

Steve McKnight's

**FROM 0 TO 130
PROPERTIES
IN 3.5 YEARS**

*Revised
edition**

#1 BEST-SELLER
FULLY
REVISED
& UPDATED!

*** INCLUDES 16 MUST-READ NEW CHAPTERS, PLUS ...**
Steve's New 1% Rule for Finding Positive Cashflow Properties

Table of Contents

[Cover](#)

[WHAT'S NEW IN THIS EDITION](#)

[Readers' comments](#)

[Title page](#)

[Copyright page](#)

[Acknowledgements](#)

[Epigraph](#)

[Preface](#)

[G'DAY!](#)

[MY ORIGINAL MASTER PLAN FOR FINANCIAL
FREEDOM](#)

[Part I: The Steve McKnight story.](#)

[1 Humble beginnings](#)

[DANGEROUS ASSUMPTIONS](#)

[MY WAKE-UP CALL](#)

[THE 'ALL-HYPE, NO-SUBSTANCE' SEMINAR](#)

[A NEW DIRECTION](#)

2 Making a start

FINDING THE NEEDLE IN A HAYSTACK
IT'S ALL ABOUT APPLICATION

3 Ramping it up

A CHANCE MEETING WITH A FRIENDLY CANADIAN
TURNING AN IDEA INTO AN INVESTING SYSTEM
AN URGENT SHIFT IN FOCUS
NEW ZEALAND — HERE WE COME
MULTIPLICATION BY DIVISION
THE CURRENT ENVIRONMENT
HOW TO CREATE A MULTI-PROPERTY PORTFOLIO
TODAY

4 Achieving financial freedom

WILL YOU BE HAPPIER?
A DAY IN THE LIFE OF STEVE
DAVE AND STEVE PART WAYS
WHAT'S NEXT FOR STEVE?

Part II: Property investing home truths

5 The truth about creating wealth

THE SECRET TO BECOMING RICH
LIVING BEYOND HER MEANS
SOLVING YOUR MONEY PROBLEM
I'VE NEVER BEEN MORE ADAMANT!

6 The truth about property investing

WHY INVEST IN PROPERTY?

DECISION TIME

PASSIVE INCOME AND PROPERTY INVESTING

WHICH IS BETTER, CAPITAL GAINS OR POSITIVE CASHFLOW RETURNS?

MEET CRACKERS

7 The truth about negative gearing

WHY IS NEGATIVE GEARING SO POPULAR?

PROPERTY AND TAXATION

CAN YOU RELY ON CAPITAL GAINS?

DO PROPERTY PRICES REALLY DOUBLE EVERY SEVEN YEARS?

FALLING TAX RATES

INFLATION

CAPITAL GAINS TAX

THE BOTTOM LINE ON NEGATIVE GEARING

8 The truth about financing

WHAT IS LEVERAGE?

GETTING A LOAN

LEARN THE INDUSTRY

OBTAIN PRE-APPROVAL

SUSTAINABLE INVESTING

LOAN APPLICATION CHECKLIST

9 The truth about structuring

LIFESTYLE AND FINANCIAL ASSETS

WHAT IS STRUCTURING?

WHAT ENTITY SHOULD YOU BUY IN?

WHY YOU SHOULDN'T BUY PROPERTY IN YOUR OWN NAME

THE STRUCTURE STEVE USES

WANT MORE INFORMATION?

10 The truth about depreciation

WHAT IS DEPRECIATION?

DOES REAL ESTATE DEPRECIATE?

TAX AND DEPRECIATION

TURNING NEGATIVE CASHFLOW INTO POSITIVE CASHFLOW

TAX DEFERRAL, NOT TAX SAVING

FINAL THOUGHTS ON DEPRECIATION

11 The truth about selling

PROPERTY LIFECYCLE

FAST-TRACKING USING COMPOUNDING RETURNS

REASONS WHY YOU *WOULDN'T* SELL

REASONS WHY YOU *WOULD* SELL

CAN'T BORROW ANY MORE MONEY?

Part III: Strategies for making money in property.

12 Buy and hold (rentals)

TYPES OF BUY AND HOLD PROPERTIES

HOW YOU CAN MAKE A PROFIT
CREATING POSITIVE CASHFLOW PROPERTIES
IDENTIFYING THE REAL ASSET
PARTNERS IN WEALTH (THE STEVE MCKNIGHT
APPROACH TO LANDLORDING)
SOLUTIONS

13 Vendor's finance sales

WHAT IS A VENDOR'S FINANCE SALE?
THE FOUR PHASES OF A VENDOR'S FINANCE
TRANSACTION
THE HUMAN NATURE OF A VENDOR'S FINANCE
SALE
VENDOR FINANCING IN TODAY'S PROPERTY
MARKET
THE CRITICAL SUCCESS FACTORS IN A VENDOR'S
FINANCE SALE
THE ARGUMENTS FOR VENDOR'S FINANCE
THE ARGUMENTS AGAINST VENDOR'S FINANCE
THE FINAL WORD ON VENDOR'S FINANCE SALES

14 Lease options

MY 'HOMESTARTER' APPROACH
THE MORE FORMAL LEASE OPTION MODEL
A CONTRIBUTION BY LEASE OPTION EXPERT TONY
BARTON
THE DIFFERENCE BETWEEN A VENDOR'S FINANCE
SALE AND A LEASE OPTION
CRITICAL SUCCESS FACTORS IN A LEASE OPTION
KNOW THE LAWS!

WHO WOULD BE INTERESTED IN A LEASE
OPTION?

LEASE OPTIONING IN TODAY'S PROPERTY MARKET

SANDWICH LEASE OPTIONS

THE FINAL WORD ON LEASE OPTIONS

15 Simultaneous settlements

WHAT IS A SIMULTANEOUS SETTLEMENT?

CRITICAL SUCCESS FACTORS IN A SIMULTANEOUS
SETTLEMENT TRANSACTION

THE FINAL WORD ON SIMULTANEOUS
SETTLEMENTS

16 Subdivisions

A SUBDIVISION DEAL

THE ART OF SUBDIVIDING

17 Renovations

MY FIRST RENO DEAL

THE RENO FORMULA FOR SUCCESS

ARE YOU AN INVESTOR OR A RENOVATOR?

18 Developing

NAIVE THINKING

THE 6 Ps OF PROPERTY DEVELOPING

CRUNCHING THE NUMBERS

SMALL DEAL: \$77 000 PROFIT IN 12 MONTHS

NINE TIPS FOR FIRST-TIME DEVELOPERS

Part IV: Your next purchase

19 Planning for success

THE PATH OF LEAST RESISTANCE

YOUR PERSONAL WEALTH-CREATION PLAN AND
PATH OF LEAST RESISTANCE

MAKING THE NECESSARY SACRIFICE

HOW LONG WILL IT TAKE?

THE PLATEAU EFFECT

THE NEXT STEP

20 The Asset Zoo

THE CHICKEN OR THE NEST EGG?

THE ASSET ZOO

MIXING UP THE ANIMALS

THE FINAL WORD ON THE ASSET ZOO

21 Finding the money to begin investing

YOUR SAVINGS

YOUR EQUITY

THE MONEY RAISED FROM A PUBLIC OR PRIVATE
FINANCIER

HOW MUCH MONEY DO I NEED TO GET STARTED?

HOW TO BUY PROPERTY WITH LITTLE OR NO
MONEY DOWN

22 Where, what and how to buy

LOCATION . . . BAH HUMBUG!

BECOME AN AREA EXPERT

MY SIX-STEP PROCESS
A WORD ABOUT DEPOSITS

Part V: Real deals, real people

23 Peter and Jackie from Tassie

PETE AND JACKIE'S DEAL

24 Sue from South Australia

A BIG, SCARY DECISION

SUE'S DEAL

THE FUTURE

25 Matt from Queensland

MATT'S DEAL

THE FUTURE

26 Scotty from Sydney

CARAVAN LIVING

BECOMING AN INVESTOR

A MAJOR MISTAKE

SCOTTY'S DEAL: GARNHAM DVE

27 Jenny from Western Australia

JENNY'S DEAL

THE FUTURE

28 Dean and Elise from Victoria

DEAN AND ELISE'S DEAL
THE FUTURE

29 What's your next move?

CRISIS

COMFORTABLE

CHAMPION

SELECT YOUR SETTING

YOUR CHOICE

THE WORST-CASE SCENARIO

THE ANSWER

YOUR JOURNEY

What to do next . . .

Index

WHAT'S NEW IN THIS EDITION

Already Australia's #1 best-selling real estate book with over 160 000 copies sold, *From 0 to 130 Properties in 3.5 Years* just became even better!



Completely rewritten, revised and updated to take into account the latest trends and investing techniques, this book includes everything you need to know to achieve financial freedom using positive cashflow real estate, as well as **16 brand new chapters** that explore many new topics, including:

- How to get the most finance possible for your property projects.
- Steve's fantastic new 1 Per Cent Rule for finding positive cashflow property.
- How to gain maximum asset protection while also paying the least income tax legally possible on your profits.
- When is the best time to buy, hold and sell.
- Specific guidance about what and where to buy for your next highly profitable investment property.
- The Asset Zoo — a new way to review your portfolio that will explain whether or not you have the right mix of assets to achieve your wealth-creation dreams.
- A detailed explanation of how you can make quick and attractive lump-sum cash gains from subdividing and property developing.

- New case studies to provide additional insights and ideas.
- Feature contributions that reveal how those who have read and applied this book have profited — and how you can too.
- And much more!

If you bought the first edition then you'll enjoy this edition even more as you'll find the expanded content informative, practical and profitable.

Alternatively, if you are buying this book for the first time you have a proven and powerful resource that will show you exactly how to use real estate to achieve your financial dreams.

Readers' comments

'I'd rate this book a 10 out of 10, with the most practical, do-able and sensible advice I've read on property investment. And I would like to thank you because for the first time I have HOPE that not only is this possible, it is possible for us, and possible even in this difficult housing market.'

Karen S (ACT)

'From 0 to 130 Properties in 3.5 Years is simply the best property investing book I have read so far. Thanks!'

Shane M (NSW)

'Having finished this book I'd have to say I love it. It's written very simply yet practically. There are a number of tips that I will be implementing in my endeavours to purchase property.'

Diana E (Vic.)

'I'm halfway through this book and WOW! I can understand it! Thanks for keeping it simple and plain. I'm excited about possessing it and your principles. An extra bonus was to find your website and newsletters.'

Christine McL (Qld)

'This book is truly amazing! I have been carrying it with me to work and even quoting from it to family and friends! Will we act on the information? We already have! We have now developed a strategy for positive cashflow properties thanks to this book.'

Con V (NSW)

'This is a wonderful book. It's the first book I've ever started to read and finish. I'm one of those kids that hates reading but I couldn't help but to finish your book because I know knowledge is power. I have told countless friends about your book and the strategy of positive gearing and

they all seem to say I'm nuts, but I don't care what anyone else thinks.'

Peter K (SA)

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PROPERTIES
IN 3.5 YEARS**
*Revised
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Steve McKnight



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circumstances and it should not be relied on as the basis for any decision to take action or not take action on any matter which it covers. Readers should obtain professional advice where appropriate, before making any such decision. To the maximum extent permitted by law, the author and publisher disclaim all responsibility and liability to any person, arising directly or indirectly from any person taking or not taking action based upon the information in this publication.

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First and foremost, I'd like to recognise my belief and faith in Jesus Christ, my personal Lord and Saviour who said, 'All things are possible for the one who believes' — Mark 9:23.

To my family, and in particular my wife and daughters — thank you for your love, support and understanding.

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Thank you to the Real Estate Institute of Australia for providing data and other information, to Dave Bradley for partnering me in the early years of my property investing and Robert G Allen for his valuable advice about real estate investing.

And finally to you the reader — I'm delighted that you chose to invest in this book. It's now time for you to take advantage of the information I've provided by using it to transform your life.

Proverbs 3, verses 13 and 14

'Blessed is the one who finds wisdom, and the one who obtains understanding. For her benefit is more profitable than silver, and her gain is better than gold.'

Preface

Right now, as you read this book, someone in the suburb or city where you live is closing a property deal that will make more profit in one lump sum than you'll earn from your job over the next 12 months.

And if you're worried about the effects (or after-effects) of the global financial crisis, let me reassure you that more money is made as economies recover from downturns than at any other time in the economic cycle. This is because during the gloom assets are oversold to the point that values become artificially low. Once the economic climate improves, values bounce back, and those who took action at the right time become substantially richer.

We are in a time of unprecedented opportunity. Yesterday I signed the contract to sell a subdivision deal that will make a very handy pre-tax profit of \$130 643. Property transactions such as this are happening every day of every week, and unquestionably prove that you can still make a lot of money from real estate.

It begs the question then: why are you working so hard for so little pay, when you could be investing in property and taking life a lot easier? If you think it's because you're not smart enough, or that you need to be a brilliant investor to find and profit from the best deals, you're wrong.

As I've outlined in chapter 16, the subdivision deal that released this impressive lump-sum profit wasn't particularly tricky or complicated. In fact, after reading this book you'll be able to do deals just like it with your eyes closed.

The answer as to why you are not making a financial killing from property investing right now is because an experienced investor, who knows what he or she is doing, hasn't shown you how. But don't worry. That's all about to

change, because in this book I've documented the proven knowledge and experience that has seen me purchase well over 130 properties and achieve financial freedom.

Today, my family and I live the lifestyle we'd always dreamed of. My goal in writing this book is to provide you with the knowledge, confidence and motivation so you can too.

G'DAY!

My name is Steve McKnight and I'm a 30-something ex-accountant. My wife, Julie (whom I met while on holiday at Ayres Rock — how about that?), and I live in the eastern suburbs of Melbourne and have two gorgeous little princesses.

You'd pass me on the street and not look twice. Why? Because I'm just a normal-looking guy who got average grades at school, is average at sport (except maybe table tennis, where I routinely thrash my older brother), and, like many approaching-middle-age men, I am gradually becoming more and more 'folically challenged'.

In fact, life for me would have been decidedly normal, except for one fateful day in May 1999 when, pushed to the brink of an early mid-life crisis and desperate to try something new, I bought my first investment property. Far from being the Taj Mahal, it was a three-bedroom house in West Wendouree, which is a suburb of Ballarat, a regional Victorian town about an hour's drive west of Melbourne.

It's hard to imagine given what has happened to property prices since, but all I paid to buy that property was \$44 000. You have to understand, though, that West Wendouree is no Toorak, Vaucluse, Balmoral or Mossman Park.

My first investment property



As you can see in the photo, it's a normal-looking home. However, looks can be deceiving. I later found out that these types of houses were trucked in as two halves, assembled, patched up and then rented out as cheap government housing to people who needed subsidised rent.

If you look closely you'll see that the chimney is painted. If you're wondering why, it's because letterboxes were a non-essential luxury at the time these types of houses were built, and a cheap solution was to spray-paint the house numbers on the chimney.

Over time these houses became privately owned, and modesty prevailed. Letterboxes were installed, chimneys were painted to hide the crude street numbering, paling fences were erected and gardens planted.

Although it looks fairly basic, this property was still one of the better homes in the neighbourhood. Properties across the road had front yards full of weeds, cars (many in different stages of disassembly or decay) and shopping trolleys.

Given this property is not the sort of investment you'd show off to your family and friends as an example of your investing brilliance, you might be wondering why on earth I bought it.

I know it's early on in the book, but this property demonstrates one of my essential real estate investing

rules.



Steve's investing tip

When investing, only ever buy houses for other people to live in.

Without wanting to sound like a snob, there's no way I wanted to live in that property, but that didn't matter. My only concern was whether or not I could earn my desired financial return.

This is an important point, because the minimum standard of some property investors is whether or not they could live in the house. This attitude is a mistake, because once you become emotionally involved with your investments, you'll make decisions based on how you feel rather than the financial facts. The fact is that often, after deducting all expenses from the rent, there is a surplus left over. That is, the property is cashflow *positive*.

Let's do a little exercise to test your financial IQ. I'll help you by giving you the first answer.

Bricklayers work with ...	<i>bricks</i>
Stone masons work with ...	
Woodcutters work with ...	
Property investors work with ...	

I'm assuming you said stone masons work with stone, and woodcutters work with wood, but did you say that property investors work with property? If so, you're mistaken. Property investors work with money, not property.

When you strip away all the emotion, the only decision worth considering is how much money your investment will make, compared to how long it will take to earn it and how much risk there is that you will lose some of your capital. Anything else is an afterthought. Who really cares whether

the dwelling is made of brick or weatherboard, or whether the curtains are pulled together or pulled down?

If all this sounds a little strange, let me ask you a question. Is your current home better, or worse, than the house you previously lived in?

Irrespective of whether you rent or own, as we get older and have more money, it's usual for us to improve the quality of the houses we live in. However, what I've found is that increases in rent don't keep pace with appreciation in value. Talking investor-speak for a moment, as value increases, return diminishes. That's why income-focused investors are better off buying more basic houses as opposed to fewer elaborate homes. That is, you'll get a better income return by owning two \$250 000 properties than one \$500 000 property.

In summary, as we age we gain a bias away from the sorts of properties that are the best investments. This means that relying on emotion, rather than financial skill, will cost you money.

Don't worry if you're confused by what I just said. We've got the whole book ahead of us and by the end you'll be much more advanced than you are now. The key point is not to get emotional about the property you purchase.

MY ORIGINAL MASTER PLAN FOR FINANCIAL FREEDOM

Owning one or two West Wendouree-type investment properties wasn't ever going to put me on the *BRW* Rich List, but that was never my aim. My master plan was to own enough houses that I could substitute the salary I was making as an accountant with the rental income earned from the property. If I could do this then I'd have an income for life and never have to work again.

It took five years of hard work and sacrifice, but with the help of my wife and my business partner at the time (Dave Bradley), on 9 May 2004 I achieved the goal of having \$200 000 in annual passive income and a million dollars in the business bank account. I was financially free.

‘That’s great Steve’, I hear you say. ‘But \$44 000 properties don’t exist anymore, so can you still apply your strategies today?’

I concede the game has changed. Property prices are a lot higher and the effectiveness of individual strategies ebbs and flows. But one thing is certain: as long as people need to live in houses, you’ll be able to make a profit from real estate investing, provided you buy problems and sell solutions.



Steve’s investing tip

As long as people live in houses you’ll be able to make a profit from property.

And that’s what this book is all about — how you can identify the right investing solution to transform everyday property problems into enough profit to become financially free forever.

Along the way we’ll debunk many of the myths that are kneecapping your potential, and by the end of chapter 29 you’ll be well on the way to a brighter financial future.

But enough of the chitchat, it’s time to make a start. Let’s jump in our time machines and travel back to 1998 when I was contemplating life beyond working 9 to 5. I have a feeling that it’s probably a lot like what you’re going through at the moment.

Thanks for buying this book. I encourage you to treat it badly, which means highlighting your favourite passages,

writing in the margins and dog-earing the pages. It's great to see a well-loved book!

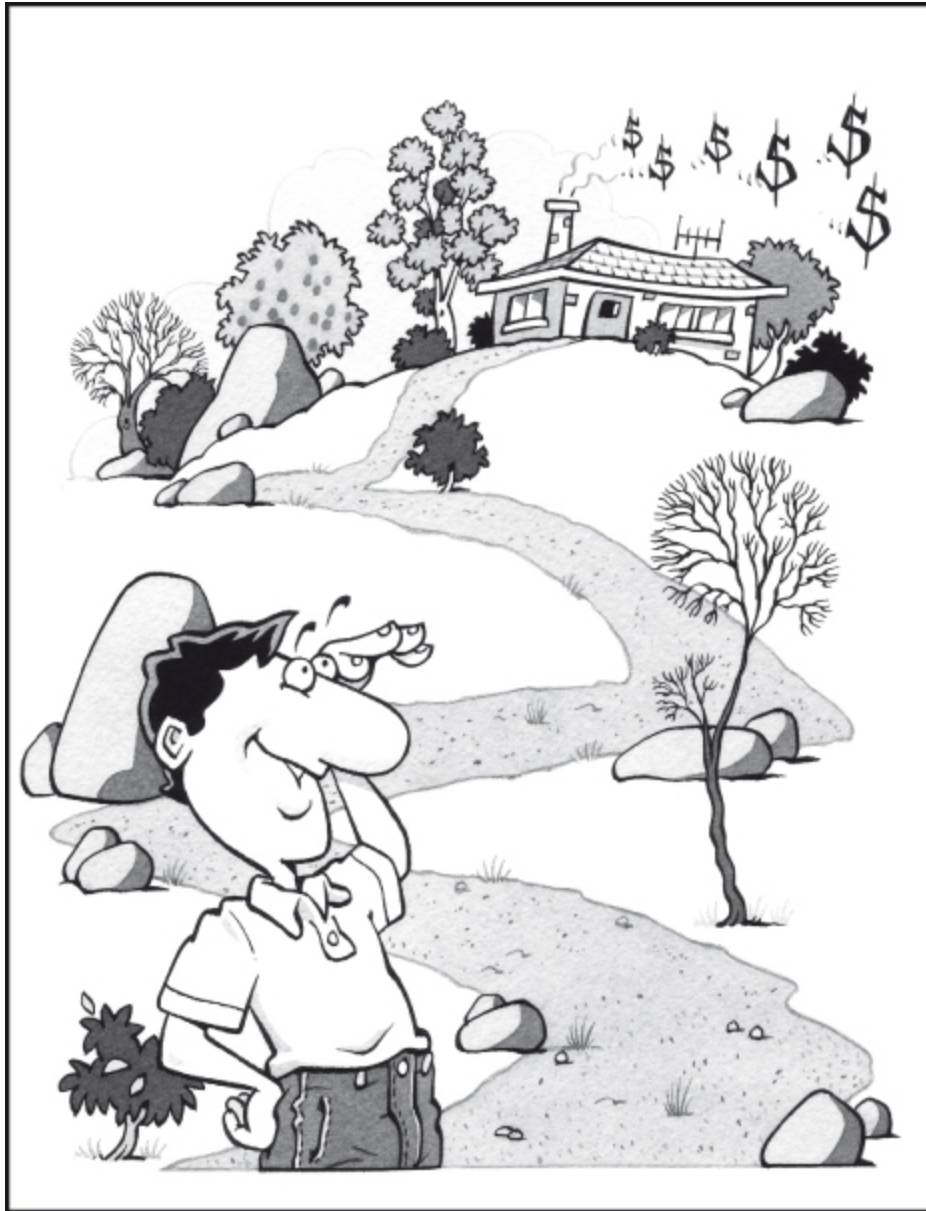
I hope we get the chance to meet up. Until then, remember that success comes from doing things differently!

Steve McHnight

PS It's reasonable to expect that the economic climate will change over time. To ensure you remain fully up to date, readers of this book can register their copy and receive periodic updates, which I'll write and email to you free of charge. Visit <www.PropertyInvesting.com> for more information.

Part I

The Steve McKnight story



1

Humble beginnings

A few months ago I received an invitation to attend my 20-year high school reunion. On one hand I was interested in going along and seeing what my old high school friends were up to, and on the other hand perhaps it is better to leave the past in the past.

I wonder, what would you do?

My high school years weren't particularly happy. I was overweight and an academic underachiever; my year 10 maths teacher summed up my potential when he wrote on my end-of-year report: 'Always pleasant and amiable, Stephen has much difficulty with even the most basic of maths problems'.

It's lucky that high school isn't always the best indicator of future success.

Today, at age 37, I'm involved in more than \$13.5 million worth of property projects that span all types of real estate (residential homes, units, commercial property, land and so on), have multi-million-dollar business interests, and am the author of Australia's most successful real estate book ever (which you happen to be reading right now).

On reflection, I'd have to say that the kid who struggled with algebra managed to at least gain a good appreciation of the maths involved in making money!



Steve's investing tip

While your past doesn't determine your future, if you want something other than what you've got at the moment, you're going to need to make some changes!

Please don't think this is a rags-to-riches story, or that I have some supernatural ability that only the truly blessed receive. Neither is the case. My upbringing was decidedly middle-class, neither flush with money nor crying poor.

Working hard in the one job selling trucks for 40 years, my father abandoned a lot of his own ambition so that his wife and children would never go without food, shelter and the occasional luxury. For this I love and respect him deeply. Mum never worked in a paid, full-time position, instead she showered her children with delicious home cooking and cuddles. As a gifted musician, Mum would teach piano after school for extra housekeeping money when time allowed.

DANGEROUS ASSUMPTIONS

My life was decidedly normal and uneventful until the end of high school. Previously a strictly pass and occasional credit student, I discovered a rote learning strategy that allowed me to achieve a respectable year 12 score — I even got a C for English; a miracle for sure!

Looking back it's clear that I was never shown how to study effectively. Instead, it was just assumed that everyone could do it — like reading and counting to 10. A similar problem exists today in that property investors are never taught how to invest profitably. It's just assumed that all of us will be able to invest successfully once we have the