their feedback.

It's advisable to go for a letting agent who is a member of the Association of Residential Letting Agents (ARLA, 01923 896555, www.arla.co.uk). ARLA is the professional body and members must adhere to various standards, codes of conduct and so on. Contact ARLA for full details of their agents in your area, along with other useful advice on the buy-to-let market.

Remember tax - an often-overlooked outgoing. Inland Revenue rules come and go, and are updated regularly. It's advisable to talk to your local Inland Revenue office (see local telephone directory) about your particular circumstances. As a broad rule of thumb, you take your rent, deduct your costs and any remaining profit (if any) is then subject to income tax. If you go into your local tax office with a set of figures (covering everything from rental income right through to letting agent's fees), an officer will tell you what you can and cannot include as a legitimate expense, and should give you some idea of the likely tax bill.

Looking ahead to when you sell your property, it may be subject to capital gains tax. As a general guideline, you take your selling price, deduct your buying price, deduct annual capital gains tax allowances between now and then, adjust for indexation (inflation) and the balance is subject to capital gains tax at the prevailing rate. Again, the local Inland Revenue can advise further. You should also take advice from an accountant with regard to tax planning - as always, word-of-mouth recommendation is usually best.

Knowing When To Sell

When to sell? This will often depend mainly on your personal financial plans. For many alternative investors, property is the mainstay of their investment portfolio and will remain so up to their retirement. What many of these investors do is to start by buying one property for investment purposes.

Typically, they will use the equity in their own home to finance a deposit of say 15%, and will then arrange a buy-to-let mortgage (on the same basic terms and conditions as a conventional mortgage) for the balance of 85% or whatever. The Association of Residential Letting Agents (ARLA, 01923 896555, www.arla.co.uk) has a panel of buy-to-let lenders who offer these mortgages. Talk to a mortgage broker (chosen by personal recommendation, or via Yellow Pages) to see what is currently on the market and suits you (and vice versa)!

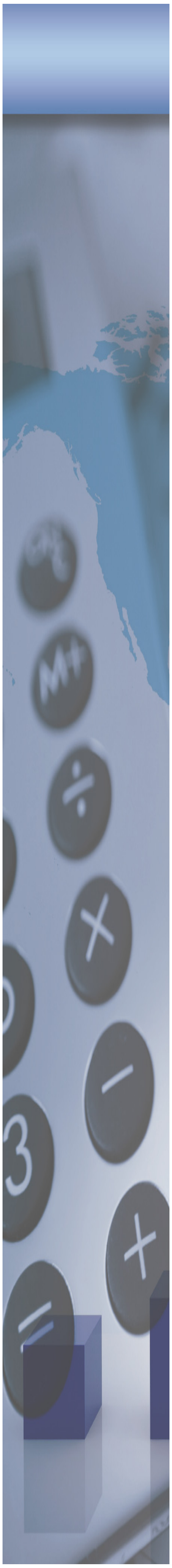
What then happens is that the tenant’s rent should cover that 85% mortgage plus other outgoings. Many alternative investors are happy to simply ‘break-even’ month-by-month although some sort of profit margin is generally advisable not least to cover any emergency costs that might arise now and then. Just imagine that the roof springs a leak – that’s going to need to be fixed immediately! As property prices rise (hopefully!) and equity is created in the first investment property, these alternative investors then use that equity to fund further borrowings and property purchases, until a portfolio of perhaps half a dozen properties (but potentially an unlimited number) have been acquired.

As alternative investors approach their retirement years and borrowings are paid off (primarily from tenants’ rents), the portfolio of properties becomes available. What many alternative investors do is to sell (after giving due notice to tenants) one property at a time to avoid a capital gains tax bill. The proceeds are then used to finance their retirement years, with more properties being sold off as and when further funding is required. The alternative is that they can be kept on – and the rents be used to fund retirement.

It is sensible to give some thought to the exact timing of sale, not only to reflect your personal and tax considerations but also to maximise selling prices. You need to monitor what is happening in the marketplace to see if prices are moving up, down or are staying broadly steady.

If you’ve bought in the right place, it is worth thinking about the five stages of the property-profiting cycle again. You want to sell when the area is named in one of those property hotspot surveys in the national press – some buyers will still buy in at that stage even though you will have taken most of the profits from any recent surge in prices there. It is a good idea, before selling, to re-assess the market just as you did when you first buying and were looking for an area with capital appreciation potential.

In brief, can you see any ‘trigger event’ on the horizon that may help to push



up prices? Perhaps there is local speculation that a major new employer is coming to town -or perhaps that one is set to close down, which could encourage you to sell up fast! Maybe a new road is going to be built, or a bridge giving greater access to and from nearby towns. As before, talk to local estate agents etc, and go to the local council where you can check the local plan of the area and speak to local planning officers about what might be happening soon. If you can see some sort of trigger event that will make properties in the area more in-demand, then it might be wise to delay your sale if prices are likely to rise.

Remember the second stage of the property cycle - when property speculators start moving in quietly to pick up bargain buys. You'll start to spot when this is happening if you have established close relations with local estate agents. Indicate your property might be for sale – and see if you get any approaches and from where. Locals or out-of-towners looking to invest in price-rising properties.

It may be tempting to sell now, but it will generally be more profitable to stay put until stage three. This is when the public pile in to push up prices. Estate agents see prices on the move, and encourage them up further by pricing for three months' time! Buyers start offering the full asking price (and sometimes higher) to buy the property fast. Want to profit most? This is the time to sell.

When prices are moving up, it's psychologically much harder for an investor to sell than to stay put, of course. As with any investment, alternative or mainstream, it's tempting to hang on in there to make every last penny of possible profit. Unfortunately, it's impossible to know precisely when this can be achieved.

The danger is that you will wait too long until buyers start to hesitate, and prices start sticking and eventually correcting in some instances. It is far better to sell as the enthusiasm is being whipped up, than just after it starts to fall. The key skill of any alternative investor is to walk away, without thinking 'What if...?' What if I stayed a little longer? If you stayed a little longer, you may have got a lot less than you did today!

What to do Next

Interested in investing in property? And why not – if you currently rent or own your own home, you have a huge amount of know-how already, and you probably don't realise it! Let's say you rent somewhere to live.

You should already know what makes a great buy-to-let property because you're living in one. If you are currently buying your own home, you'll know what appealed to you when you bought it. Whether you are renting or buying, you can – right now! – make your own checklist of key criteria for the type of property you should be looking for. You can't do that with many investments such as bonds, unit trusts and investment trusts.

As with many alternative investments, it's worth practising before you actually lay out any hard cash. You can do this with property quite easily.

Start with your own home town, wherever you live now. You can assess it for yourself by driving and walking around to get a feel for the different properties, estates and streets. Have a look for 'For Sale' signs, study the properties from outside and see if you can 'guesstimate' what they're worth. Now check with the local estate agents. The more you do this, the better you'll be and valuing properties – a useful skill to have, and fun too.

Think about what's happening locally, and what the impact might be on property prices. Pay a visit to the local council and look at the local plan – it's worth it, as you might find out something that could affect the price of your home at the moment. What's happening in the high street? Lots of empty units? Are they all full? Are they emptying or filling up? Check out local industry – that local industrial park, for example? Have most or all of the units been taken? Read the local press, and see what stories you can find there that may impact on property prices. A front page story that says land between two nearby villages is going to be filled in with new starter homes? Work out the impact on other starter home prices nearby when the supply goes up!

There's lots of local know-how available to you too, of course. Speak to as many estate agents as you can. What's happening to property prices locally? Where's the best place to buy? Where will prices be in six months? Make a note of what they say – then see how accurate it is in six months! Similarly, talk to letting agents about the rental market. Again, it's worth asking them lots of similar questions. Write down what they tell you, put it all to one side, and revisit it later to see how accurate it has proven to be.

Don't just rely on the experts though. What do you think? You live there, have looked at what's happening and should have drawn your own conclusions.

Why not make some predictions of your own? Take those three-bed detached properties on the local estate that are always coming up for sale. What are they worth now – and what do you think they'll be worth in six months. Have a go at guesstimating! You can hardly do worse than anyone else!

Summary

1. Property can provide the best possible return of all alternative investments, assuming you buy the right property in the right place at the right time. It regularly tops surveys of various investments viewed over five to 10 years or more. Property is a two-way money-maker – you can profit from capital appreciation and by renting the property during your period of ownership.

2. To maximise capital appreciation, you should be looking to buy in a coldspot that will become a property hotspot – somewhere that lots of people want to live! To profit from buy-to-let, you should buy a property that gives would-be tenants what they want, and where they want it. Ideally, your property investments will satisfy all these criteria.

3. The best time to buy is before any trigger event that turns a coldspot into a hotspot. Trigger events can include anything from a rumour that a new

employer is coming to town through to news that a road or rail link is to be built. For quick profits, the best time to sell is when the hotspot reaches a peak, with lots of buyers scrambling to buy in. For long term profits, it is better to stay put – assuming you have bought the right property in the right place.

3. Time is the best 'value-adder' to a property. Buy, rent to cover your costs, sit back – and let time push up property prices for you. Home improvements can add value too - or be a waste of money depending on what you choose to do. Garages and extensions that add extra rooms tend to cover their costs and more besides. Kitchens, bathrooms, central heating and double glazing can cover their costs.

4. Buy-to-let is important, especially if you want to cover your borrowings and other costs whilst the property is appreciating in value. You need to make sure this is a viable buy-to-let property before proceeding. Estimate the likely rent, allowing for void periods at the outset and between leases. Deduct start-up and ongoing costs, erring on the side of caution. Do a profit budget and cash flow forecast to see if this property opportunity is worth pursuing.

5. Many alternative investors build up a portfolio of properties, one at a time. They finance the first purchase via a mix of the equity in their own home, as well as a mortgage. They buy more as rising prices increases the equity in their existing property investments (which they take out and use as a deposit on another). On retirement, when any borrowings have been paid off, they can either sell off one or more properties to raise lump sums or they can use the rent from the properties as retirement income. The timing of each sale depends on their personal circumstances, tax considerations and the state of the market at that time. Taking professional advice is essential.

6. Before investing in property, you should have a practice run in your home town. Study the present market, look at the local plan and talk to experts, including estate agents and letting agents. Compare what they think will happen with your own predictions. If you can wait, see what actually happens in six months. Use that time to keep researching, reading, talking and viewing – so you buy your first property in the right place and at the right time!

Further Reading

How to Make Money from Property: The Best-Selling and Expert Guide to Property Investment by Adam Walker (857036271, How To Books)

Property Hotspots - Buy to Let: The Insider Guide on Where to Buy and Let Property for Profit by Ajay Ahuja and Nick Rampley-Sturgeon (857038878, How to Books)

Business Plans in a Week by Iain Maitland (0340849630, Hodder & Stoughton)

The Buy-to-Let Bible by Ajay Ahuja (190405305X, Law Pack Publishing)

Buy-to-Rent: The Key to Your Financial Freedom by Nick Rampley-Sturgeon (0273661094, Financial Times Prentice Hall)

Property Hotspots in London - Buy to Let: The Insider Guide on Where to Buy and Let Property for Profit by Ajay Ahuja (857038886, How To Books).

Check Your Understanding

The Lowdown on Property

1. What did you pay for your current home?

2. When did you buy it?

3. What is your home worth now?

4. What have you made from it, and over how many years?

How To Pick The Right Properties

1. What are the two key criteria for profiting from property?

2. What is the best way to maximise your profit potential?

3. How can you identify a soon-to-be hotspot? State at least five things to do, and preferably more!

4. What is a local plan - and what will it reveal to you?

5. Why is supply and demand so important with regard to property prices?

6. How do you find out who is renting in your would-be hotspot?

7. What is the difference between an estate agent and a letting agent?

8. How important is it to buy a property that you like personally?

9. Thinking in turn about different tenants (business executives, students etc) *what* do they want to rent, and *where* do they want to rent?

10. What are the 'must haves' and the 'must avoids' for the different tenants you can think of? List five 'must haves' and five 'must avoids' for each.

11. How important is supply and demand in the rental market?

12. Which is more important – what's happening now or in five years?

Knowing When To Buy

1. When is the best time to buy into a soon-to-be hotspot?

2. What is a 'trigger event', and can you think of, say, three examples?

3. What are the five stages of the property cycle? Can you summarise each of them in turn?

4. When is the worst time to buy in, and why?

5. When is the best time to sell if you want to pocket profits quickly?

6. What decision do you have to make a stage five of the property cycle?

Value Adding Tips

1. What's the best (and easiest) way to add value to a property?

2. Which home improvements should cover their costs and more besides?

3. Which should cover their costs and make a property easier and faster to sell or let?

4. Which so-called home improvements aren't likely to cover their costs, let alone add extra value? Why?

5. Why should you think about the present condition of the property before making any improvements?

6. Why should you look at other, comparable properties prior to any home improvement programme?

7. Can you list five criteria which all home improvements should meet?

Buy To Let Tactics

1. What are the two keys to successful property investment?

2. What should you do to check a property will be in-demand before you buy it?

3. How should you work out the likely rent for a particular property?

4. What costs are you likely to incur in getting the property ready to rent? List as many as you can think of.

5. Furnished, part-furnished or empty property – which is best?

6. What ongoing costs are you likely to incur with a rented property? Note down as many as you can think of.

7. Which costs should be met by (a) you and (b) the tenant?

8. What is a profit budget, and what should it include – and reveal?

9. What is a cash flow forecast, and what should it incorporate – and show you?

10. What can you do to make a property more appealing to would-be tenants?

11. Should you use a letting agent or not – and why?

12. What is the best way to choose a letting agent?

13. What tax liabilities might be incurred from property investing and who should you talk to in advance?

<u>Knowing When To Sell</u>

1. How do most alternative investors finance their first property purchase?

2. What should the tenant's rent cover?

3. How can future property purchases be funded?

4. What do most alternative investors do on their retirement?

5. What should be taken into consideration before deciding when to sell a property?

6. What are the five stages of the property cycle?

7. When is the best time to sell?

<u>What To Do Next</u>

1. What should you be looking for in a property?

2. What is the property market like in your home town at the present time?

3. What is in the local plan?

4. What is happening locally?

5. What do estate agents say will happen?

6. What are letting agents expecting to happen?

7. What do you think will happen?

8 If you can wait six months...who was right?

Answered everything? You're now ready to start reading part 6 of your course!