RESIDENTIAL PROPERTY INVESTING EXPLAINED SIMPLY

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First published in 2022 by Major Street Publishing Pty Ltd
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A catalogue record for this book is available
from the National Library of Australia

Printed book ISBN: 978-1-922611-44-4
Ebook ISBN: 978-1-922611-45-1

Cover design by Tess McCabe
Internal design by Production Works
Part II illustrations by Simone Geary
Printed in Australia by Griffin Press, an Accredited ISO AS/NZS 14001:2004
Environmental Management System Printer.

10 9 8 7 6 5 4 3 2 1

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WHY RESIDENTIAL PROPERTY?

> *'A big part of financial freedom is having your heart and mind free from worry about the what-ifs of life.'*
>
> —Suze Orman

You may have read about me in my other book, *Commercial Property Investing Explained Simply*, but what I didn't tell you there is that while I have achieved fantastic financial success in the commercial property asset class, it all started in the residential market. I bought eight residential properties myself, and I secured around 1,000 properties for clients before making my first move into commercial, so you could say that houses were my first love.

I grew up in a gentrifying suburb of western Sydney. My father was a television repair technician, my mother was a stay-at-home mum and I have two older brothers (and even at 6 foot 3 inches tall, I'm by far the smallest of the bunch). At high school, I finished in the top one per cent of the state, and at the time I thought academic excellence would equate to wealth – and that wealth would bring happiness. I had a natural affinity for mathematics and theoretical concepts, which led me to study engineering at university, and I finished first in the course.

Specifically, I studied mechatronics, as my dream was to design robotic limbs for humans. But once I graduated, I realised sitting at a computer all day writing code was not for me.

I moved into mining and became a structural and mechanical design engineer, designing large industrial machines and mine sites. I began to earn good money and became one of the youngest engineers in Australia chartered in both mechanical and structural engineering.

What I enjoyed the most was spending one or two months on design work and then, three months later, this huge thing you have created is real and tangible. I loved design because, as in engineering, it offers little room for subjectivity. It all comes down to the numbers!

As an intern engineer in 2012, I was on $50,000 per year and starting to realise it was going to take me a long time to save decent money. So, while I was very nervous, I looked around the area I grew up in and took the plunge, buying my very first residential property – a house in Blacktown (in western Sydney, New South Wales). It cost $230,000, renting for $280 per week. I purchased the property on a 90 per cent loan with lenders mortgage insurance (LMI), so it cost me about $33,000 up front. The rent covered the mortgage, so it was 'set and forget', even though I had no idea whether the property would make a good long-term investment.

In the first year, I got that affirmation: the property value grew to circa $300,000 and I had made $70,000 from signing a piece of paper! This was my lightbulb moment, and from that moment on I was hooked. I read every book and listened to every podcast I could get my hands on, buoyed by the idea that there was no way I could save this profit on my salary – it would have taken at least five years.

Like many, though, I got caught up in the rat race. I was working long hours, earning a good salary and creating wealth, but I saw unqualified employees being promoted and earning high incomes while some of the most qualified employees were working hard but going unrewarded. My belief that academic excellence and hard work would be enough was shattered.

I decided that I didn't want my life as a professional to limit me, nor did I want to leave my financial future in the hands of a faceless corporate machine. So, I chose residential property as my path to financial independence. I saved incredibly hard and refinanced my first Blacktown property. However, I made some mistakes.

I bought my first property through my bank's local branch, so naturally I headed back there for my second purchase. I followed what my local bank manager recommended instead of speaking to a mortgage broker, as I should have. So, when I went to refinance my Blacktown property, with a lot of equity, the bank manager got me a 95 per cent loan and made me pay LMI again!

They could have given me an 80 to 90 per cent loan by refinancing more from my Blacktown property, but instead I basically paid LMI twice for no reason. They also cross-collaterised the properties so they were linked and the performance of one would affect how I could extract equity from the other.

After I found this out, I went to a different bank and spoke with their bank manager, who gave completely different advice. My lesson was to always use a broker and get more than one opinion.

As the Blacktown property kept growing in value, I began accumulating low-priced, positively geared properties. Every year I purchased more, and my portfolio grew exponentially. My best memory was when I sold a property and had half a million dollars in my bank account. As a 25-year-old engineer who was on about $100,000 a year at the time, this was such a feel-good moment. I had approximately 15 years' worth of savings in my account from investing well.

It was a big realisation that working nine to five for 40 years was not the best option moving forward. Off the back of my passive income from property, I bit the bullet, left my engineering career and went full-time into property. I became a buyer's agent, and within a few years I'd helped clients purchase more than 500 properties in the residential space.

When considering whether residential property investing is right for you, it's important to identify your happiness goals.

I'm not talking about a portfolio size or passive-income amount; most people overestimate what they need to be happy, and this leads them to take on unnecessary risk. Sacrificing time today to reach a specific number tomorrow is only worthwhile if that number delivers you tangible benefits. It's not about having hundreds of properties in your portfolio – it's purely about choice and freedom.

Assess your short-term, medium-term and long-term goals. What will make you happy? I've spoken to thousands of people from different walks of life, and everyone's compass for happiness is different; some are over the moon when they can afford a new fishing reel, others when they can purchase a $250,000 sports car. My own happiness comes from travelling, socialising, climbing mountains, feeling appreciated and working on passion projects. Property investing has enabled me to pursue these goals – I travelled, for example, to 35 countries by 35 years of age without sacrificing my professional career or my relationships. What will residential property investing help you achieve?

Benefits of residential property

Early on, I learnt some valuable lessons. As far as I could see, there was no other asset class that allowed you to maximise leveraging at 80 and 90 per cent. I learnt about the power of leveraging from all the real estate books, but they all had a different strategy and methodology – negative gearing, value-add projects, the land component having the growth, and so on. Which advice was I to follow? I could see that residential was less specialised and easier to 'get into' than the other asset classes, with easy access to equity, too.

I learnt to be both curious and sceptical about some of the younger 'gurus' at the time who had amassed large portfolios in short time frames. Some are mentors and reputable buyer's agents; others are sharks with their own agenda to just make money.

Knowledge empowered me to make good decisions, for myself and for my investors.

The more I learnt, the more I liked about using residential property as a vehicle for wealth creation. Here are some of the other key benefits:

- Everyone needs a roof over their head. This asset class is considered by most as a fundamental human right, alongside food, water, clothing and health care. Shelter will always be valued by people as a necessity, as opposed to shares, for example.
- Property is like a bricks-and-mortar bank account – it is tangible. As most people live in a residential property, they have a level of understanding of how the concept works, whether it's through paying rent or a mortgage. This is a great first step to be able to repeat the process.
- Residential is a secure type of investing because there is a physical object you can add value to.
- It is also less volatile than other investments, with tax benefits, reliable capital growth, long-term mindset, high demand and rental increases.
- Most residential properties in capital cities and regional hubs have quadrupled in value in the last 30 years.
- You can use other people's money – the bank's and tenants' – to finance your financial freedom.

On the flipside, it's also worth mentioning a few reasons why you shouldn't invest in property:

- to purely save on tax (especially overpaying for new or off-the-plan properties) while ignoring the fundamentals of property investment
- to buy property because of fear of missing out (FOMO) when the markets are performing well

- if you aren't financially fluent and don't understand how property works
- if your finances aren't in order (you need stable income and enough savings for a deposit).

If you want to better understand how property works, then strap yourself in and read on!