

**How we escaped the rat race  
by investing in low priced  
houses, creating  
\$6000/month cashflow.**

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***(an information website for investors.)***

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## How we escaped the rat race by investing in low priced houses, creating \$6000/month cashflow.

### **Our beginnings**

This is our story, about how my wife and I, went from working hard in two small business's and barely getting by, to three years later having created passive income from real estate of over \$6000 per month, between ourselves and our investors.

Being dissatisfied with running two small business, we had begun a journey of discovery, reading lots of books and attending several self development seminars. We found many strategies, in both the sharemarket and real estate, and eventually discovered a system which we really liked the sound of, and thought we could make it work.

Very few people had heard of this strategy at that time, a strategy for putting together real estate deals that gave us great monthly cashflow. We learned this system from an American investor John Burley, who has done literally hundreds of these transactions. In America these transactions are referred to as "wraps", in Australia we tend to call them "vendor finance houses", but you will hear people refer to both.

Over a three year period we did eighteen of these deals which gave us a passive income from the investments of over \$6000 per month (shared with our investors), after all the expenses such as rates, insurance and repairs were paid for. Our share of this cashflow was over \$3000 per month.

Now I know \$3000 a month is not a huge amount of income, but when it is an extra stream of income, you don't have to go out to work for it, and you have plenty of time still to do other things, it comes in very handy. Imagine the extra holidays, etc., that \$3000 per month can buy you.

For us, it mean't the freedom of choice. Knowing that our monthly bills were all taken care of, and if we wanted to take a holiday for a month, we could. It enabled me to then work on other areas of business to create more streams of income. I trained as a mortgage broker, and

began my own mortgage broking business. I also began internet marketing, and learned how to create additional streams of income online.

### **Cashflow is king**

Ok now most people say invest in real estate for growth, which is a great strategy, and has created an enormous amount of wealthy people. We also now buy and hold real estate for growth ourselves, now that we are in a financial position to be able to.

However buy and hold for growth is usually at the expense of cashflow. The properties you want to buy to keep are in high growth suburbs where rental returns are fairly low, resulting in a negatively geared property.

When you are starting out in real estate, many of us do not have any spare cashflow to put into our investments. This was our situation, so I needed to find a way to get cashflow from the real estate. This ebook explains a way to do this, which we fine-tuned to our Australian market conditions.

A normal buy and hold investment house in most areas will generally take up to \$100 (or more) a week out of your pocket, each week for the first few years, until rents increase enough to turn it into a neutral situation.

With this new strategy we discovered, a normal house will put up to \$100 per week into your pocket immediately, and so you are about \$200 per week in front in terms of cashflow, compared to a normal buy and hold house investment. It is an awesome way to get started in real estate investing.

### **No cash for deposits - No problem!**

Another stumbling block for most real estate investors is lack of cash for deposits, or lack of equity to borrow against, or after a few deals, the bank says sorry, you're not able to borrow any more money. I will also teach you how we overcame this hurdle by using OPM (other peoples money) so we were able to buy and control sixteen houses with none of our own money.

### **Concept of the strategy**

The basis of this strategy, is to buy houses and onsell them to people, on higher monthly payments than we pay on

our underlying loan, resulting in positive cashflow. Because the people are buying the house, they also are responsible for the rates and insurance, which means we get to keep the positive cashflow.

Now you ask "Why would people pay more for the same house than we pay?"

It's like selling a car on H.P. When someone goes into a car yard, they quite often pay higher interest, by taking the dealers finance, than they could obtain elsewhere. It is easier for them. They may have trouble obtaining finance elsewhere, due to a bad credit report for example, so are happy to pay a premium.

This may sound to some people as if we are taking advantage of these clients because of their situation, and there are people who will always accuse us of that. However what we are in fact doing is creating an opportunity for these people to buy their own house, when no one else will help them.

The banks don't want to know, the government have no solution for these people, and the people who accuse us of taking advantage certainly have never come up with a way to help these people, that I am aware of. The majority of our house buyers have been able to refinance with a mainstream lender and pay us out within a few years. We benefit and they benefit. We get a lump sum at cashout, and they have their own home, and a growing asset. At cashout, if the house has gone up in value to more than the agreed purchase price, the buyer keeps that equity.

There is a large chunk of the Australian population who rent their home from property landlords, roughly about 25 to 30% of the population. Many of these families would love to own their own home, if only they could, so they can live the Aussie Dream.

The main reason we found people unable to get their own house was that they didn't have a deposit. So we offered them a simple solution, houses with no deposit. We were in fact acting like a bank to our purchasers.

### **Getting started - finding an area to work in.**

We searched many areas and found several suitable areas for investing in, to suit this strategy. The area had to have reasonably high rents compared to the purchase price, the houses had to be affordable for our target market, and there had to be a good supply of these houses so we could negotiate a good price when we purchased. We always aimed to buy at least 10% below market. The area had to have a population of 10,000 or more.

### **Next, finding a house.**

To find a suitable property we would look at all the properties in our chosen area in our price range, and make written offers on the ones we figured would be the best ones to onsell.

The houses were not chosen according to their looks, but according to the numbers. If the price was right and we could expect a family to be happy living there, we would make an offer, usually 20% below what we believed was the value.

We would make many offers on lots of houses, and negotiate with the ones who were negotiable. Usually the houses needed a little cosmetic improvement, which was a good thing as we could use that to negotiate. In this way we were generally able to purchase a property at least 10% below the market value.

Now we have found a house, we put down a deposit, arrange finance, and usual settlement is 6 weeks away. This is where the interesting part begins, finding a buyer.

### **Finding someone to sell to**

The market we were selling to is people unable to go along to a normal lender and obtain a loan to buy their own house. There are many reasons for this, but the main ones were no deposit (or not enough), or bad credit. We overcame the no deposit situation because the government is very happy to give first home buyers \$7000 to buy their own house (in NSW and several other states). We were able to use this as their deposit with us. The bad credit issue we had to be careful with, and check out

references of the applicants, but usually if they had a job and had been paying rent on time, they were usually a good house buyer.

So this was the type of buyer we were looking for. To find these buyers is a lot simpler than you would imagine. We would place an ad in the local paper

" 3 bedroom house for sale by owner. No deposit needed. No bank qualifying required. Needs a little tidying up. Call xxxx xxxx."

These ads would bring lots of calls, and we would arrange an application, and organise open times for people to look at the house. It was good to have several people look at a house at the same time, they get a sense of urgency, and will start clambering to buy.

Once we had chosen the buyer, we had our solicitor draw up the contract (a terms contract) and send to the purchaser's solicitor for the purchaser to sign. Now with a terms contract, the legal title does not pass to the purchaser until they have paid in full. The contract is usually 25 or 30 years, but the purchaser can pay in full at any time, if they can get finance from elsewhere, and pay an early repayment penalty.

The price we were selling the house for was a fixed price, and took into account the fact that the buyer was securing the property now, rather than having to wait a few more years when they could get normal finance. So we would sell the house at about a 10% premium to market price, and within a couple of years, the market would often increase enough to go higher than this price, giving the buyer equity and the opportunity to refinance at a lower interest rate, and cash us out.

### **Doing the numbers**

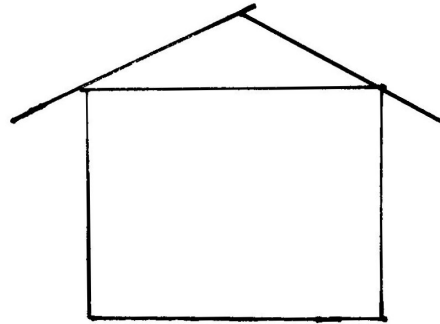
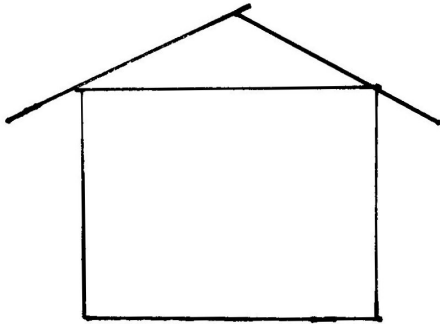
So we bought a property roughly 10% below market price and on sold roughly 10% above market, giving us approximately 20 to 25% markup. Eg we bought for \$90,000 and sold for \$112,000.

We would put down 10% deposit and finance 90% at say 7% on a P&I (principle and interest) loan. Our repayments on this loan would be \$81,000 at 7% over 25 years = \$572.49/month.

Onselling, the finance would be \$112,000 less \$7,000 deposit = \$105,000 over 25 years at 9.5% = \$917.38/month.

Monthly cashflow is \$917.38 less \$572.49 = \$344.89/month. The purchaser of the house pays the rates, insurance, and maintenance, and so this cashflow is net, there are no expenses to come out of it.

**Example:**



House            \$100k

Buy price    \$ 90k  
Deposit        9

Loan            81k  
Repayment    \$572/mo

Sell price    \$112k  
Deposit        7

We finance    105k  
Repayment    \$917/mo

Monthly cashflow 917 - 572    = \$345/mo.

**Financing the deal**

When buying property, one of the most important aspects is to have great contacts when arranging finance. I highly recommend working with a mortgage broker who can really help you set up things properly. If you go along to your local bank, they may help with the first one or two deals, but fairly soon will start telling you that you are stretching too far. Getting loans for different properties from several lenders can be better than using just one lender, and a good mortgage broker can do this for you. Here is a link to a broker who we have used who specialises in working with investors, they are called Investor Finance:

(Link to LTBR investor finance page).

## **Joint Ventures**

This is how you can buy real estate when you have no money, and the banks will not lend you any. Once you have done a few deals, or even just one deal as in my case, you may find that you have no more cash for deposits to buy more houses. This is no reason to stop. There are lots of people with plenty of cash available to invest, just looking for a good place to invest it. The trick is to find them, and show them you are capable of giving them an above average return.

You need to put together a prospectus of a typical deal showing how much cash on cash return the investor can obtain from investing with you. Do this before approaching anyone, and have it printed and bound to look professional. We offered our investors a minimum 20% per annum return, and they were more than happy with this. (some of our deals the investor received around 30% cash on cash return).

The way we set up our joint ventures was simple. The investor put up all the cash for deposit and purchase costs. The investor obtained the loan, with our help. We did all the work, and split the profits 50 -50, under a joint venture agreement which was signed by both of us. (again this needs to be drawn up by a solicitor) The investor has protection in the fact that the house is purchased in his name, and so he has the title deeds. The purchaser only has the title transferred to him after making the final payment.

### **Default of contract.**

Should the purchaser default, the house can be taken back after issuing default and termination of contract notices (these are drawn up by the solicitor who draws up the instalment contract). The law of averages says that if you do enough deals, then someone will default and you will have to take action to recover the house. The banks have a default rate of a certain percentage, and it is built into their numbers. We also have a certain percentage, and have to live with it.

Taking a house back is not necessarily a bad thing. We had a house buyer who not long after moving in, got a job transfer to another town, and so very apologetically handed the house back. We simply onsold the house to someone else. If this happens in a fast rising market,

you can then onsell the house at a higher price than originally, making a greater profit.

### **Summary**

This has been a brief overview of the nuts and bolts of how to do "wraps" or "vendor finance" deals. It is not meant to be an in depth working manual, but enough for you to decide if you would like to look into this strategy further. We have found it to be very low risk, and a very robust strategy, in that if things are going wrong, they can usually be fixed without major expense or drama. This strategy has helped create our financial independence.

If you would like to find out more, there is a section covering this strategy, and also other variations of this strategy in a Homestudy course which we have available. For details click here:

<http://www.learntoberich.com.au/>

### **Some useful links:**

For finance, Investor Finance mortgage brokers (Free service):

<http://www.investorfinance.com.au/autoaff.asp?ID=46>

For a Free 3hour DVD, revealing amazing cashflow strategies, such as share renting for monthly cashflow:

<http://www.learntoberich.com.au/freedvd.html>

For Free property sourcing by Aviate Group:

<http://www.aviategroup.com.au/Canberra>

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