Property Investment 101: Eight steps to retiring early and well

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Property investment is one of the safest and most lucrative ways to grow wealth.

Many international independent studies show that the world’s wealthy—almost without exception—either made their wealth through property, or store and grow their existing wealth through property, or both.

So how do you invest in property and avoid the many pitfalls?

**Property Investment 101** is here to introduce you to the concepts of property investment using 8 easy steps. For more details, read the relevant articles linked to each step (through the clickable links).
Or, for a more in-depth study, see Organic Growth’s comprehensive *Residential Property Investment 101* Course.

[Click here](#) for details
Chapter 1

Deciding to be a property investor

The objective of this chapter is to help you make the quality decision to be an investor and to educate yourself accordingly.

This will require a change of mind-set, without which you will be unable to make the fundamental changes to your lifestyle that are required to help you achieve your major life goals. These goals could be retiring well or early retirement, funding your children’s' tertiary education or the fulfilment of a dream to travel the world, buy an aeroplane, start your own business, or fund a life calling.
These are all the benefits of the financial freedom that can be gained through property investment.

**Financial freedom:** Being wealthy or financially free is attained when your earnings from passive income from your investments makes your job optional and your dreams a reality.

The initial shift in my mind-set began when I read Robert Kiyosaki’s book, Rich Dad Poor Dad. This book is a fantastic foundation and I recommend it highly. Read it and learn. It may shock you to discover that the way you think about money may be completely wrong but this book will help align your mind-set and prepare you to invest in property.

Our business at Organic Growth is to show you how to be wealthy. If that appeals to you, hang on for the ride, you can attain financial freedom or, if you desire, go all the way to becoming very rich.

**The investor’s guide to debt, lifestyle and savings**

**Debt and lifestyle**

A good understanding of debt is essential to successful investing.

There are two kinds of debt—bad debt and good debt.
**Bad debt** is debt incurred against the purchase of liabilities. It is also known as lifestyle debt. It is the credit card kind of debt, the clothing account kind, the car repayment kind—in other words, any debt that is incurred in the furtherance of a lifestyle that is actually beyond your means. We live in a culture that has made it possible to possess goods that you have not yet paid for. While this is attractive to the majority of people, if you pursue lifestyle debt, it will strangle any chance you have of achieving your investment goals.

Being a property investor means saying NO to lifestyle debt.

- Ask yourself if you really need that fancy new car to impress your neighbours—the Joneses—people who you don’t really like (or even know).
- Avoid credit card debt. It very easily spirals out of control and before you know it, you are spending your hard earned cash paying prohibitive interest on last month’s extravagances.
- Steer clear of clothing accounts, chemist accounts and the worst of all furniture shop accounts.

The key to becoming a successful investor is developing the attitude that if I don’t have the money now, then I can’t have the item I desire now.

As a caveat to these statements on bad debt, we live in a world where the banks will only lend you money if you can
prove to them that you can handle debt so some debt, and the good management thereof, may be necessary.

A recent article tells the story of a young investor who said absolutely NO to all lifestyle debt, lived on cash and saved up a deposit on a property. When he applied for a loan on his first investment property, he was refused. He had no credit rating with the banks. The advice he took was to apply for a credit card, use it extensively, and pay it off in full every month for a period of 5 or 6 months. That was all that the banks required and thereafter, they literally threw money at him.

**Good debt** is debt incurred in the purchase of assets. This is money borrowed for the purchase of real assets that produce an income.

- Being a property investor means saying **YES** to asset-backed, income-producing debt.
- Investing with the bank’s money is fundamental to successful property investing.
- Being able to discern the difference between bad lifestyle debt and good asset-backed, income-producing debt is the key to successful property investment.

**Forget what you have learned**

When it comes to **defining an asset and a liability**, forget what you learnt in accounting classes at school and university, and ignore much of what the advertising media continually bombards you with.
Differentiating between an asset and a liability is simple; ask yourself this question:

“If I lose my job, will this feed me or will it eat me?”

**Assets** - feed your personal cash-flow.

**Liabilities** - eat your personal cash-flow.

**Savings**

Regardless of conventional wisdom, there is no way to become wealthy (financially free) by saving money and it is virtually impossible to save enough money to be able to live off your savings for any reasonable time period.

What farmer can stay in business by planting a seed and one year later harvesting that seed which has now simply swollen to 10%, 15% or even an inflation busting 20% larger?

This is what happens when you put your money in the bank or when you put it in a fancy stock market linked savings plan. The only difference between these tools is the amount of risk involved and the percentage of interest earned. **But a swollen seed it remains!**
**Retirement annuities** and monthly unit trust purchases may be amplified savings accounts, but they too remain savings accounts.

Savings accounts should be seen as storage silos, where you build up and store your investment seed for planting season. To believe the hollow promises of “financial solutions” and “retirement calculators” offered by the insurance companies is naïve. They promise that purchasing monthly retirement annuities or unit trusts will enable you to retire successfully but as many retirees will confirm, this is not the case.

Think about it for a moment, if a pension scheme is essentially a savings account that keeps up with inflation, you will have to save nearly half your salary for 30 years to be able to retire for thirty years,

Read this article on [saving for retirement](#) if you need more convincing.
Chapter 2

Developing your property investment blueprint

The ancient truth applies here. You hit what you aim at. The converse true, aim at nothing and you are sure to hit nothing.

The objective of this chapter is to equip you to be able to draw up your own property investment blueprint - an achievable target to aim at.
If you have ever played Monopoly, you will know the basic formula:

4 green houses = 1 red hotel

Location is everything, and you win the game if you own income-producing properties in the best areas on the board.

Developing your own property investment blueprint requires that you select the correct type of property and an ideal location for these properties. For example, you would need to investigate your local options with regards to capital growth potential, financing options and rental demand by tenants.

Every established city has nodes of property development – be they offices, industrial, retail or residential development. Some nodes are developing and growing, while others may be suffering various degrees of urban
decay due to many different circumstances. It is essential to know and understand the suburb you are choosing to invest in.

Residential property offers the first time investor some very real benefits. The barriers to entry are low as banks are very willing to finance residential property, and individual properties are often found in bite-sized chunks.

Commercial properties often involve far bigger numbers, and banks traditionally require larger percentage investor participation. Simply put, you need more cash to invest!

If your aim is to retire early, or set up an education fund for your children's education, it is imperative to develop an investment plan that works for you.

Traditional retirement planning calculators require that you guess the future inflation rate and your length of life to enable you to plan successfully for your retirement.

**Clearly a more successful model is required.**

Remember that 4 green houses = 1 red hotel

**Inflation Proof!**

Property investment provides a unique method of designing an inflation-proof retirement plan.
Let me expand: An accurate rule of thumb says that people in affluent and aspiring suburbs tend to spend 25% of the household income on accommodation. Finally you don't have to play guessing games as to the impact of inflation or the stock market performance on your long term retirement savings plan.

A simple personal property investment blueprint plan to enable you to retire on the average household income of a specific suburb would therefore simply require that you own 4 homes in that suburb. (Paraphrased version of a friend and former colleague, Paul Fairhurst’s, pearl of wisdom)

This statement alone set me on a course of property involvement and investment that has spanned nearly 30 years.
The do’s of a retirement blueprint

Decide on your goal.

Case study

For example: I want to be able to retire with no debt and a monthly income of R 20 000 (in today’s money). That might seem like a small amount but bear in mind that this is your goal income with no debt eating away at your income. Do the exercise on your own personal monthly budget. You will be surprised at how little you need once you have stripped out all your debt repayments, rental or bond repayment, car repayments, clothing accounts, the cost of educating your children and the like.

So your goal is R 20 000 per month to spend on food, clothing, lifestyle, holidays and insurance.

You can now establish your investment currency in today’s money. If your retirement goal is an income of R 20 000, then look at the income derived from townhouses in your desired area. Small townhouses in a good area like Fourways Sandton, will, once fully paid for, return you a monthly income of R 5000 each (after payment of levies). So begin to think in “townhouses”.

The question is no longer, “How can I work out how much money I need to retire on?”

The question is now, “How many investment townhouses do I need?”
Working out your retirement blueprint is simple when you use this formula. Four of these little townhouses will provide a monthly retirement income of R 20 000 in today’s money.

As mentioned above, this income will then grow with inflation, (or better than inflation if you have invested in a growing suburb).

No matter what the inflation figure is this formula will apply: **people spend 25% of their income on rental.**

**Your retirement blueprint** (for this case study) is therefore to own 4 small, fully paid off townhouses in Fourways, Sandton but it won’t do you any harm to build in a safety factor and aim at 6 townhouses for retirement.

This method can now be used to work out your children’s education blueprint, your around the world trip blueprint and so on.

**The don’ts of a retirement blueprint**

**Don’t** think you can save enough in 45 years of work to be able to provide for another 30 years of retirement.

**Don’t** assume that your pension will be sufficient to retire on.
Don’t think that paying 10 or 15% of your monthly salary into a retirement fund for 40 years will be able to provide for 40 years of retirement.

Most retirement funds, retirement annuities offer to beat inflation slightly if all goes well. If the stock market crashes massively, as it is inclined to do from time to time, people lose their life savings in one foul swoop.
Chapter 3

Choosing your property coach

After reading this chapter you should see the value of property coaching and be equipped to be able to select a property coach.

Have you heard of a sportsman succeeding at his craft without a coach? In his post-match interview, 2013 Wimbledon men’s singles champion Andy Murray was quick to praise his coach. Like many other sportsmen and women, he values his coach, recognises his value and gives him a massive bonus for every grand slam win.
In a recent article, Robert Kiyosaki, the author of the international best seller, Rich Dad, Poor Dad, wrote;

*Today, I encourage you to begin your financial education and to move from the risky life of an employee to the financially free life of an investor. Read some books, attend a seminar, find a coach and a mentor, and start small by applying the lessons you learn. That is the path to financial freedom.*

If you are an inexperienced property investor, it is hard to place a value on a coach who can not only help you to do a good deal that earns you hundreds of thousands of rands/dollars/pounds, but also gives you advice that can save you from a massively expensive mistake.

**For example: A preventable mistake**

Recently I saw an inexperienced investor make a relatively small mistake that cost him over 50 K in 8 months.

This is how it occurred:

- He purchased a well-priced property in a good area – so far so good.
- The townhouse was tenanted at a reasonable rental – also good.
- He took transfer of the property – everything going smoothly, or was it?
He asked my company to manage it for him. The first question I asked was, “where is the lease?”

Oops!! The investor was so focused on all the other details that he missed this vital one. He also didn’t have a set of keys!

The tenant wouldn’t produce his copy of the lease but insisted that the lease terms were – “XYZ” which of course favoured him.

The seller wouldn’t produce the lease since it was the only proof that he was holding the tenant’s deposit and because transfer had taken place, the buyer had little power to force the matter.

When the tenant realised that he was calling the shots, all hell broke loose and he stopped paying rental.

The legal eviction route was severely hampered by the “verbal” lease. Summons had to be served on the elusive tenant in person as there was no “domicilium” clause which gives the courts permission to serve summons physically on the property.

By the time the investor managed to evict the bad tenant and replace him, he was down R50 000.00.

Regrettably, the error was entirely preventable. All the investor needed was the right input at the right time. An experienced investor/coach would have known the importance of securing a copy of the lease when he purchased the property.
Life is too short to risk the hassle, cost and stress that this kind of mistake can bring! It is essential to see the need for a property coach and then to choose one – carefully!

Ideally you would need to find a coach who has the necessary relevant track record in the geographical area you want to invest in and in the relevant property type.

A method that has worked for many is to become an apprentice to an experienced investor who provides personal mentoring and then shares in the apprentice’s profits. This can work very well but investors willing to provide this level of mentoring are few and far between.

We recommend that you use your investment coach to assist with your first few sale agreements. Resist the urge to bow to the agent’s pressure and “just do the deal”. Take the completed agreement and run it by your coach.
**Coaching versus mentorship**

An **property investment coach** walks with you through the entire process of investing and helps you each step of the way. Coaching is for those who want someone to hold their hand while they invest in property. If this is for you then look no further than Organic Growth [coaching program](#).

An **property investment mentor** trains and teaches you to be able to invest at the same level or even higher level as the mentor himself is able to. Mentorship is for those who want to learn exactly how to do all 8 steps of property investment themselves.

**The choices of coach traditionally open to you are:**

**Yourself – the player coach**

This “read everything I can about property investment and then take the leap” approach often seems the cheapest method, but it frequently works out as the most expensive in the long run.

Property investment is not very forgiving and mistakes can cost one dearly. How do you quantify a mistake that results in bankruptcy and ruins your credit worthiness? Bank financing is essential to successful investment and unfortunately, banks have very long memories!
A friend coach

A good friend or relative who is a successful investor himself and is willing to assist you over a number of years and show you the ropes can be a major benefit to you. Investing can be an intense and time consuming business and needs serious commitment from your friend-coach. Profit sharing often makes this a viable solution.

When choosing a coach, ask the following questions to determine if your coach is a level headed investor and has good subject knowledge of property investment and good local knowledge of the area you select for investment:

Does he or she know the property basics of rental income returns, real returns and capital growth?
Is your coach good at finding attractive deals?
Does he or she have enough local market knowledge to be able to spot a good deal?
Does he or she know market related prices and rental for the area?
Does he or she have a network of local maintenance and service contractors?
Does your coach invest in that area?
Is he or she passionate about investing in property and teaching these skills to others?

Does he buy only new properties or knows the value of second hand?

Does your coach know when to buy and when or if to sell?
Investment club coaching

Investment clubs spring up from time to time. Do your homework as they are often designed primarily as moneymaking schemes or part of a marketing plan set up by property developers to provide buyers for the properties they bring to market.

If you don’t have a personal coach then an independent investment club like the Organic Growth Investors Club may prove invaluable to the player coach.

Avoid investor mentoring or coaching at your peril!

We have seen investors make elementary mistakes that cost them many thousands. These mistakes could very easily have been avoided by the involvement of a property coach.

An experienced property investor knows the answers to many of the questions you don’t even know to ask!

He or she knows your rights as a property owner and the rights of your tenants. Not knowing these elementary elements can unwittingly get the inexperienced landlord into hot water.

He or she will also see potential problems or advantages that the inexperienced investor does not know even exist!
Chapter 4

Selecting your investment location

The objective of this chapter is to equip you to be able to recognise the importance of a good investment location and to understand how to select areas with good investment potential.
What exactly does location – location – location mean?

Robert Kiyosaki says that the location of your property is more important than the property itself. I am inclined to believe him.

So how do you select the correct investment location?

**Macro location**

A brief look at nodal property theory is necessary to help understand how a city grows and where to locate your investment.

When towns develop, they tend to originate around a central feature, like a harbour, a water source, a railway junction, a mine, a grain silo.

The town develops a commercial and retail centre known as a central business district (CBD) with surrounding industrial area and residential areas.

As the town grows, the houses become further and further from the CBD and adjoining industrial areas, resulting in traffic congestion along the arterial routes into and out of the CBD.

Two things then happen simultaneously. Firstly, the town centre runs out of land for new development of offices and retail space and secondly the demand by residents who
now live too far from the CBD both contribute to a new retail/commercial node forming along the arterial routes.

This growth dynamic occurs over and over as the town sprawls outwards along the arterial transport routes, be they rail or road.

Simplistically, it therefore stands to reason that it is residential property between these nodes, which offer the residents the option of working or shopping in either node, that has a high intrinsic value.

**Micro location factors**

Once you identify this pattern then look at other factors such as pollution, industrial areas, and the existence of slums to establish the most attractive residential areas.

In a city like Johannesburg, the sprawling radial web of business nodes provides numerous opportunities for the investor as residential suburbs develop between the outlying nodes.

If you select new well located suburbs like Northwold/Fourways in the North or Modderfontien / Dowerglen in the North East or Meyersdal in the South you are likely to find a combination of high potential capital growth and relatively high rental income.

Once you have targeted a suburb, the next step is to look at easy access to lifestyle enhancing factors like proximity
to schools, public transport, shopping centres, entertainment facilities, churches.

If you select well, the astute investor can expect initial rental to cover most, if not all, of the bond finance costs.

As the suburb matures, trees grow, schools develop reputations and the surrounding business nodes move upmarket, you can expect good sustained capital growth and rental income growth for many years to come.
Chapter 5

Identifying great investment properties

The objective of this chapter is to show you how to select your investment especially with regards to capital growth, initial rental income and future rental growth.

Types of property

There are many factors that you should consider, starting with investment property type, namely commercial (offices and Industrial), retail or residential. Since the financial barrier to entry and required expertise are much higher in
commercial and retail investment, our focus will be on residential property. Please note that we are excluding leisure property, timeshare etc. from this study.

**Residential property** investment offers many options including plots, houses, semi-detached houses, duets, clusters, townhouses, flats and town apartments. All of these have their strengths and weaknesses which you need to weigh up. Also bear in mind when investing that you are engaging in a long term commitment to the property in question.

Consider on-going maintenance, let-ability, and potential for growth of both rental and capital value.

Organic Growth’s preferences are townhouses and flats primarily because of ease of management and tenant demand which fuels growth.

**Capital growth and return on investment**

The place to find good capital growth is in a well-located fashionable suburb. As an aside, be careful when looking at a newly gentrified suburb. Sometimes the reason it required gentrification in the first place was that some fundamental property requirements are missing.

Once the suburb has been targeted, look at public transport, the convenience of shopping and entertainment facilities.
To drill down even further, ground floor garden units are always in demand by tenants and purchasers alike.

**The balancing act**

Entry level investors typically require a high initial rental income return and may end up sacrificing high capital growth in the process.

One needs to take advice from a coach (an astute experienced investor with good local knowledge) and avoid the temptation to lock yourself into a problem property that grows badly or even deteriorates. A classic sign of a degrading suburb is higher than usual rental return. In Johannesburg an example is Windsor.

Mature investors will tend to invest with an expectation of higher capital growth and lower initial return on investment. They do so by subsidising the rental income of their new investments with surplus rental income from other mature investment properties in their portfolio.

This provides investors with an attractive tax trade off. By utilising surplus cash from within their portfolio to subsidise the acquisition of an additional property, they trade taxable profit for capital growth in another property.

This allows them to accelerate the portfolio’s capital growth, and is the natural organic method of growing a portfolio.
Vital factors

Let us look at the vital factors to consider in identifying a great investment;

Price – Here the rule is simple. The best growth is found in the smallest units in the best areas. Suburb “average price” statistics are relatively easily available. A quick check at the suburb average could prove very valuable.

Once you have a feel for the suburb average, drill down into the complex under investigation to establish the average prices for that complex.

As an investor it is your sacred duty to beat the averages!

Tenants – The exercise that is required here is to get into the mind of your prospective tenant. Find out what type of tenant lives in the area generally, and in the complex you are looking at specifically. Demographic information of average household incomes is readily available on the internet.

For example, if the area is high in young singles or couples starting out in life, perhaps with one graduate in the family and one decent small car, then public transport and walking distance to shops and malls become major plus factors. An area fitting this profile would be North Riding, Randburg.

If however you expect your tenants to be single or dual income yuppies (young upwardly mobile) who are recent
graduates, bankers or lawyers and who drive fancy leased cars and have no children, then public transport becomes less of an issue.

Location close to major commercial nodes which offer employment, “retail therapy” and entertainment are also plus factors to look for. Fourways is a classic example with its great retail malls, restaurants, movie houses, a major casino and proximity to the Sandton commercial node.

**Finishes** – As an investor, you want to create a good living environment for your tenants. A grubby badly finished property attracts grubby poor paying tenants! One must be careful not to overcapitalise in an attempt rectify this, but this is one area where the investor can really buy well and then juice up his or her rental income.

The carpet – tile debate: Tenants are notorious for burning carpets – you will remember this with a wry smile every time you walk into a townhouse and see the imprint of a clothes iron in the carpet. It is a mystery which plagued me for years. My only explanation is that tenants seem to love ironing while watching TV and all it needs is one person to trip over the cord and voila – we have a carpet branding! For this reason, tiled floors are the preferable option for an investment property.

**Body Corporates** – Sectional title complexes are run by a body corporate consisting of a board of trustees appointed by the unit owners in the complex. They are entrusted with
the maintenance, management and general order of the complex. Not all body corporates are equal and as the investor you need to do your homework.

A visual inspection of the complex can speak volumes: are the gardens and grounds unkempt and shoddy, are the buildings in need of paint or waterproofing, are children running wild, are the security guards lax and inattentive (as opposed to smart and alert), are the tenants hanging their laundry on balcony rails instead of in the areas provided? These are all signs of a badly managed complex and you will do well to steer clear.

Another essential thing to watch out for is how well the Body Corporate manages its money. Study the financials of the body corporate before you invest!

**Location** – Location was covered extensively in the previous section, but a summary of factors to look out for are:

- Bus, taxi and rail transport
- Proximity to commercial centres of employment and retail facilities
- Schools and crèches
- Entertainment

Every investor has different requirements, different affordability and different preferences. He or she has to hold all of these in tension while considering the balancing act of **initial rental income verses capital growth.**
Chapter 6

Doing the deal

The objective of this chapter is to learn how to do the property deal, how to structure your offer and how to conclude the deal while avoiding some of the pitfalls along the way.

Knowing your estate agent

It is a relatively little known, yet obvious fact that all agents are not equal! It is imperative that the investor establishes whether the agent is a “seller's agent” or a “buyer’s agent”. I use inverted commas because technically speaking the
agent works for the seller and is therefore by definition the seller’s agent.

However, depending on what type of agent you are dealing with, when they establish their mandate to sell the property, they tend to overprice or under-price the property for different reasons.

**The “seller’s agent”**

This agent presents a high price to the seller in the hopes of obtaining a sole mandate for a long period. He/she then uses the long sole mandate period to either obtain a higher than market price or beat the seller down to a market related price.

**The “buyer’s agent”**

This agent is solid gold to the investor. He/she typically undervalues the property on a short mandate in order to do a quick sale and move on to the next deal.

**The offer to purchase**

Skilful crafting of an offer to purchase can stand the investor in very good stead.
For this reason, try to find out as much about the seller as you can.
Ask the agent:
Why are they selling?
How urgent is the sale?
How long has it been on the market?
Do you know if they have had trouble selling before – have any previous sale agreements failed?

Often the seller can obsess over the size of a deposit, or the occupational rental or the occupation date and miss the vital thing – the PRICE!

Try to tick all the seller’s boxes and make the price the only contentious issue. An investor can do a fantastic deal simply because he (or she) has discovered the seller’s primary goal which could, for example be to move to a new town in order to take up that dream job.

The seller will often sacrifice the price for the sake of knowing that it is a real deal (a big deposit, with no suspensive conditions or short suspensive bond application period) from a purchaser who wants early occupation and is willing to pay a reasonable occupational rental.

The vital elements of a typical offer
Get the property description right – a copy of the rates account and levy statement will reflect the correct name. It is important to note that the door number and the section
number are not necessarily the same. The term “unit” is often used interchangeably with door number and section number. For example, unit 2 can mean either door number 2 or section 2, and these can be very different. Be specific and if you are not sure of the section number, write the words “door number 2, complex name” on your offer.

**Price and deposit**
The price is conventionally made up of a price that is payable by means of a deposit soon after the offer is made and the balance of the purchase price that is paid by means of bond finance. Always pay the deposit into the transferring attorney’s trust account, to be released to the seller on transfer -- NOT BEFORE!

**Bond finance**
You should be able to obtain an “in principle” decision from the bank within 2 weeks of your application. “In principle” generally means that the bank approves your affordability and credit record, but still needs to ensure that the value of the property is correct and that there aren’t any other “funnies” that could negatively impact the loan.

A sectional title body corporate in financial trouble is one such item that the bank will check.

Note that bond finance is one of the many safety nets available to you the investor. If in a rush of emotional enthusiasm, you have overpaid for the property, the banks
may refuse your finance on the grounds of insufficient value found in the property.

**Suspensive conditions**
The most common suspensive condition is a purchase, subject to an “in principle” acceptance of bond finance of, say R 600 000 obtained within 14 days of acceptance of the offer by the seller.

This would mean that the purchaser has 14 days to secure bond finance. If finance is refused, the deal does not become a sales contract and all deposits paid are refunded to the purchaser without deduction, unless of course it is stated in writing in the contract that the deposit paid can be retained in part, or in its entirety by the seller or agent.

**Coaching**

As mentioned in chapter 3 of this course, use your investment coach to assist with your first few sale agreements. Resist the urge to bow to the agent’s pressure and “just do the deal”. Take the completed agreement and run it by your coach.

If you don’t have a personal coach then an investment club like the Organic Growth Investors Club can be invaluable.
I have seen investors make elementary mistakes that cost them thousands. These are mistakes that could very easily be avoided by the involvement of your property coach.

An experienced property investor knows the answers to many of the questions you don’t even know to ask.

He will also see potential problems or advantages when the inexperienced investor does not even know that they exist!
Chapter 7

Property Management – choosing your property manager

The objective of this chapter is to equip you to see the need for effective property management and be able to select the correct property manager.

Not all property managers are equal. How do you find, evaluate and appoint your property manager?

A property manager is the person or company who will look after all aspects of your investment property.
They will be responsible for:

- Sourcing tenants (new tenants are of course presented to you for your approval)
- Doing credit-worthy checks on prospective tenants
- Collecting rental
- Paying your levies and rates
- Arranging maintenance
- Property inspections
- Credit control
- Providing financial and physical reports
- Providing an annual tax report summary.

**Ask these questions when choosing a property manager**

1) Are they registered estate agents? Verify this by asking for a copy of their Estate Agents Affairs Board Fidelity Fund certificate.

2) Local knowledge is essential! Make sure they are active in the suburb that you have invested in.

3) Ask your potential property manager for recommendations on how to maximise your rental while ensuring that you have minimum vacancies. You should discern that they have an understanding of your requirements of maximum return on investment while minimising vacancies.
4) Tenant sourcing. Establish that they have adequate systems for sourcing tenants and that they do *appropriate* credit checking. It is essential that they are registered with the appropriate credit bureaus.

5) Credit control. What measures do they use to ensure prompt painless credit control? Ensure that they have an effective system in place.

6) References: A property manager worth his salt should be able to provide adequate references of *long term* clients. Contact the references!

7) Ask the property manager what types of properties they specialise in (for example, holiday accommodation, clusters, houses, *townhouses*, or flats).

8) Transparency. A property manager who hides things for you, will hide things from you.

9) Talk money. When can you expect your rental to be paid and what is the lead time between the tenant paying his rental and you receiving it in your account?

10) Monthly reporting. What monthly reporting is provided to you the owner, and how are the tenants invoiced? Note that a professional service gains respect from your tenant.

11) Annual reporting. Ask how the annual finances are reported and how they will assist you with your tax return. Do they provide information in a format that is Receiver of
Revenue friendly? Do they show an understanding of tax deductible expenses?

12) Communication. Look for a property manager who communicates well with you and by inference, communicates well with your tenants. Ask what normal monthly communication both you and your tenants can expect.

13) Costs. Ensure that you are paying market related fees. Take note that there is no industry standard for leasing commissions and management fees. Both property management fees and tenant finder’s fees/letting commissions are payable by the landlord. Ensure that you have a proper understanding of the costs and their impact on your monthly cashflow.
Chapter 8

Growing your property portfolio

The objective of this chapter is to introduce you to the incredible power of property investment achieved through building a personal property portfolio.

You are not going to realise your objectives of early retirement, or funding your children’s education by buying one property and sitting back.
Remember the lesson learned in the game of Monopoly

4 green houses = 1 red hotel.

The name of the game in property is multiplication: Multiplication of your wealth through your property portfolio and hence your earning opportunities.

When you initially venture off on this journey of property investment you will be stunned by all the amazing advantages you are opening yourself up to.

You are heading off on a journey of discovery of how the rich grow their wealth.

This is the fun part, watching your first investment property slowly growing into a portfolio of properties.
There are many financing options and strategies available to the investor, but they all distil down to the following basic strategy.

**Property one**

Buy your first income producing property. When your property is running smoothly, and monthly cashflow is neutral or positive (that is, you are making a monthly profit) it is time to purchase your next property.

**Property two**

Next, put your energy into sourcing and selecting your second investment property. Use surplus income from the first property to make this possible in two ways. Firstly, after property one has grown in value you can access the equity in the property by refinancing it in order to provide the deposit on the second property, or by using the excess rental income to subsidise the bond repayments for property two.

**Property three**

Once property 1 and 2 are both established and growing, repeat the process, but with the advantage of now having two properties to subsidise your property number three.
And so the investment cycle continues;

-> Save up a deposit (or access the equity in your existing properties)

-> Acquire the next property

-> Manage the cashflow

-> Do it again

You will find that the properties get easier and easier to hold and finance as your portfolio grows.

The current (2014) banking environment across the world is making this difficult, but we are already seeing the banks relax their lending criteria as funding eases up. It is important to note here that a bank’s primary business is to borrow money from the national reserve bank and re-lend it to its clients at a premium.

Remember, that lending money against property is the bank’s safest lending environment.

That says a lot!
What to do next?

We have barely scratched the surface of residential property investment, but by now you are considerably closer to starting or refining your property portfolio.

As you may realise by now, fine tuning small variations in the location and type of property can have significant effect on your investment.

Before you start spending hundreds of thousands on your next property, consider the options Organic Growth has made available to investors.

1) **Self-study** though the increasing body of free information on our website [www.organicgrowth.co.za](http://www.organicgrowth.co.za)

Subscription is free to stay in touch with new investment opportunities, information and blogs.
2) **Residential Property Investment 101 course.**

By spending the equivalent of your first month’s rental income of a small entry level townhouse, you can own your copy of Organic Growth’s **Residential Property Investment 101** course.

It contains six hours of recorded, webinar style learning, including Q & A sessions after each module plus “homework”. It includes everything from detailed Google Earth location and nodal theory case studies, to cashflow spreadsheets and landlord secrets.

The course goes into great detail on every aspect contained in this short e-book in an effort to equip you to make good investment and management decisions without you having to make all of the classic investment property mistakes yourself.

For more information on **Residential Property Investment 101**

[click here]
3) **1-on-1 property investment coaching** by Neil Vorster, the author of this e-book and co-founder of Organic Growth.

Using the experience gained in nearly 30 years in the South African property industry, along with his hands-on experience as a successful property investor and principal of a Bryanston based estate agency, Neil has successfully coached many people in the art and science of residential property investment for more than 10 years.

- Are you hooked on property?
- Determined to succeed in property investment?

If so, then [click here](#) to book your introduction to property coaching – book a 1-on-1 Skype based 45 minute strategy session with Neil.

I'll help you kick start your investments into high gear!

The end… but the learning has only begun!

![Image of Neil Vorster]
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