I LOVE REAL ESTATE

INVESTOR SERIES

TOP TEN TIPS

Types of Cash Cows

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1. Multies (Multiple Income Stream Properties)

Multies are my favourite. While 'multies' is quite a broad term, and can apply to commercial, industrial and residential properties, in general, they are easy (with the right education and practical know-how!) and can be a huge source of passive income. If you're going to turn something into a multiple income stream property, you need to look at far more requirements than if you were going to turn it into a dual occupancy, so make sure you are communicating with your town planner.

The most effective method of utilising multies is 'selling down for debt reduction'. One of your reasons for wanting to construct a 2nd dwelling on an existing property could be to specifically build for resale purposes rather than cash flow. You would do this because building a 2nd dwelling (and even 3rd, 4th or 5th dwelling) for resale means that your profit is then able to be used to pay down the debt on your remaining property holdings. The property you are left with would then be positively cash flowed simply because your debt level is so low.

Essentially, you target a property on a large land size for you to be able to build multiple dwellings or unit developments. You then build 4, for example, and sell 2 to pay down the debt on the other 2 and pocket the positive cash flow from that point forth.

2. Student and single living accommodation

There are a number of specialised property managers who deal specifically with rental properties that are rented on a room-by-room basis. The returns are higher than if the property was rented to a single tenant (most commonly a family). Property management costs, however, are often higher and so too is your insurance. Do your feasibility study and find out if you can turn that 6 bedroom house into a multiple income stream property.

3. Granny flats for extra income

Granny flats are a fabulous method of manufacturing passive income within a property. It is often quite dependent on council outlook, however. The New South Wales State Government definitely holds the most pro-granny flat outlook. They have stepped in and created an option that

allows investors to take advantage of properties that would normally be negatively geared. The Queensland Government has recently jumped on board with the granny flat revolution as well, making it much easier to turn your property to a positive cash flow one.

4. Commercial (semi-commercial and resi-mercial)

Commercial cash cows, unlike other cash cows, are treated a bit differently. They come at a higher level of risk (or potential risk) and bank LVR's are often lower. You will run into issues like Occupational Health and Safety Regulations, and disability access. In addition, your tenant's profitability is not just their problem; it is yours.

It's not all doom and gloom though! When you are looking at buying commercial, quite often it can be combined with some sort of residential element (e.g. flats on top).

5. Parking lots

These are a great low-maintenance method if you have a property with a large piece of vacant land that has commercial zoning. These land lots often get overlooked by developers and builders who think that it's too small to build commercial property on. They are especially effective in built up CBD areas.

6. Storage facilities

You would be amazed at the need for these types of facilities. They are a low-cost low-maintenance form of income that is versatile in that it can be located in most areas.

Like car parking lots, you need to target commercially zoned land that has some sort of attraction (car traffic, near residential estate etc.).

7. Executive/short stay rentals

These properties range from the 'Quest' style serviced apartments through to units and houses that are completely furnished and may or may not have a cleaning service attached, even homes that are completely fitted out down to tea towels etc.

When setting up these types of apartments, you can do one of two things; go it alone or use a managing agent that specialises in this type of rental.

If you are going to do it yourself, you should create your own website and market directly to corporate and community groups that may require short-term accommodation. You can also use a number of existing websites that your property will be listed on; such as stayz.com. They will take a commission for property rental.

If you decide to use a managing agent, you can research into any executive rental agents that specialise in marketing and placing tenants in these types of properties. Their commissions are generally higher than normal (upwards of 15% plus any additional costs for cleaning and laundry) but the extra rental asked usually makes this option still profitable.

8. Leasing and sub-leasing

This strategy should only be used if you are someone who is prepared to take a risk and if you have the ability to negotiate a deal. You really have to know your market. It entails negotiating a primary lease with a landlord and then subleasing the premises to someone else at a higher lease value.

It is typically used in commercial situations and often on larger premises. Although it is not really suited to Australian legislature, it can be a useful strategy in the commercial arena and can create an income stream with little or no money.

9. Wrapping

This one is becoming more and more popular throughout Australia. It can come in a number of forms and originated in America. Since then it has been adapted to suit Australian laws and culture.

Technically, this type of purchasing is a little different and is treated differently for income tax purposes. Essentially, a 'wrap' is when you purchase a property (normally at the lower end of the market) then onsell it to someone else (offering vendor finance) who would not normally be able to get a loan to buy the property themselves through regular financing channels.

They then pay off the loan with similar interest on a typical bank loan on a standard 30 year principle and interest loan.

Because someone might not fit the traditional financier's box does not mean that they are not suitable purchasers or finance applicants for your vendor financing deal (self employed individuals who have not been in business for long, young people who are venturing into the market for first time, individuals coming out of divorce etc.).

10. Industry specific purchasing

When searching for high yielding properties, many investors end up looking at investments that are industry specific, or properties that have limited use. Examples of this are pensioner accommodation, student

accommodations and even holiday rentals. On the commercial front, industry specific might include service stations, quarries, storage sheds etc. Whenever you have a property that has a restricted use you limit the number of potential tenants and ultimately buyers for your property. Whilst I don't like investments such as pensioner accommodation – unless I own the whole retirement village - as lending on this type of investment is also very limited, I am not opposed to some of the other types of industry specific properties providing your due diligence indicates there is a long-term need for that type of property for tenancy.

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Yours in success,

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