The RoadMap To Grow Your Million Dollar Portfolio

The bonus chapter from Become A Property Millionaire In Your Spare Time

Mark Kelman
Bonus Chapter

The road map to grow your million-dollar portfolio

Have you thought what being a millionaire property investor could mean for you?

I have met many property investors over the last 10 years who have ranged from just-starting-out to being highly experienced multi-millionaires. Success in property investing means different things to different people but to everyone, success brings freedom.

Regardless of your dream: whether it is to own a good home in a good area (with no debt); or to have financial freedom to spend more time with family or friends; or to travel the world; or to dedicate your time to charity work – all these things are possible having gained success and financial reward which can come from property investing.

This chapter will help you see how you too can grow a million-dollar portfolio and how you can take the next step towards becoming a property millionaire.

Creating a million-dollar property portfolio isn’t impossible

To own or control a million dollars of property is certainly possible, and as a matter of fact, it isn’t even hard – though there are a few tricks you need to know. With the right education and by following the right process anyone can do it, I guarantee it.
Becoming a millionaire from property also isn’t impossible. It takes a bit more work to become a millionaire than just grow a million-dollar portfolio, but it is also very achievable. (To be a millionaire you need a million dollars of equity. To own a million-dollar portfolio you just need a million dollars of debt.)

Property investing magazines have articles most months about people who have become property millionaires and the truth is that anyone can do it, even though most people don’t. Often the people featured in property magazines who have become the latest millionaires through property are young, inspired investors who have figured out the system for themselves and put in the work to make it happen for them.

This chapter will show you a system that anyone can follow to create a million-dollar portfolio – in fact it is the system that I used to create the first million dollars of property in my portfolio. Once you master this strategy, you will be ready to move on to even more profitable deals and you will see the true power of property investing as a vehicle for wealth creation.

So stay focused and let’s look at the system together.

I know a lot of people who buy lotto tickets. Personally, I don’t. I’ll happily buy raffle tickets to support charities, and not uncommonly I come away with a prize. With lotto the odds just seem too low to me for any chance of a real win – and when we are playing lotto, surely the only reason to buy a ticket is if we think we have a chance of winning. The odds of winning a substantial amount of money in lotto is more than 1,000,000 to 1. You have more chance of being hit by a car when crossing the road, or your plane crashing than you do when playing lotto.

When people ask me if I have a ticket for tonight’s mega lotto
draw I usually shake my head and ask them do they know their odds of winning are less than 1,000,000 to 1? It’s far, far easier to earn a million dollars than it is to win a million dollars.

**Earning a million dollars**

So let’s begin with the strategy for creating a million-dollar portfolio.

Before I start, we should be clear – when you own your first million dollars of property you most likely won’t be a millionaire. Sure, it’s a great step in the right direction, but you will probably have a lot of debt and only a bit of equity. Don’t let that stop you – this is a good position to be in because the way from here is forwards, and you are much further along than most people ever get to be.

A mentor and friend of mine often says that every investor is just one deal away from being a millionaire and he is absolutely right. One of the benefits of property investing as discussed in the book is scalability and repeatability. Work out how to do a profitable deal that makes fifty thousand dollars profit, then do it twenty times and you will be a millionaire. Work out how to do a deal that yields a hundred thousand dollars profit and you only have to repeat it ten times.

If these numbers sound impossible, don’t worry about it. Not only are they possible, property investors produce these sort of returns every day. It may take a bit of time to do (some months, even a year or so) but for these returns it is worth the time it takes.

**Starting out**

Throughout this book we have covered the process of overcoming the limitations that most property investors face when starting
their portfolio, so we won’t go into details again here. We should summarise the key points that we need to consider, though, when finding a property that is suitable to form part of our million-dollar property portfolio.

Buying the wrong property will set you backwards while buying the right property will take you upwards towards your goal. The key principles of property investing that will allow you to build a million-dollar portfolio are:

1. Buying cash flow positive or neutral
2. Buying at low-market value
3. Ability to add value
4. Ability to refinance and stay cash flow positive or neutral.

Let’s look at each of these in more detail.

**Buying cash flow positive**

The reason that most property owners are never able to grow their portfolios past one or two properties is that they have negatively-geared property in their portfolio. As you know, negative gearing is where the government allows a tax benefit when your property costs you money to hold it. For example, when the income from your rent doesn’t cover your mortgage interest, maintenance costs, etc. you can use the loss to pay less tax from your pay-as-you-go job. While this may seem great (less tax!) the reality is that your property is *losing you money* and so there is a limit to the number of properties like this that you can have before you go broke.

Cash flow positive properties, on the other hand, bring in more rent than they cost to hold, so you can keep adding these to your portfolio and they actually make you money. Already by just examining this one factor, we can see a difference in the kind of
properties that successful investors may look for, versus the ones that everyday people buy most of the time.

Now, there are a few things to know about cash flow positive properties:

1. Firstly they are not as easy to find as you might think (but they are definitely able to be found)

2. Secondly, they are not generally well advertised – they aren’t listed on real estate websites as “positive cash flow property – buy me”.

3. Often these properties are not listed on websites like www.realestate.com.au at all.

4. They are often not attractive-looking houses. The value is in the numbers, not what they look like on the outside.

5. Lastly, if you do find properties that are listed on websites as positive cash flow be a little bit wary because they might have a high rental income for a (negative) reason. Especially if they have been listed for a long time and haven’t sold, make sure to do your full due diligence (research) before buying (see Chapter Thirteen).

Usually you will find good positive cash flow properties in regional areas – particularly large regional centres in NSW and Victoria. Often an indicator that there are good positive cash flow properties around is that you find less desirable ones listed on real estate websites and if you enquire with real estate agents in the area, they will let you know about better deals when they come up (e.g. with a higher yield but in a better area of town, not housing commission areas, etc.). We discussed how to find deals in a lot more depth in Chapter Twelve).
Buying at low-market value

It is very easy to pay too much for a property and this will hurt you throughout the course of your investing. Pay too much and you will pay more upfront, a higher deposit, higher stamp duty, higher interest costs, higher real estate agent commissions when you sell, etc.

One of the keys to investing success is to lock in equity at the start (when you buy) then add equity as you develop the property (add value), then market the property well and sell for a good price creating your last added profits at the end (as you sell).

To ensure the best profits from your investing you need to buy at low-market value. Chapter Twelve covers how to look for and find the right property, including how to buy at low market value (i.e. not pay the higher price that most people pay when they buy). By doing this successfully you can minimise the cost of buying and maximise your profits. The better you do this, the bigger the portfolio you will be able to assemble, and faster.

Ability to add value

As we build a million-dollar portfolio, our goal is to buy a property, add value, then refinance and withdraw equity which we can use to fund our next purchase. What this means is that we have to do something to the property that will cost us less than it will proportionally add in value, by making it more desirable to rent or own. Two easy examples of this are:

- Cosmetic renovations
- Subdividing.

Cosmetic renovations

A cosmetic renovation involves cheap and effective techniques
that make a property present better to buyers and renters. After a good cosmetic ‘reno’, a property will sell for a higher value and will also rent for more. We covered renovation in Chapter Eleven. The basic principle here is to make a property more appealing in a cost-effective way without paying too much. Often, especially with cheaper houses, a cosmetic reno simply makes the place look a bit more modern and nicer to live in. A quick paint, new carpet, maybe new kitchen cupboards or handles and a modern toilet and vanity can make a place look much nicer – meaning it will be valued higher, and sell or rent faster.

**Subdividing**

Subdividing is a little more complicated and as I said when we touched upon this earlier it will be covered in much greater detail in my next book.

Subdividing (either strata subdivision or a land subdivision) is a great way to add value to an existing property. The crux of how this works is that it is harder for anyone to buy one BIG property (e.g. a whole block of six units) than multiple people to buy each of the smaller ones (e.g. six single units). Therefore, the value of the singles combined is higher than the value of all on a single title. For a relatively affordable price, subdivision is a great way to add value to a property that is amenable to this strategy. Find and buy a deal that can be subdivided and even if you don’t do this upfront, you have a property with good value-add potential down the track.

**Ability to refinance and stay cash flow positive or neutral**

The last part of the strategy is to refinance once you have bought at low-market value and once you have added value. The goal here is to be able to withdraw all of the cash you used to buy the property and the cash you used for your renovation or value-add.
You might keep the property, but because you have your cash freed up now, you can go ahead and buy another one!

What you need to keep in mind is that refinancing will result in a bigger loan, so higher interest repayments. You need to keep your portfolio cash flow positive (it must keep making money to allow you to keep building on it). Either your renovation needs to also create a higher rent, or the property needs to have a high enough rental yield to start with so that when you refinance and your yield drops you are still cash flow positive.

A quick example:

- Purchase price: $100,000
- Weekly rent: $190
- Closing costs: $5,000
- LVR: 80%
- Interest rate: 6%
- Holding costs: $4,000

Work out:

(a) What the annual interest cost is
(b) How much cash you would need to buy this house
(c) Whether this property is cash flow positive
(d) How much money per year it will generate or lose.

Now read on.

In the example above, the property will cost $105,000 to buy (purchase price plus closing costs) and you will need $25,000 cash to purchase (based on an $80,000 loan at 80% LVR). The annual interest cost is $4,800. With holding costs of $4,000 (for maintenance, management, council rates, insurance, etc.), the total expenses are $8,800 per annum. If the property rents for $9,880 per year, then it will be cash flow positive $1,080 a year money in your pocket!
Now let’s say you renovate the property for $10,000 with no increase in the rent, and then the house is worth $150,000.

For an 80% LVR again (ignoring refinance bank fees, etc.) how much interest will you now pay?

The answer is that the new loan will be $120,000 (instead of $80,000) and will cost $7,200 per year in interest instead of $4,800. You will be able to recoup $40,000 using this strategy and given your investment was $35,000 ($20,000 deposit, $5,000 closing costs and $10,000 reno costs) you’ve done well.

However, the cash flow for the property has dropped because the mortgage has gone up and the rent hasn’t. Now the rent is still $9,880 per year and the expenses are $2,400 higher – a total of $11,200, meaning our property now costs $1,320 to hold.

For this deal to work as an effective cashflow-positive asset after refinance, we either need to be able to raise the rent to $225 per week due to improvements from our renovation, or we need to find a property with a higher yield to start with (or pay less for it when we initially bought it).

**Putting it all together to build a million-dollar portfolio**

Above is just one strategy that can be used to start building a million-dollar portfolio. Taking the example we’ve just considered (and assuming that the rent will be $225 per week after the renovation), here is an idea of how you could build a million-dollar portfolio, starting with $80,000 cash.
You can buy and renovate Property 1 and Property 2 simultaneously because you have $80,000 cash to start with. If it takes two months to find these properties, and then three months to settle then six months to renovate and revalue, then in less than a year you can be repeating the process and buy your next two properties (see Figure 19.1).

Figure 19.1 – The path to cash flow neutral/positive property ownership with no money in the deal

After 22 months, if you can find the same kind of deals again, you will have four properties that are cash flow neutral and you are ready to go again. If you repeat this twice more, you reach your million dollar goal.
In just over three and a half years, with this strategy alone, you can have built a million dollars of property that costs nothing to hold.

As for where to find properties in this price range and where low-market property is available that can be renovated for profit, we discuss strategies for finding and buying these kind of properties in Chapter Twelve.

Figure 19.2 below is a chart demonstrating the timeline for building a million-dollar portfolio using the strategy of find-buy-settle-renovate-refinance.

*Figure 19.2 – The million-dollar portfolio roadmap*
In fact, based on the numbers above, the portfolio you have built costs just under a million and is worth $1.45 million due to the added value from the renovations.

This is not a bad effort, considering you started with just $80,000 cash and you could hold a million dollars worth of real estate that is cash flow neutral.

Now, of course, this million-dollar portfolio road map outlines a plan to build a portfolio without taking into consideration any market growth. By investing in the right areas and by buying the right properties, the assembly of a million-dollar portfolio can be fast-tracked by generic market appreciation as well as through the investor actively adding value. We also assumed interest rates of 6%, and at the time of writing, interest rates are even more competitive – making finding cash flow positive property even easier.

If you want to move faster, you can borrow at 90% LVR, instead of 80%, effectively meaning your portfolio can start at twice the size, and you can bring your timeframe down from three and a half years to just under two years. In fact, due to some overlap in the process, you can even move faster (e.g. not wait to be finish a refinance before starting to look for the next deal). Of course, any of these steps might take longer – so you may not finish the process quite as fast as you liked. In investing, things usually do take longer and cost more than initially thought, which is why it is important to factor this into your calculations.

As with all strategies there are things to be mindful of. Bank lending criteria change constantly and even next month it could be easier or harder to do this. With a good mortgage broker and the right strategies it is definitely possible to build a portfolio quickly – even in less than 12 months. (See Chapter Five for more information on lending.)
Now some people might be asking, “What if I don’t have the first $80,000 to start?”. That is a common question. There are certainly plenty of options, though the easiest would be to pay off debt and save the cash – which might delay your start. Otherwise, a common way to get kick-started for investors without significant cash who are starting out is to joint-venture with someone else, or borrow from family or use equity in a house you already own. This we discussed in Chapter Four.

**The real benefit of a million-dollar portfolio**

The real benefit in building a million-dollar portfolio is that once you have assembled it, and provided it is cash flow neutral or positive, you get the benefits of capital appreciation and inflation so the value of your property grows over time, but the debt you have stays the same – or gets smaller (if you choose to pay it down).

In effect, a strategy that works is to build a million-dollar or multi-million dollar portfolio that is cash flow neutral or positive and allow capital appreciation for a number of years, then sell off a portion of the portfolio. You can pay down all or some of the debt and then what you are left with is a portfolio that has no debt and generates income that you can live off. Or you can sell the whole portfolio and use the proceeds to buy another asset that generates income – or even a house to live in. What you do with your profits is completely up to you.

Now, this is certainly not the only way to build a million-dollar portfolio, but it is a strategy that works. Not only have I used this strategy but many investors before and after me have as well. The most important thing is to get started and take action because I can guarantee that unless you start, you will never become a property millionaire.
**Next steps**

OK, so, having read this chapter, where to next?

If you’ve skipped ahead and read this first, that’s OK, but I’d encourage you to read the rest of the book which guides you through overcoming the obstacles investors face when approaching building a million-dollar portfolio, or even just getting started.

If you’ve read the book already – great. I’d suggest to go back to Chapter Eighteen and work through the steps involved in buying your next property. Feel free to review any of the chapters that you need to.

Before you embark on building a million-dollar portfolio, I’d highly recommend considering a mentoring program. The process is simple but the psychology of owning $1 million+ of real estate and taking on debt can be a bit trickier than some might think.

For suggestions on education, check out Chapter Seventeen.

Good luck with your property journey and be sure to let us know how you go and about your successes.

Happy investing.

MARK KELMAN
Where to now?

If you liked the bonus chapter, then you will love Become A Property Millionaire In Your Spare Time.

In the book, I detail the fourteen things that hold people back from getting started, and set you on your way to property investing success!

Trust me, there is a solution to every reason or excuse you can come up with, as to why you cannot become a successful property investor.

Here’s what a few people have said about the book:

*I absolutely love ‘Become a Property Millionaire in your spare time’. It is my bible and I carry it with me everywhere. What a wonderful book and a must for anyone starting on this journey.*

Juls Rollnik

*It is a fantastic read that reminds us of the basic strategies that can be used by investing in property which will ultimately lead to financial freedom*

Simon P

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