Chapter 1

Before Investing

Why invest in property?

The answer to this should be, why not? You can choose to put your money in a lot of places, depending on your appetite for risk. One place might be in a tin under the bed or you could, like most people, put it in a savings account. You could invest it in stocks and shares or even a start up a business.

So let's take a closer look at these alternatives before we move on to property.

If you opt to keep all your money in a tin under the bed to protect it, you'll find that something very strange begins to happen to that money. It starts to disappear.

I'm not suggesting that someone is opening up your tin of cash and dipping into it now and again. The money disappears without you even opening this tin. This is because of inflation, which raises the cost of living over time. Something that cost you £100 in 1984 would cost you around £300 today. The longer you keep your cash without doing anything with it, the more it will lose its value.

This leaves us with our second option: a high street bank savings account.

This is the option most people take with their money. Haven't we all been brought up to see the bank as the safest place to store our cash? This faith has only been seriously tested once in most people's lifetimes, and that was in 2008, when we all got a reality check:

Money in the bank is not necessarily ours when it comes to the crunch!

I'm not going to tell you not to keep your money in the bank or in a tin under the bed because sometimes these may be the best options you have. It is always wise to keep some money by for a rainy day and the bank is probably the best place for it in those cases. Yet even there your money will lose its value over time and, again, that's down to inflation.

Inflation loves to eat your money. The long-term average inflation rate in the UK, based on the everyday things you buy is 5.58%. The best interest rate the bank will give you (even on an ISA) when I last checked in 2014 was about 1.5%.

The stark choice, then, is between losing the full 5.58% of your money over a lifetime or losing an average 4.08% every year (assuming the banks don't suddenly decide to become more generous). So how do you stop your money disappearing?

The answer is to invest money. This can be in a business, stocks and shares or an asset of some kind – such as property.

If you invest money in a business there is always risk. There is a risk that the business will fail and the reality is that most start-ups do fail in the first 5 years. That risk is there, even if you invest in an established business. Look at what happened to Comet, Woolworths, HMV and other high street names we always took for granted, as established 'big' businesses. They have all disappeared, only to be replaced by derelict units with apologetic signs thanking everyone for their custom.

You can't live in a business and it won't put a roof over your head if the cash flow runs dry.

Why property is less risky

The great thing about property is that no matter how much money you put into it, over time you will almost certainly get a return on that investment. It might take years or it could take as little as a month, depending on what property you buy, where you buy it and, just as importantly, when.

People can manage without money, they can choose where to shop and do business but they can't manage without shelter. Everyone needs somewhere to live and the population in most countries is rising. In cities such as London, the supply of property is under severe strain. Foreign investors and city dwellers are prepared to battle it out for available properties, which inevitably pushes up prices.

Simple supply and demand will continue to raise property prices in the long term, regardless of recessions or economic crises. Investing in property for the long term will protect you from the effects of the economic 'troughs' that inevitably come with the 'peaks', and can give you the level of financial freedom you desire.

What remains something of an unknown is exactly when and by how much prices will fluctuate. Most property agents and sales people will tell you that property doubles in value every ten years. I can confidently put that myth to bed now: it doesn't, at least not always and not in every area. Like any investment, the value can go down as well as up, even if the long-term trend is one of increasing value.

Fortunately, the capital value of property rising is by no means the only reason that buy to let can be such a safe and lucrative long term investment. And that's what I'm going to show you in this book.

What kind of property investor are you?

All property investors are the same, aren't they? No. Property investors can come from all walks of life. Some will be part-time investors who hold down a day job while pursuing their investment dreams in the few hours they get outside of work. Some will be professional investors who devote their lives to property investment and make a fortune. Others will fall somewhere in between.

Success in property can mean different things to different people, however if you define success as having a million-pound property portfolio, then the distinctions between investor types become more important.

What type of investor are you?

Do you have the right approach that will allow you to reach your goal?

I've met many different kinds of investor over the years - some sophisticated, some downright reckless and others at the point of 'guru' status. Here are some of those people:

Richard – The Adventurous Investor

Richard is the suave, casual kind of property investor who has money and a licence to spend it. He wears his suit loose with no tie and has no care for conventions. It's his way or the highway and to hell with the details.

Money is no real object to Richard - he has plenty. Richard likes to take risks because it's all about the adrenaline and the thrill of the chase for him. Property investment is a gamble and it doesn't matter if that property is in Albania or Blackburn; if there is a deal to be done you'll find Richard entering the market first, before anyone else.

Richard relies on luck more than judgement and it sometimes pays off. But then that luck runs out or he misses some of the detail in a rental return that sounded too good to be true…and was.

Being an adventurous investor can be seen as reckless and relies on you having enough money not to worry about your losses when a property market goes bad. It also requires a lot of self belief and resilience, to be able to put mistakes in the past and move on to the next big market and that next potential windfall.

Richard's approach is all about short-term gain, which is definitely not a strategy for the faint hearted.

Suzanne – The Experienced Investor

Suzanne has been in the property business for more than a decade now. In that time she has built up a substantial portfolio of properties that have allowed her to spread her risk. She focuses more on on-going rental returns than on any short-term gains to be made.

Suzanne will study an area and go through every detail about a property before making the decision to invest. She will look to buy at a knockdown price, or unearth a hidden gem in a sought-after area of town that just needs some refurbishment work to realise its potential. She will have a good relationship with a number of estate agents who find her the right properties that will expand her portfolio.

Before choosing her property, Suzanne will look closely at all the details, from location to the likely rental return. She rarely acts on impulse and won't take risks unless they are calculated carefully beforehand.

Julian – The Analytical Investor

Julian is like Suzanne in some ways – until he has to make a decision. He is known for overanalysing every situation, often held back by the sheer amount of knowledge he has about property investment.

Julian has read every book, visited every Internet blog and attended his fair share of property shows over the years. The one thing he hasn't done is move beyond his one investment property.

This is because he knows that property markets move in cycles and by the time he feels comfortable that the next up-cycle has arrived, he is already listening to the news and worrying about when the end of it will come.

Julian is afflicted by what some people in the property game call 'analysis paralysis'. He simply doesn't move quickly enough and won't take any risks because his knowledge about the subject gets in the way. And so he misses out time and again on good, solid investment opportunities simply because he’s waiting for ‘the perfect deal’.

Graham – The Novice Investor

Graham works full time as an engineer and has his pet project. The converted old church he has been working on for three years is beginning to look the part but there is still a lot of work to do. His ambition is to finish the project in a year or two and move on to another house.

The property is large and in an up and coming location, so he expects it to generate a good income in time and provide him with a nest egg for retirement. The only problem is Graham hasn’t set a goal for when the project will actually be finished.

The house means a lot to him so he has become emotionally attached and there is no real plan in place to address what happens when the property is finished. Will it be sold or rented out? Has all the investment been worth it?

Why buy to let investors need to be good all-rounders

Each of these investor types has a different motivation for becoming involved in buy to let property. What you can learn from their profiles is that becoming a successful property investor will require a number of skills.

You'll need to be able to separate your emotions from each project and have the ability to take a calculated risk. You will be more successful if you're prepared to work at it, rather than expecting the right investments to simply fall into your lap. Trust me they won't; investing and being a success in property takes work and organisation. And you need to be clear on why you're investing, so that you can put together an investment profile that will help you achieve your financial goals.

Property is a risk like any other investment. It's only by taking a long-term view and having a well-considered plan, that those risks can be reduced.