

22 Things You Need to Know Before You Invest in Property



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Preface

Momentum Wealth is dedicated to educating investors and helping them achieve their financial aspirations. This is primarily achieved through the Momentum Wealth Property Education Program, which we believe is the most comprehensive Australian property investment program that will transform your financial future.

We hope you enjoy this e-report written by Damian Collins, Founder & Director of Momentum Wealth. For further information about Momentum Wealth or the Momentum Wealth Property Education Program, please visit our website at www.momentumaustralia.com.au or call us on 1-800-000-159.

About Damian Collins



Momentum Wealth was founded by multi-millionaire investor Damian Collins. Damian grew up in the Australian suburbs and like many people, he was told that the way to get ahead financially was to get a good job. He worked hard and achieved what everyone told him would be his ticket to financial freedom. After a few years of a low to average income from his wages, Damian realised that true wealth was not derived from a job alone. With a net worth close to zero, Damian quit his \$32,000 a year job at the age of 24 and decided that he had to be an investor to find true financial freedom. After many tremendous financial successes (and a few expensive lessons!) Damian reached the status of multi-millionaire shortly after the age of 30.

Through the study of successful people and through his own investments in the real world, Damian gained the knowledge of how the rich invest and how they avoid the pitfalls that most investors fall into. Momentum Wealth was established to provide every person who wanted to succeed with the tools and resources to enable them to fulfill their financial dreams. We are dedicated to helping investors achieve their financial goals and aspirations, no matter how large or small those goals and aspirations are.

Damian holds a Bachelor of Business from RMIT University in Melbourne and he has completed a Graduate Diploma in Property at Curtin University in Western Australia. Damian has also completed the stringent requirements for membership of the Institute of Chartered Accountants in Australia and the Financial Services Institute of Australasia and he is a member of both institutions. Damian is also an Accredited Mortgage Consultant with the Mortgage and Finance Association of Australia and he is a member of the Australian Institute of Management. Having experienced both the academic teachings about wealth and the practical realities of the real world, Damian has developed a unique perspective on wealth creation that he has put into a hugely successful plan that anyone can use to get ahead financially. You will be amazed at the opportunities available. You will see from our Success Stories that Damian's strategies aren't just wishful thinking but are practical tools that have been used to generate enormous wealth for himself and others. Using our Education and Finance Broking services, you too can reach your financial goals.

1. How to get ahead in property investment

Does it always seem that wealthy investors get ahead time and time again?

What do the wealthy know that sets them apart?

Why do they get great returns when others don't?

The answer is simply knowledge.

This is what the rich understand about property:

- They understand what drives property values.
- They understand the incredible drivers that create vast property fortunes.
- They know the best cities and best states to invest in to generate incredible property riches.
- They know when to buy and when to sell.
- They apply that knowledge and take action.

The majority of the richest people in Australia owe a **large part of their fortunes to property investment**. Most of them started with absolutely nothing, yet they took the time to find out and understand how rich people invest and created their own property empires.

What sort of knowledge do the rich have that you don't?

The simple answer is that **they know how things work**. Once you know how things work, you can get them to work for you.

2. Finding "millionaire maker" properties

The difference of only a few percent per annum on one property alone can be worth hundreds of thousands or even millions of dollars.

So how do you pick the right properties? Do you trust all the figures reported in the press? There are a lot of figures out there such as median prices, and the like. Most of these figures I call **Lies, Damn Lies, & Statistics!**

Agents and promoters try to use statistics to manipulate you into buying THEIR property right NOW. Did you know that a great deal of the median price increases in some suburbs has absolutely nothing to do with the true value of homes in that suburb?

You need to know how to truly understand property statistics and what statistics you can ignore.

Here is **one simple step** that you must take if you want to find "millionaire maker" properties. Most people I know only go and look at investment property during agent's home opens.

Why do you think agents schedule some property home opens at certain times of the day?

The agents schedule the property home opens at the time they think the property will be seen in its best form. If you buy a property only after ever visiting it during the agent's home opens you are making a big mistake!

Some properties look great during the day, but come nightfall the areas turn into havens for drug dealers and drunks. Guess what happens to property values in these areas! That's right, they stagnate or go down!

You simply must **look at your property at different times of the day and night** to make sure you aren't buying into a troublesome neighbourhood.

There are **over 60 factors** you must consider before buying an investment property.

3. You should rarely sell property

Another thing you should know about the wealthy. They rarely ever sell their property! Why is this you ask? The main reason is taxes.

The poorer investors, those without the knowledge, will often sell one property that has gone up in value to finance the purchase of another property they think will go up in value at a faster rate. This is rarely, if ever, a good move. You should rarely sell one profitable property so that you can buy another.

There are only two reasons you should ever sell property. Apart from these reasons, you should buy and hold always.

4. Miracle of compound growth

One thing that sets the successful investors apart from everyone else is that they know how to pick the right properties - those properties that will **show exceptional capital gains** in the coming years.

Did you know that if you invest \$400,000 today, in 20 years that \$200,000 will be worth over \$1,060,000 if you get 5% capital growth per annum? That sounds pretty good to a lot of people, but not to me!

Lets say that I work a little harder at finding a better investment in the first place, and I can find one that will generate 8% per annum capital growth.

Guess what that extra 3% per annum in returns will get me? An extra \$30,000? \$50,000? \$100,000? No, it is an incredible \$800,000!

That's right! \$800,000. Put in a bit more effort and research and get just 3% more return per annum and your property will be worth \$800,000 more than if you had 5% capital growth.

So, invest \$400,000 at 5%, in 20 years it will be worth around \$1,060,000. Do a bit more work on the front end, get an 8% return and your property will be worth around \$1,860,000!

Now suppose you are able to squeeze an 11% capital growth rate on this \$400,000 investment. What would happen then? Instead of \$1,060,000, instead of \$1,860,000, you would end up with a property worth over \$3,200,000!

What if you could do this not just once, but many times?

5. Using leverage

You can if you use another of the magical forces that you must use in property investment. The other magical force that you want working for you is leverage. To achieve true financial freedom, you need other people's money. **You need to borrow.**

Take our earlier example of turning \$400,000 into \$3.2 million! That was great! But how many people have \$400,000 laying around, idly waiting to invest?

This is where other people's money comes in. **You can borrow money from other people to get rich yourself!**

Let's say that this \$400,000 investment is a house. Most people don't have the whole amount to pay cash for investment property. Most people have to borrow. Let's say you put down 20%, this would be \$80,000. Even though you only put \$80,000 into the deal you get to keep all of the capital gains that accrue while you own that property.

If you were to get an 11% return on the investment, the investment would be worth \$3.2 million at the end. You would pay off the \$320,000 loan. This would leave you with \$2.88 million! So for your paltry investment of \$80,000, you end up with over \$2.88 million dollars!

Let's say you did have \$400,000 to invest at the beginning. And you purchased five properties, each with the \$80,000 down. Let's compare these. If you did not harness that incredible power of leverage, you would end up with one property, worth \$3.2 millions dollars! That's great!

If you used other people's money, you would end up with five properties, each worth \$3.2 million each. That is \$16 million. You pay off the loans of \$1,600,000 and what do you have left? A total of \$14.4 million!

Which would you rather have, \$3.2 million or \$14.4 million?

Silly question isn't it? That's why you have to sit down & think about all of the possibilities. **Small decisions add up to fortunes won or lost!**

6. Fast-track your property fortune

Some people say to me, "Damian I see that I can make a fortune from passive property investment over the longer term, but I don't want to wait that long. **Is there a way I can fast-track my property fortune?**"

When I tell them that they must consider property renovations, they are usually surprised. People say "Can I really get rich by slapping on a coat of paint or by putting new kitchens into a property?" It does seem like an odd way to get rich doesn't it, messing about with old houses and dealing with tradesmen.

Certainly not very glamorous, is it? No French champagne, private jets or red convertibles in this picture. You should know that there are incredible riches to be made by unlocking value through property renovations.

Many investors have used this as a means to catapult themselves up the wealth ladder.

For example, you might purchase a property for \$400,000, spend \$40,000 on renovations and suddenly have a property worth \$500,000! Some of you will wonder how a property can be purchased and renovated and suddenly be worth much more than the total cost.

The crucial part is to know how to pick the right property and the right type of renovation project. If you get these two factors right then there are huge fortunes to be made.

7. Using leverage and revaluations

Now here is the really great part about renovations. After you fix the properties up, you can borrow against the increased value of the property. This allows you to extract money to invest elsewhere.

Let's say you buy a house for \$400,000, you can usually borrow 80% of the purchase price. Your settlement costs are around \$16,000. You spend \$40,000 on renovations and the house is now worth \$500,000.

What have you just done here? **You have created value.** You have just added around \$60,000 of instant equity. Not only have you made money, you will be able to rent the property out for a higher amount AND attract a better tenant due to the work you have had done.

What happens now? Well, here is the great part. You can **revalue the property** and borrow against the new re-valued amount. You can borrow 80% of the new value!

What is the amount you can take out? Let's figure it out! You can borrow 80% of the new value, which would be \$400,000. What is the total cost to date?

You spent \$400,000 on the property, plus around \$16,000 in settlement expenses. In addition you spent \$40,000 for the renovations. So your total cost is around \$456,000. Yet you can borrow \$400,000, meaning you only need to find \$56,000 out of your own pocket.

Not only that, you have created around \$60,000 of instant equity! What can you do with that newfound equity?

Go and buy more properties and do the same thing! You can continue to add value and revalue properties and catapult your way up the wealth ladder!

Now here is the really great part about this strategy. You do not pay any tax on these deals unless you sell! That's right! You have **created wealth** & you do not have to pay any tax until you decide to sell the property.

8. Finding a property to renovate

Too many people rush into renovations without consideration of the surrounding neighbourhood. People like to live in neighbourhoods with similar styles of housing.

Even if you think the house is perfect, if ugly flats built in the 1960's surround the neighbourhood, then no matter what you do, the property isn't going to have that **"WOW" factor**. It will be harder to get the top price or the top rent for a property like this no matter what you do.

Equally important is the style of house you pick to renovate. You get this wrong and you may not even add as much value as you spend on the renovations!

Don't get me wrong; there are plenty of houses out there where you will be astonished at the value you can add! There is also a potential minefield of houses out there where you will not even get back your investment! **There IS a danger here, if you don't pick the right house.**

Just because you can renovate doesn't mean you should renovate. Don't find a house & decide to MAKE it work. You have to be realistic.

9. Major property problems

After you select the neighbourhood and the type of house, you have to make sure that the property doesn't have any major property problems.

One major property problem is a floor plan that doesn't fit today's living. If it doesn't fit today's living you should usually give it a miss unless the house is of such a character that it transcends these types of problems. **Floor plans are generally expensive to change.**

What you have to remember is that while virtually every problem can be remedied, it doesn't mean it can be profitably remedied.

Don't fall in love with any house & decide you can somehow pull it off. After you have determined that the property is in a good neighbourhood for adding value and after you have decided that the property doesn't have any major flaws in the basic set-up or appearance, that's when you should start worrying about the condition of the property.

That's funny isn't it! If you told most people you were going to buy a fixer upper, they would immediately start talking about the condition of the property. Here I am saying that the neighbourhood & other factors should be considered first!

The **condition of the property IS important**, but you shouldn't even be thinking about that until you have determined that the neighbourhood and the actual house are suitable.

Renovation for profits is a pretty scary business. You are talking about spending tens of thousands of dollars. You don't want it to turn into a never-ending money pit!

10. There are ways you can minimise the risk

There are **almost 90 items** you need to check yourself before going any further with a potential renovation project.

Now I always recommend getting a professional building inspection before you buy. But you **MUST be able to do your own inspection** so you can save time and eliminate those properties that have too many problems so you can find the highly prospective properties that could help you create your own property fortune!

Now another thing you have to be able to do is **calculate whether you will make a profit or loss on the project**. Unforeseen problems probably WILL crop up and that's what scares a lot of people off this wealth builder.

Unforeseen problems can be minimised with proper inspections and quotes. These are things you need to do before you buy the property. **You should allow for a contingency factor** just in case.

11. Dealing with tradesmen

Another thing that scares people off renovations is dealing with tradesmen. It is often not convenient, or fun. However, there are ways to deal with these people in an efficient and professional manner.

You CAN get them to do **what you want, when you want**. There are techniques and methods to getting what you need done with minimal effort by yourself.

Now I'm not here telling you that renovations are easy & that they will not take any effort on your part. You can see from what I have told you that it is a fantastic way to accrue tax-deferred wealth in a relatively short period of time.

This wealth can be drawn upon to make other investments, property and otherwise, further expanding your empire.

12. Purchasing property at huge discounts to market value

How would you like to buy your next property at \$50,000 below market value?

That sounds pretty good doesn't it? Buy a property at \$50,000 below market value and you have created \$50,000 of immediate wealth!

Some of you may say, "How can people buy property below market value? Wouldn't everyone see that it was undervalued and buy it as soon as it hit the market?"

Every property is unique. Therefore each property has its own market value that differs from every other property in the market place. At any given time there are thousands of properties on the market in any major city.

With so many properties on the market and each one being different, no one can possibly know about most of the properties on the market. In fact in any major city if you know one to two percent of the market you are doing extremely well.

The property market is a place where bargains can be found all the time if you understand the 5 reasons why people sell below market value and the 15 different strategies for buying property below market value.

13. Why people sell below market value

Why would anyone sell below market value I hear you say?

There are five reasons and you must understand these reasons if you want to capitalise and buy bargain properties. One reason why people and agents sell property below market value is simply that they "**Don't Know**" that a property is priced below market value.

I will give you an example of where I have purchased property at a huge discount to market value simply because the sellers and agent "Didn't Know" what the market value was.

The market value of a property is made up of the land and building. In areas where redevelopment is possible the land component could be a large portion of the property's value. I have on a number of occasions seen properties for sale where the agent and the owner have not bothered to fully understand the zoning codes and the redevelopment potential of a property. They simply "Don't know" the true market value.

This is just one example of where I have purchased property at prices significantly below market value because people simply "Don't Know" what the true market value of the property is.

14. Don't feel guilty about buying below market value

Now some of you may be saying "I would feel guilty if I purchased a property from someone below market value." You might feel like you are ripping someone else off.

I have one thing to say to you - **DON'T FEEL GUILTY**. I cannot stress this enough. There are thousands of properties for sale at any time in the market that are vastly overpriced.

Do you think that any seller would be concerned that you are paying too much for their property? The answer is a resounding NO. These sellers would be happy to fleece you of your money.

We live in a **free market society** where people have choices. If someone chooses to sell at a price you consider is below market value then that is his or her decision! Also, something you don't always realise is that not everyone is after every last penny.

There are many, many situations where a person simply wants to quit a property. It may be financial reasons, it may be emotional reasons. You are doing them a favour if you buy the property from them and settle in a timely manner so that they can move on with their lives.

Even if they are selling due to financial distress, there is nothing wrong with paying less than market value. They may consider that a quick sale below market price is worth far more to them than the alternative.

If you put a great deal of time and effort into researching an area you should be rewarded for your efforts, just as doctors and lawyers are rewarded for their special hard-won knowledge. You should also know that paying someone a higher price isn't necessarily going to benefit him or her. The beneficiary of that extra money you might pay could be the Bank! I bet you don't have a lot of sympathy for them.

It is not the purchasers' place to second-guess the benefit to the seller of selling the property at a price below market value.

15. How to buy property below market value

So how do you buy property for such deep discounts? They are out there! You just have to look for them. Believe me, agents typically don't call you up & say "I've got a property here available for \$50,000 below market value".

You have to know what to look for. You need to know which situations lend themselves to getting this sort of discount. You have to know the strategies to implement to find properties significantly below market value.

If you cannot narrow down the field, you will waste too much time chasing non-productive leads. So you must know where and when these sorts of deals are made.

You must know your area. You must know the market.

Your market must be an area that is manageable. Don't try to be an expert in more than a few suburbs. You have to know what properties are worth and you must know how quickly they are selling.

You must know the streets, which ones are busy, which ones are quiet, which ones are desired, which ones are not. You need to know what types of people live in that area.

You need to know whether the neighbourhood is improving or declining. You need to know where the shops and public transport is located.

In short, **you must know the area like the back of your hand.** You have to be ready to act!

16. Buying stale properties

One strategy to purchase properties at \$50,000 or more below market value is to **place offers on stale properties**. This is where the property has been on the market for months and isn't selling.

Every weekend the seller's hopes go up. Every weekend the flowers are bought, the house is cleaned, the fresh coffee aroma wafts through the air. If the property doesn't sell it can be devastating for the seller.

Now don't go soft and start to feel sorry for them. The vast majority of the time a property becomes stale is because the greedy seller put the property on the market at way too high a price.

It doesn't sell and potential buyers begin to wonder why it hasn't sold. They start imagining that there are problems with the property. Even if the only problem was the price, the market perceives that the property has other problems and it becomes a lemon.

After a while on the market all sorts of doubts begin to creep in to the mind of the sellers. If there are any other sorts of pressures, such as they have purchased elsewhere and need to settle on that property, then you have a situation where irrational decisions are made. This is your opportunity!

Don't be afraid to place low-ball offers in these circumstances. By the time the property becomes stale you will also probably have a **highly motivated agent** who will want to sell the property as quickly as possible.

There will be two reasons why the agent will probably be on your side at this time.

First of all, they will be afraid of losing the listing. Most listings are for a fixed amount of time, say 60 or 90 days. After that runs out, the agent doesn't have the exclusive right to sell the property anymore!

The second reason is that the agent will want to be paid the commission they feel that they have earned. If they don't sell the property then they don't get a cent. About 3 months after a property has come on to the market is the best time to place a low-ball offer on a stale property.

Buying properties at huge discounts to market value is another incredible way to fast track your property fortune. If you want to build your property empire quickly then you simply must know how to buy discounted property.

17. Property financing strategies

Did you know that rich people love debt? They love it! Can't get enough of it!

Do you know why this is? Why are lots of poor and middle class people scared to death of debt? They do anything in their power to avoid it.

Paying off their house is a major milestone for the average person. The rich aren't interested in paying off debt. **They want more debt!** Do you know why?

18. The 3 types of debt

There are **three different kinds of debt**. There is horrible debt, tolerable debt and productive debt. Horrible debt is borrowing to purchase items that depreciate in value.

They are worth less & less every year. These are items such as cars, stereos, TVs, and furniture. Worse still the debt is usually not tax deductible! This type of debt is horrible and should be avoided at all costs.

Using this type of debt on a frequent basis is a guaranteed way to keep you poor.

The next type of debt is tolerable debt. This is debt that is used for the purchase of appreciating assets but the interest on the debt is not tax deductible.

This is typically debt that is used for the purchase of a primary residence or a holiday home. While paying non-deductible interest is bad for your wealth creation strategy, at least the asset (if well selected) may increase in value.

You may hear some overseas "experts" tell you that your home is a liability. That could be true for the USA where the annual property tax on a home may be 4 or 5 times as much as it is in Australia.

For most people to buy their own home they must go into debt, so this type of debt is tolerable. The trouble is that most of the poor and middle class people only use horrible debt and tolerable debt. They never use productive debt.

Successful investors tend to use productive debt. This is debt used to purchase assets that are going up in value and the interest payment on the debt is fully tax deductible.

The rich know that they can **make money using other people's money**. Productive debt is what creates wealth.

19. Understanding how the banks operate

What you need to do is learn how the banks operate. You need to know how to beat the banks at their own game.

You need to know when and how to use non-bank financing. The average borrower thinks that if one bank rejects them for finance then that is the end and that they aren't going to get finance from anywhere else. **How wrong that is!**

At any given time, some lenders will lend to a particular type of borrower, while at other times they won't. Banks actually pursue different loan types at different times.

It all has to do with managing their risk. The banks don't want all of one type of loan; they want a balance of loans.

So what do they do when they need less of one type of loan? They start making those types of loans more expensive, and they tighten up the requirements. Now the banks aren't going to tell you this.

You don't want to apply for too many loans as rejections can hurt your credit rating. But there are ways to find out who is most likely to lend you money.

20. The perfect loan

There are seven features that you want to get in a perfect loan. One of them is **interest only payments**. On tax-deductible loans you do not want to be paying back non-deductible principal repayments. You would rather have that money available for investment in other assets.

This is just one of the seven features you need to get in a loan in order to maximise your wealth creation strategy.

21. Negotiating tactics

Negotiation is imperative to obtaining the deals that you want. Master Negotiators are experts in human relations & they understand the **secrets to successful negotiations**. They also employ over eleven offer strategies to get the property deals they want – here's one of those strategies.

22. Why you should rarely say yes to a first offer

Whenever I am negotiating, I make it a policy to **never say yes to the first offer** from the other side, except in two particular circumstances.

Let's face it, rarely in real estate is someone's first offer necessarily their best offer. **People position themselves before making offers**. A listing price on real estate is not usually the price a property is sold for. Sellers set prices at a level above the price they are willing to accept. Similarly, buyers usually place offers at a price below the price that they are willing to pay.

If you place your first offer on a property and it is accepted there are two thoughts that would go through your mind. The first is that you have paid a price higher than the minimum that the seller would have accepted. You will think that you could have done better by offering a lower price or different terms. The second thought that will go through your mind is that something must be wrong

with the property. Why else would they accept your first offer? Thoughts of a new jail being built across the road or some other horror that you have missed during your research will immediately spring to mind.

A similar situation exists for the seller. For example, if you listed your property at \$550,000 and you received a full price offer, what are you going to think? Firstly you are probably going to think that you sold the property too cheaply. If someone offered full price there is every chance that they would have paid a higher price. Secondly, you are going to think that something is wrong. Is there a rezoning going through that will increase the land values? Is there a new public transport system coming to the area? What have I missed?

In both cases for the buyer and seller, despite getting what they wanted, there is a certain amount of unhappiness that exists because they will be left with the thought 'I could have done better'.

As I said earlier, **rarely is a person's first offer or counter offer their final offer**. Some people will use as a tactic "first and final offer" on the written offer. They are trying to flush out a desperate seller. In some cases it may actually be their first and final offer. In other cases it's not.

Let's assume that you are placing an offer to buy a property and the asking price is \$550,000. You think the property is worth \$530,000. You place an offer for \$477,000. The seller counter offers back to you at \$525,000. Should you accept that counter offer? Probably not. It is unlikely to be the seller's final offer. I always assume that in most cases you can go back for a second chance if they reject your counter offer. I would counter again at around \$494,000. They may counter offer again, which is great because you will have the opportunity to purchase the property below their first counter offer. If they reject your counter offer outright, you can always go back to them at a higher price, or at their previous counter offer price of \$525,000, which is still lower than the market value.

There are some risks with this approach. If you counter offer their offer of \$525,000 you have effectively rejected their offer. There is no legal compulsion for them to later accept an offer by you for this price. They could change their mind and decide that they want \$535,000. It is unusual for someone to do this, but it does happen. The second risk is that another party could come over the top of your offer while you are still negotiating and purchase the property from under your nose. There is always a possibility this could happen.

If the property is on the market for a list price higher than market value, then I take the approach to **not accept the seller's first counter offer**. The reason for not accepting the first offer has been discussed. In this case, because the property is advertised to the property world at a price above market value, there is a small probability that there is a swarm of people swirling around the property, looking to place offers. Most buyers assume that sellers have some negotiating room. They do not know how much. Some people may negotiate to only a few percent below the asking price. Others may be willing for a number of reasons, to negotiate to twenty percent or more below the asking price. With so many properties for sale at any time, buyers have to **assume that all sellers are probably equally negotiable**, unless they have evidence to the contrary.

Unless the agent has been telling everyone that the owner will take \$500,000 on the property, most potential buyers will assume the seller has some negotiating room, but would be unaware of the extent of negotiability. Therefore, while there is always some risk by not accepting their first offer, I think the risk is small.

Further Information

I trust you enjoyed reading this e-report and found it to be informative and of value. If you have any further questions about Momentum Wealth or would like further information about the Momentum Wealth Property Education Program or our Finance Broking services, please visit our website at www.momentumaustralia.com.au or call 1-800-000-159.

Best regards,

Damian Collins
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Momentum Wealth