GAME OF HOMES

SEEK OUT MOTIVATED SELLERS, CONSIDER RENTAL POTENTIAL, AND DON'T WAIT AROUND: JOHN LEE AND VINCENT WONG OFFER THEIR GOLDEN RULES FOR PROPERTY INVESTMENT

1. MOTIVATION'S WHAT YOU NEED

Only deal with motivated sellers. Unless your seller is highly motivated to sell, you won't get the best deal. It's as simple as that. Anyone who needs to sell quickly and is interested in a chain-free cash buyer is a motivated seller. A motivated seller's reasons for needing a quick sale range from being under threat of repossession to last-minute emigration. What they want is a guaranteed sale by a certain date, and they are often willing to give a discount on the market value for that guarantee.

2. GO DIRECT

Deal directly with the seller as much as you can. When you deal with an agent or an auctioneer, you only get to negotiate on price. What enables you to get the best deal is the ability to negotiate the terms, and you can only do that directly with the seller. For example, say I find a motivated seller who needs to sell in two months. He wants £170,000 and his property is worth £200,000. I can offer to pay him £140,000 now and a further £30,000 in five to ten years, by which time my equity in the property should have increased. I'll share some of my profits with him in the future so I can get a better deal now. He gets a guaranteed sale now. I can only negotiate this deal directly with the seller.

3. LOOK FOR THE PROFIT

Don't buy a property unless you will be making an immediate paper profit by having agreed to a deal with the seller that allows you to buy the property at below market value (BMV). If you are not going to realise an immediate paper profit the minute the deal is completed through buying at below market value, you are speculating rather than value investing.

4. CAREFULLY DOES IT

Always do your due diligence. If you don't uncover every stone, you could come across something that costs you dearly in the long run.

5. REMEMBER THE RENTAL POTENTIAL

Only buy where there is rental demand. You must think about rental potential. You need a good catchment area for renters. It's no good buying property in the middle of nowhere.

6. SPEED IS OF THE ESSENCE

Get in for as little as possible and get your money out as fast as possible. Always put down as little money as possible. You are looking to control the property, not have a chunk of money tied up in it. As soon as you have a sizeable chunk of equity in your property, get it out as fast as you can so you use your profits to buy more property. Keep your money working for you. A good place to start is to release some of the equity in your home and use it as a deposit for your first investment property. If you are sitting on equity in your own home, it is not making a good return on investment for you. If the bank is loaning you money on your mortgage at a rate of 5% and you take that money and invest in something giving you a 20% return, you are making 15%. Why pay off a low-interest loan when you can use it to make a higher return elsewhere?

7. IT'S ALL IN THE NUMBERS

You must play the numbers game. You need to talk to at least three to five truly motivated sellers a week to increase the odds of finding a good deal. Many investors are passive. They just sit around waiting for the estate agent to call. But this means they could literally be waiting forever. And in any case, if the deal was that good, why would the estate agent call you rather than calling a personal friend or taking the deal themselves? The deals they'll call about will tend to be the tricky ones, the deals that often come with hidden catches. And the pressure from the fear that the estate agent won't call you again if you don't take the deal may sway you into taking that problematic deal. The only way to maximize

your chances of getting the best deal is to find motivated sellers yourself, speak to them directly to ensure the deals are genuine, and select the best opportunities.

8. GET MOVING

Don't wait to buy property, buy property and wait. If your goal is to become a property millionaire, you need to start as quickly as possible. A property worth £100,000 is going to take a very long time to become a property worth £1m. However, if you buy 10 properties that are each worth £100,000 (for a total portfolio value of £1m) for £20,000 equity in each (for a total net asset value of £200,000 with mortgages totalling £800,000), and if each of those properties doubles in value in 10 years (it actually takes an average of just over 7 years for properties to double in value), then your total portfolio value would be £2m at that point but your mortgages – assuming they were interest only – would still only be £800,000. Thus, your net asset value would be £1.2m. ■

The Wealth Dragon Way by John Lee and Vincent Wong is out now (£11.38; Amazon).
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