



**Property Knowledge**

# 10 Golden Rules



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## Rule 1

Always buy at or below valuation to ensure easy funding. In the new tighter lending regime banks will only lend perhaps 65% of the valuation price, so if you agree to pay more than valuation you will have to find the extra from your own pocket or those of your investors.

For more details on funding please read the other free resource sheet called "Funding".

## Rule 2

Never build unless you happen to be a building contractor. Always sell on once you have added value. Building is a specialist area with many pitfalls, and it is expensive. A mistake here could be very costly.

## Rule 3

Always use 3rd party external investors to fill the gap after your bank's funding. For details see the other free resource sheet called "Funding". If you try to use your own money you will quickly run out of cash for more deals and will have to wait for the first ones to mature before commencing new ones. Since each deal can take between 6 and 12 months in total, that will seriously restrict the amount of money that you can make. By using external cash you have to give away some of the profits it's true, but it allows you to operate a conveyor belt of projects that can overlap.

## Rule 4

Getting Planning Consent is key. If you don't have specialist expertise yourself then get yourself a good Architect or Planning Consultant. Work closely with them and offer good incentives. They can make you a lot of money, so don't be miserly.

This is dealt with in a little more detail in the various ebooks.

## Rule 5

Don't be afraid to walk away from a deal, and in the current buyer's market, never get drawn into paying more than the valuation. Once you get the hang of this you'll realise that there truly are deals around every corner. If the planning prospects are uncertain or the margins look thin, just drop it. There'll be another one tomorrow. If



you slip up on either of these criterion the investors and the bank will lose confidence in you, and that's fatal. Play safe.

### Rule 6

In your calculations don't forget to allow for Stamp Duty, valuations, and legal fees. If you do forget then you'll end up paying for them all yourself, but if you include them as costs you can ask the private investors to cover them as part of their deal with you.

### Rule 7

Remember that the bank and external investors will want their interest charges repaid. The investors will almost certainly wait and collect that with their capital repayments but the bank will ask for it to be serviced quarterly. You need to know where this is coming from, because on any one deal it could be a grand or two a month. If you don't want to or are unable to service that yourself, ask your investors to cover it in return for increased equity. In general they will be okay with that since their reason for being involved in the first place is to lend money to you for profit. The more they can lend the more they make.

### Rule 8

Always take the early sale when it's available unless it happens to be ludicrously low. Holding out for the ideal sale is costly in interest, and once stock is lying unsold for any length of time, word gets around. And again you lose the confidence of your bank and of your investors if they see that you are unable to sell the product that they have funded.

### Rule 9

Remind the bank that lending at 65% or 70% of the value and with you buying at or below valuation, they have zero risk. Therefore they should not start talking about accumulated risk once you have 4 or 5 of these on the go simultaneously. If there is no risk to start with there can't be an accumulation. Because this is a uniquely risk-free model, they initially find this hard to grasp. The only person carrying any risk is the private investor, which is why they will want a high return.

### Rule 10

Always get your valuer to assess the impact of your proposals on the core value of the original asset. No point in adding 75k of value if by doing so you reduce the original asset value by 50k. That leaves too slim a margin.