



THE DEATH OF
PROPERTY INVESTING

By Simon Zutshi, July 2008

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Forward

My initial intent wasn't to write this report. It started life as a short post for my blog, but I quickly realized I was never going to keep it under 500 words. That's because there is a lot that needs to be said.

I also struggle to call this a "Report", because it's really just an account of the many conversations I've had with people over the last few months.

Nevertheless, they are important conversations

They are conversations which fundamentally mould the decisions you make about your future. And in the context of this report, they are conversations which are going to influence whether you continue to invest in property in the foreseeable future.

So what is the purpose of this report?

There is a lot of uncertainty in the property market at the moment. We are being bombarded with messages of doom and gloom.

And it is easy to be sucked into the herd mentality. I think in times of uncertainty people crave the comfort of following a general consensus. The main aim of this report is to snap you out of this herd mentality and give you back the power of thinking for yourself.

I decided to name this report "The Death Of Property Investing" for 2 reasons:

1. **It is a small jibe at the herd mentality and the media.** They assert that property investing is over, that it's dead. Yet for this very reason, there is currently one of the *biggest opportunities in 20 years to profit from property*.
2. **Property investing IS dead for the average investor.** Let's face facts – in the last 10 years it has been pretty difficult for a property investor NOT to make money, simply due to the rise in the market. Even bad investors who made horrendous mistakes were able to profit. *Those days are now over and the average/uneducated investor gets flushed out of falling markets.*

If you take only one thing from this report, it is this – don't take the stories of doom and gloom at face value. Remind yourself that most people who read these headlines WILL get sucked into that mode of thinking. Then ask yourself whether there is an opportunity there for the taking. **Hint** – *read on to find out how...*

The Death Of Property Investing

You cannot escape them. They're everywhere. They are there when you tuck into your bowl of cereal in the morning. They are sitting in your inbox when you turn on your computer. They are there when you're driving home from work each day.

I'm talking about the headlines.

Let's face it, it makes for a good talking point – house prices in freefall; the number of houses sold among the lowest on record, mortgage product being withdrawn left right and centre and at the same time becoming more expensive...

As a property investor it's enough to make your knees go weak. No wonder part-time investors are leaving the arena in their droves.

Yes I could talk about how the media are sensationalist, and how they have vested interests. And yes I could also talk about the fact that the majority of journalists don't know the first thing about professional property investing.

But let's do something different today...

Let's cast aside the obvious shortcomings of the media and assume that what they print is gospel truth

This makes for an interesting thought experiment. The fact is, there is an element of a self-fulfilling prophecy with the media – the vast majority of people take the headlines at face value, and thus the headlines play out in reality as a result of millions of people being programmed into a certain mode of thinking.

Therefore, the headlines are useful to us, because it shows us where 'the herd' is heading.

In reality, the credit crunch boils down to two key areas –

1) falling house prices, and

2) the availability and increasing cost of financing deals. The rest of this report has a focus on these two areas, starting with the latter..

Deals Deals Everywhere But Not A Drop To Borrow

What a difference a few weeks can make. The mortgage market in May/June 2008 is a classic example which supports the cliché that “change is constant”. The credit crunch caused lenders to deal a triple whammy to lenders – 1) higher lending rates, 2) lower loan-to-value offers, and 3) tougher lending criteria.

Put simply, in the last few months, banks have been doing everything in their power NOT to lend you money. And as a result, property investors that rely on a single strategy and who don't stay ahead of the market are soon caught out.

Here's an example of how quickly things change:

5 months ago I proudly launched my best-selling property book [Property Magic on Amazon](#).

And due to changes in the mortgage market, Chapter 2 is already obsolete!

This chapter had provided a step-by-step guide to doing a no-money-down deal using closed bridging finance, relying on a same day re-mortgage product provided by Mortgage Express.

For those of you who are familiar with this strategy, you'll also be familiar with the headache it caused when Mortgage Express pulled this product in mid-May, and with it the most convenient way of refinancing a property to pull out your money of below-market-value deals.

If all this sounds like double-dutch, it is worth getting hold of [my book](#) to fill in the blanks (even though this strategy in the above form doesn't work at present, the investing principles behind the strategy will continue to work for years to come). But put simply, it was a very powerful strategy used to buy property using absolutely none of your own money, and it helped created countless self-made property millionaires. And it's a strategy that 95% of investors remain clueless about.

Unfortunately, the mechanism behind this strategy is dead

At least for the time being anyway. A lot of investors I know were halted in their tracks the moment Mortgage Express pulled the plug. They had relied on this single strategy alone for all of their investing.

Fortunately, my Mastermind group had seen this coming weeks and weeks away, and we had moved on to new strategies before Mortgage Express had even

announced the news. You see, professional investors stay nimble and it is hardwired into their heads that there is almost always a way to finance a deal by thinking creatively. And my latest strategy leverages several clever loopholes to overcome the problems in the mortgage market, to the extent that...

You can continue buying property with absolutely none of your own money, while completely “mortgage-proofing” yourself in the process.

That’s right, the strategy which I am using at the moment allows me to control a property; get a cashflow that far exceeds market rates; make thousands in instant equity; and do all of this without even having a mortgage on the property! So no matter what happens in the mortgage market, I am immune from its effects!

It’s the same outcome – investing with none of your own money – but not the same mechanism as before. And I hope this highlights the importance of being a sophisticated investor and being malleable around changes in the markets. While other investors flee the property market, you can profit from their exit.

n.b. I’ve been preaching the importance of being a ‘sophisticated investor’ for years now, but unfortunately the buoyant market convinced a lot of bad investors that they knew it all already – attributing their profit to their own skill and judgement, whereas in reality the rising market concealed even the most horrendous of mistakes. How times change...

I will reveal these new strategies off the back of this Report

In the next few weeks I’ll be revealing these strategies in detail, but now is not the time nor the place – it would turn this fairly digestible report into a 100-page monster, so I’ve given you details at the end of this Report on how to stay tuned for these releases.

So.. Back to the credit crunch and the mortgage market. We’ve seen that while banks remain reluctant to give out money to investors there are significant challenges to overcome. How long then can we expect to wait before ‘normality’ returns to the market?

Read on...

How long will the mortgage chaos last?

At the moment we are stuck in the middle of a game that is being played out between large financial institutions. Unfortunately it is *us* that end up getting played around.

Lenders are changing their lending criteria on a daily basis, making and pulling offers whenever they see fit. For example, many investors (including myself) had deals with Natwest on one of their remortgage products, but unfortunately they withdrew the product at the last minute along with all previous offers on that product. With no chance of finding another source of funds at such short notice, many deals were lost, and some of those desperate sellers will have been repossessed. Mortgage companies are dragging their heels on a massive scale, because they are incredibly nervous about the market at the moment.

Banks are being very cautious until all the debt in the system is exposed

When Northern Rock fell into crisis, other lenders tightened their lending criteria significantly in order to try and call off the borrowing requirement – they were literally battenning down the hatches.

But the Northern Rock episode had other consequences – they were a very big player in the market, and when they stopped lending it meant that investors had to turn to other mortgages in the market to finance their current deals. And this caused a ripple effect...

For example, as a result of Northern Rock closing its doors, investors flocked to a mortgage from Capital Home Loans, and by April 2008 they had received more mortgage applications than they had budgeted for the ENTIRE YEAR!

So then they closed *their* doors to new business, and the ripple effect bites. A lot of lenders have simply done enough business for the year already and closed shop!

None of them want to get into the position that Northern Rock did, so they are strongly erring on the side of caution until all the debt has been exposed in the system. This will probably take another 6 months to play out, at which point we'll begin to see a loosening of their lending criteria.

BUT, Mortgage Interest Rates Dropped Last Week (mid-July)

Amid all the chaos, this one nearly slipped under the radar undetected. Last week there were rate cuts by Nationwide, Abbey, C&G, Woolwich, Halifax and Bank of Scotland on their mortgages.

What does this mean?

Well, we can use this as a strong signal that interest rates hikes are not set to continue – presuming of course that the Bank of England maintain current rates (which is a whole other issue entirely!).

So this is good news, but unfortunately lenders are going to continue imposing their draconian lending criteria for the foreseeable future. Nevertheless, this is a positive indicator that banks are beginning to regain some confidence in the money markets.

But...

Do We Really Want To Be Waiting Until The Market Has Completely Been Restored?

I want to return briefly to the herd mentality. The herd says that for all the above reasons, property investing is dead. The headlines and the stories have scared them off to the sidelines, and now there are playing the waiting game.

Yet here's the outcome of doing this – the longer you wait for positive indicators about the market, the more the lucrative bargain property deals will begin to dry up. Current conditions are leading to a flood of properties on the market at bargain-basement prices.

This is the double-edged sword – tough conditions present both an opportunity and a challenge.

The Opportunity = the floods of bargain deals from desperate sellers.

The Challenge = raising the finance to get hold of those bargains.

I've already mentioned that for the sophisticated investors THERE ARE ways of financing using absolutely none of your own money. So let's look at the other side of the coin – why the credit crunch allows us to buy properties at bargain prices...

5 Reasons Why The Pro's Are Licking Their Lips...

Professional investors use downturns in the market as a time to accumulate property. Seeing as they rarely put any of their own money into deals – and because they make thousands in profit the moment they buy (more on that shortly) – they can then afford to wait until the market recovers.

It is easier than ever to buy bargain properties. Some of my Mastermind members are buying 3-4 properties a month at the moment. Here are 5 reasons why professional investors are enjoying the current market:

1. Repossessions rates are skyrocketing

Currently 27,000 homeowners are being repossessed per year, which is rising to a predicted 40,000 by the end of the year. This equates to around 123 homeowners PER DAY losing their home.

This means that finding properties below their market value is now much easier. The added benefit is that you genuinely get to help these distressed sellers avoid financial ruin through the courts.

2. Competitors have packed their suitcases

The tabloid headlines have scared off the mass of part-time investors who wanted a bite at the cherry. Many are making the cardinal mistake of trying to sell now in order to cut their losses.

Here's a secret – professional investors hate crazy booms in the property market, because it attracts the masses. The amateurs overbid on deals which don't work financially, and a buoyant market means these amateurs are let off the hook with their mistakes.

3. Estate Agents are on their knees

15,000 estate agents are expected to lose their job this year due to the sagging housing market.

This puts you in the position of bargaining power because they are desperate for you to make them below market value offers on their properties. In reality they don't care about what price their properties go for because the estate agency business is all about VOLUME.

4. **Tumbleweeds are rolling through Auction Houses**

In the early 1990's auctions were THE place to pick up bargain properties.

Unfortunately, the TV companies then decided that property investing was sexy, and the resulting flock to auction houses ended this source of deals for the professional.

(In fact, auction houses became SO mainstream that I personally know a number of investors who chose to sell their properties through auction because they knew they'd get a better price this way vs. listing it on the open market!!)

Now the tables have turned once again. Make an effort to go to the next property auction in your area, and you'll see an entirely different sight to the sardine-packed rooms you're used to seeing on the TV.

Tip – picking up unsold properties AFTER the auction can work well as long as you get your finances sorted out beforehand.

5. **The rental market gains strength**

The rule of thumb is that in any downturn, rents will increase. Buyers – particularly first-time buyers – are not only struggling to raise the money to buy a property, but are also petrified of buying in a falling market.

Instead they wait, and rent. As prices fall and rents rise, it will become easier to make deals 'stack up'.

One thing to look out for – if we do move into a recession, the rise of rents might be muted, because as unemployment and disposable income falls, high rents will become less affordable. This is a double-edged sword – rents will stagnate but even more property deals will come onto the market as people struggle with the cost of home ownership.

So while part-time investors are currently sitting on the sidelines and playing the waiting game, the professionals are leveraging this opportunity to accumulate. They know that most of the market has been scared off, and their mindset is such that they use this to their advantage rather than succumb to herd mentality.

An example of this herd mentality is evident as property prices begin to fall. In the next section, I cover a lot of the misconceptions about a falling market and introduce a framework that should help you see the credit crunch as an opportunity, and not a threat.

Waiting Until The Market Bottoms Out...

Fact: house prices are falling, and they are going to fall further.

I've been receiving so many emails and questions about falling house prices that it is hard to keep up with them. Without doubt it is the most pressing concern for investors at the moment. Here's a typical worried investor:

"Simon, falling house prices are giving me the jitters. Should I be investing when the market is falling? How far are prices going to fall? ...hmm... I think I'll wait until the market bottoms out. But how will I know when this happens?"

There are several questions to be addressed here, so before we deal with them let's tackle the obvious – you already know that house prices go up **AND DOWN** in the short-term. Yet it's still human nature to start getting concerned when the **DOWN** bit actually happens.

It doesn't help that with the last significant drop being 15 years ago, the chances are you haven't actually experienced a drop before! So before we move on I need you to get comfortable with the fact that prices can and do fall in the short-term. It's a fact.

How Far Will House Prices Fall?

Here's the truth – I have no idea, but I'm not massively concerned (And neither should you).

There are people far more intelligent than me who work 100 hours a week and earn a good salary in the City trying to predict these things... and they still get it woefully wrong. If these analysts can't predict with any degree of certainty how far the market will go, then it is certainly not worth my time trying to either.

I'm sorry to disappoint you if you were expecting my personal take on the market.

But I hope you learn something more important here about the mindset of a successful investor – first of all, I don't concern myself with things that I either cannot predict or that are outside of my control. Doing so would simply cloud my decision-making. It's out of my control, so forget about it.

Second of all – and more importantly – I simply don't care about short-term house price falls, because my investing strategies don't rely on an upward market in order to make money...

“How I'm Able To Insulate Myself Against Anything The Housing Market Can Throw At Me”

As you're about to find out, this is again all about **mindset**. But not mindset in the 'airy fairy' way, rather a mindset that actually helps guide you in your decision-making.

Here's how it works:

For any property deal you look at, ask yourself “Would I still want to buy this if prices were NEVER AGAIN to rise by even a single penny?”

Before reading on, stop and think about the implications of this for a moment. Let it sink in. Because this is the single most important piece of investing advice I can ever give you.

Once you start applying this rule, you are suddenly immune to anything the housing market can throw at you – whether it be the Credit Crunch, a recession, or even a full-blown depression!

In a moment I am going to show you how I am able to do this, but let's look at the implications:

- ✔ **It means** I'm never relying on anything outside of my control (like rising house prices) in order to make money from property.
- ✔ **It means** I make a profit the instant I buy a property.
- ✔ **It means** I am fussy about the type of property deal I go for, so I am never caught-out by changes in the market.

And here's the best part:

In the long-term, property prices double every 10 years, so you benefit from the long-term wealth creation of holding on to that property (a juicy bonus!)
n.b. I hope you see the important distinction in mindset here – the majority of your wealth WILL come from long-term capital appreciation, but you invest AS IF that's not going to be the case. Clever huh?!

The 3 Ways To Profit From Property In ANY Market: upwards, downwards or sideways...

Based on the above mindset, there are 3 ways of profiting from property despite what happens to general price trends. For me, 2 of these are required for a deal to get the green-light, the other being optional but desirable.

1. Only buy property at a price BELOW its market value.

Your profit is then the difference between the purchase price and the market price. My rule of thumb is a 20% discount, i.e. if a property is worth £200,000, I will be prepared to buy it for £160,000 or below.

By buying below market value, I make a profit the INSTANT I exchange contracts on the property.

2. Once bought, alter the property to increase its value.

This ranges from straightforward renovation, through to converting houses to flats, freehold to leasehold, getting planning permission etc. Your profit is any difference between what you pay and the value it adds to the property price.

3. Have a positive overall cashflow

Even in a completely flat or falling market, a property that has positive cashflow provides residual profit for years to come. My favourite strategy to increase cashflow is to convert houses into multi-lets, having an AST contract for each room.

Options 1 and 3 are prerequisites for moving forwards with a deal. Option 2 is desirable but not a necessity (sometimes you cannot cost-effectively add value to a property. Remember, spending £20k on a property to increase its price by £20k has no net effect on the value of the property, even though it might look a bit prettier – avoid this classic newbie mistake).

If you are already an investor I am sure you will have heard these types of strategies before. They aren't rocket-science. But what you now have is a framework for profiting in any type of market; a framework which doesn't rely on any elements outside your control in order to make a lot of money; and a framework which takes the emotion and nerves out of investing in a falling market.

Are you still nervous about buying in a falling market? Let's run through an example based on the above framework to calm those nerves.

Walkthrough Example:
Insulating yourself against a fall in house prices

You locate a deal in which a desperate seller is willing to sell their 3 bedroom terraced property for £120,000.

The full market value is £150,000 (the price a decent estate agent could expect to sell the house for in 2-3 months).

You are therefore buying at 20% below this market value.

The property needs some modernising, so you spend £10,000 refitting the kitchen and bathroom, and giving the bedrooms new carpet and a lick of paint. This increases the value of the property by £20,000.

You are able to let out each room individually, giving you a monthly profit of £200 in your pocket.

Let's do some simple sums:

For a total of £130,000 (purchase price plus the cost of renovation)...

You end up with a property valued at £170,000 (market value + value from renovation).

You've ticked all 3 boxes from your recession-proof framework – you've bought at a discount, you've added genuine value, and you have positive cashflow.

Here's the important question:

“How far have you insulated yourself against a falling market? In other words, how far would the market have to drop in order for you NOT to make a profit on this property?”

To wipe out all the profit you made, the property would have to fall from £170,000 down to £130,000. That's a 24% fall.

If we take a worst case scenario – where house prices fall the same extent they did in the early 1990s; and let's presume you bought right at the height of the boom, and for some reason you were forced to sell right at the bottom of the crash;

... you'd still make a profit on this property!

Such is the power of following this framework. In reality, it would be very bad luck to buy and sell at both extremes of the market. Even more importantly, there would be no reason to sell this property in the first place – after all, it is making you consistent

monthly profit due to positive cashflow. So here's another important investing principle:

While it can be great buying property in a falling market
(it's easy to pick up good deals)...

It is incredibly bad to have to sell during a falling market.

Only when you sell do you actually realise any losses.

As you can see, by following this framework it is pretty difficult NOT to make a profit from property, even in a falling market. In fact, *because* there are more bargain deals in a down-market, more often than not you will make more money from property than during a boom!

Where I see people come unstuck is when they break the framework:

- ⊘ They don't buy at a genuine discount, and/or;
- ⊘ A lack of cashflow forces them to sell in a falling market.

I spent about 30 minutes at one of my networking evenings last Thursday explaining the above framework to a group of investors. They sat their wide-eyed as I explained exactly why now was the time to be accumulating property, and *definitely* not selling property.

I could see they were finally getting it; I could see they were on tenterhooks. But I knew there was still something nagging them in the back of their minds. I know this because everybody thinks it to some extent. So when I opened up the floor for discussion, I waited for the inevitable question... and sure enough the first hand that shot up provided it...

“Simon, I understand I still make a profit in a falling market, but surely I can make more profit if I just wait for the market to bottom-out?”

Currently you are likely to fall into one of two categories:

- either you a professional investor who is already buying as much bargain property as possible at the moment, or;
- you are a part-time investor sitting on the sidelines waiting trying to predict when the market will turn.

Do you remember the dot-com boom? Now if only we’d made sure to sell our stocks at the peak of the market we’d have made a killing, right?! Hindsight is a wonderful thing, especially when you look back at those charts with all the rises and the falls – “I should have sold there!” or “I should have started buying then!”

But in the here and now, it is practically impossible to predict the bottom of the market. Yes we can look at indicators, but without a crystal ball (give me a call if you have one!) we will never know for sure.

So this leads on to my point:

There is a bargain property out there waiting for you **right now**, and it’s **not** going to wait until the turn of market to present itself.

In other words, there are desperate sellers out there whose most urgent concern right now is to sell their property as fast as possible. They couldn’t care less about whether you think the market has bottomed out yet. How inconvenient!

Again this is a mindset issue – the part-time investor gets sucked into thinking about general house price levels, and waits. The professional investor however realises that individual deals don’t wait for the end of the cycle...

Far better to buy NOW *at a profit*, and then when the end of the cycle does happen to come along, buy even more (though the professional investor won’t be aware that it’s the bottom of the market at the time).

This is the reason why some of my Mastermind members are buying 3-4 properties a month during the credit crunch.

Closing Thoughts

When I first started in property 13 years ago I thought that successful investing was 80% strategy and 20% mindset. I now know that I had this the wrong way round. Successful investing is 80% mindset and 20% strategy.

Nowhere is this more evident than during the credit crunch.

Part-time investors are running a mile at the sight of challenging times. It's classic herd mentality. They see the credit crunch as a THREAT.

Then I compare this to what I see when I meet up with my [Property Mastermind](#) members – the difference is profound. They are finding more deals than ever before, and although they have to be a bit fussier about which deals they go for due to the finance market, they make deals work and they're making a lot of money from them. They see the credit crunch as an OPPORTUNITY.

What sets them apart?

I actually don't think that it's anything too profound – I think what sets apart a professional investor is their acceptance of change. They know that there are certain fundamentals that will apply to any market; flat, up or down – buy below market value, buy with cashflow, buy with little to none of your own money, don't sell etc.

But they also know that the mechanisms needed to achieve these fundamentals can change rapidly and profoundly. This is exactly what has happened in the credit crunch. Yet they always seem to remain one step ahead of the game.

Education is a key component of this. Lousy investors have been let off the hook in the last decade, because the market has compensated for their mistakes. Sophisticated investors are actually breathing a sigh of relief that the market is flushing out these part-timers..

... because it leaves all the bargain deals for themselves!

PTO.

Where To Go From Here?

Part of the reason I wrote this report was to start a collective conversation between all our members. I am getting asked so many questions that I felt it was a shame for others to miss out on the answers.

So, here's where to go from here...

I'm sure on the basis of this report you've got questions and comments. I hope there are bits that struck a chord with you. There'll be other bits you want me to expand upon. Either way I want to hear from you...

I've just set up a new blog which we can use as an open-forum to start the conversation. When you post it would be great first of all to let me know what you thought of this report, and then afterwards ask any question/comment you want.

Click here to go to the blog:

[Death Of Property Investing Blog](#)

Here's the deal:

If we get 25 comments or more I will write/video a follow-up report delving into more detail about the successful strategies being used right now to profit during the credit crunch. And for everybody who posts, I might just have a small bonus surprise for you in the next few weeks 😊

See you on the blog,

Simon Zutshi.