

## Exclusive Insights For REIN From Australia's #1 Real Estate Expert

### *Remember - Real Estate Is Not The Asset*

Dear Alberta REIN member, Before I get into the meat of this article, let me share a couple of important thoughts: It's a pleasure to provide you with this exclusive article, which has been commissioned by my great friend Don R. Campbell. I was very fortunate to be able to meet and spend a lot of time with Don when he was in Australia in February 2001, and during that time, he shared how proud he was of the success the Alberta REIN Members were creating. And that's when he invited me to come to Alberta to speak at your July Quarterly Workshop. Well, as you might imagine, it is an awful long way to go, but Don is pretty persuasive and in reality it is a great opportunity for me to take advantage of the Alberta Market. I trust you are aware just how perfect your market is right now, and you are buying or optioning everything in site! Anyway, it will be my pleasure to fly half way around the world not only to share my unique insights and strategies, but also to learn all the details of your powerful Quantum Wealth Program I've heard so much about. So book your calendar for July 7th and I'll see you there.

### All Right Back To "Real Estate Is Not An Asset"

You may be wondering who am I and what makes me qualified to speak on the subject of real estate. My name's Steve McKnight, and since May 1999 my business partner and I have **purchased more than fifty income producing properties. In total we currently earn more than \$110,000 per annum and this figure is increasing all the time.** Many people regard our achievement as extraordinary, both in terms of the speed of our purchases and also the nature of **our returns, which are regularly above 75% per annum.** Outside of my real estate interests I'm a chartered accountant, registered company auditor, small business owner, university lecturer, creator of <http://www.wealthtipsonline.com.au>, husband and all round nice guy! (at least that's what my wife tells me) **The One Single Thought That Helped To Create This Success!** While many of my thoughts and views are unconventional, they're proven to work - and not just for me, but for the thousands of people who follow my free newsletter - Property Secrets Revealed. Below, you will hear of the one thought process, that has allowed me to create such great success at such a fast pace... and if you follow it, you can speed up your pace of success. And please keep in mind, I'll be visiting Canada in July and I've agreed, as a personal favour to Don, to attend and present at your July REIN Quarterly Workshop. This isn't a session you'll want to miss, especially since **I'll be bringing a small Australian gift to everyone who's there!** But enough of that... let's get into it!

### Why Properties Aren't Really The Asset

My definition of an asset is: "something that puts money in your pocket." In other words:  
· your property must be income producing from the day you acquire it, AND · it must continue to be income producing for the period of time you own it too.

## **McKnight Truism #1 If you only invested in properties that made money, you'd have to make money!**

Although simple, the definition of an asset outlined above is very powerful. Deciding to only buy properties that make money from day one would automatically eliminate all negative cashflow deals. These negative cash flow deals are fodder of ignorant and uneducated investors who are preyed upon by highly paid developers and marketeers. Following McKnight truism #1 is like an early warning beacon. In my investing, I ask one simple question before buying anything... that question is "**How much weekly positive cashflow will this property return to me?**" Ad like myself, every truly successful real estate investor I know has adopted this powerful rule... never, ever buy a negative cash flow property. So what's the key ingredient in a positive cashflow property? Well I'm here to tell you that **your key component is not the location, condition or the actual building itself.** But it is not. Remember,

## **McKnight Truism #2 An empty property yields no income.**

I have an imaginary deal for you... let's say you find a house that was once listed on the market at appraised value of \$120,000, but because the owners really need to sell, they'll now accept \$90,000. That's a \$30,000 discount! Are you interested? Let's imagine that you buy this bargain property as a long-term rental, but after six months you're still have trouble finding a tenant. During this time you'll earn no income, yet you'll need to make loan repayments, as well as fund other associated property costs such as certain taxes, maintenance expenses and agent advertising costs. Even though you've purchased a bargain property, it doesn't earn you any money - in fact it takes money out of your pocket. **By definition this is not an asset - it's a liability!** Sure, you could try to quick flip it for a quick profit, but doing this is like selling the goose that lays the golden egg, especially in your hot Alberta market. I encourage you to look for income returns before capital gains, because income is what you'll need to replace your salary when you retire. Having a vacant property illustrates that bricks and sticks do not generate any cashflow. No, it's the person that lives in the property that determines when and how much you get paid.

## **Your Tenant Is The Asset, Not The Property. So Treat Them Like That!**

If only people spent as much time looking for the right tenant as they did searching for the right property, then both landlords and tenants would get along a whole lot better. **In order to create the success I have, at the speed I have, all I did was focus on the person rather than the property** and I urge you to do the same. An error that most landlords make is to threaten a tenant with eviction if s/he doesn't pay, or doesn't look after the garden, or has an unauthorised pet. This 'big stick' approach is unsatisfactory, especially when tenancy laws provide the tenant with more rights than the landlord. If you were running a business then you'd want to look after your customers, not make it a burden for them to shop with you. As a landlord, the tenant is your customer. A far better strategy is to reward the tenant for behaviour you want them to continue. If they switch back to the old ways, then the benefit is withdrawn. Tim & Don have talked to you about this strategy with utility rebates etc. and I'm proof that they work. Rewards work much better than punishment. Switch your attention away from the property and start to focus on the tenant. Adopting this strategy ensures you focus on the true asset - a lifetime of income supplied by a living, breathing tenant who needs a place to call home.

## Turning Lemons Into Lemonade!

In real estate investing circles, a lemon is a property that sits vacant. It's called a lemon because it doesn't make you any money. But there are several strategies you can use to turn a nasty lemon into sweet tasting lemonade (ie. income producing). Here are three 'tenant enrichment' strategies that you can implement:

### Strategy One: Renter Affiliate Program

There are all sorts of affiliate programs on offer around the world. Why not take this proven and successful business model and apply it to your rental properties. It's a fact that we attract people who are like ourselves, so many of our friends will enjoy doing the things we like to do and also live the same way we like to. If you have a tenant that you regard as ideal, then approach them and get them to recommend a friend to move into your vacant rental property. So long as they move in, look after the place and pay on time, then give the referring tenant a discount on his/her rent, provided they pay on time and look after their property too! This way, you're encouraging both tenants to pay on time and also rewarding your original tenant for solving your vacancy problem.

### Strategy Two: A Place To Call Home

If you have a vacant property that a lot of people look through but no-one rents, then it's probably because it looks and feels like a rental property. Good tenants don't want to rent a place, they want to move into a home. Statistically, vacant houses with no furniture sell for less. I apply the same theory with rental properties too. First impressions are everything. Smelly carpet and mouldy curtains are a real turn-off to quality tenants who search endlessly for the illusive rental property that they could turn into a nest. When you show people through the property it would be ideal to hire some furniture to give it that lived in feel. Arrange to have vases of fresh cut flowers, the fire going, the garden kept nice, the place clean etc. The more you can make it feel like home, the more chance you have of selling the image that it is home. Remember, homes command higher rentals, as emotion drives the price up.

### Strategy Three: Something For Nothing

If your house lacks features, then a strategy you can adopt is to offer something for nothing. What I mean is you could offer a small improvement to the potential tenant's choice, provided they sign a minimum twelve-month lease. You could paint a room, change the carpets, polish the floorboards, alter the lighting or provide a voucher to the local home improvement centre or nursery. Offer something that enhances your property at the same time as attracting a tenant. This entire article has been about shifting the focus away from the property and placing it back on the tenant. I do this in my investing because I know that **a tenant who pays regularly and reliably is more important than a property in a good location**. I hope to meet you at the July REIN meeting, where I'll be speaking more about my unconventional yet profitable real estate investing techniques. Until then, remember, never, ever, ever buy a negative cashflow property.

Regards, Steve McKnight <http://www.wealthtipsonline.com>.