

Getting Rich (or richer) through investing property in Bali (2)

Thursday, 08 May 2014



by Dani Sulistyo – UbudProperty's Director
A Property investor

In the last edition we have discussed how we could become rich or get richer by buying and selling property, and the importance of selecting a property agent who can make your investment easy to handle and profitable. At the end of the last edition we also said that apart from the four levels of property investors as discussed, there is actually one more at whom we did not look yet. This is the pure investor, retiring

young and rich without the need to sell his property, even getting a positive cash flow every month for living expenses and being able to buy more properties.

Interesting, right? Now how does that work?

In investing, there are two types of profit that can be earned by the investor, - capital gains and cash flow. Capital gain is the difference between positive sales minus purchase cost and expenses including taxes. The four levels that we have discussed earlier are examples of the of capital gains advantages. To be able to enjoy this capital gain, such investments should be sold or liquidated. While cash flow is an advantage that can be obtained without selling the investment, for example by renting out the investment that we have.

Among the safest and common investment options (property, gold, deposit, stocks, and mutual funds), the benefit of having a property as an investment compared to other investment instruments is that the investor can get profit or cash in without selling his property. For example, if we invest in stocks, to be able to enjoy the profit, the stocks should be sold first. So it is with gold. Only deposits and mutual funds could provide returns that can be enjoyed in a certain period. But in deposits and mutual funds, value of the capital does not grow or does not give us a capital gain .

How do I get a cash flow through property investment ? We invest our money in properties that are rent-able. Property rental in Bali in average provides a return of 5% per year for residentials, 8 % for shops, and over 10 % for commercial properties (including managed holiday villas and hotels). For example, you have a house worth US\$ 200,000 in Ubud which you can rent out for \$ 20,000 per year, therefore this property generates cash flow / return of 10 % per year. Clearly, the greater its rate of return, the better. The minimum return that should be expected is equal to the rate of inflation, or just a little under the Indonesian Central Bank benchmark rate. If you have a property with such a return on investment, do not sell the cow, which gives good milk. If you find such property, check the sums and buy it immediately when all adds up.

This is 'the one' strategy for early retirement. The formula you will apply is having a passive income that is bigger than your living cost. Passive income is income which is earned without working, while active income is the income that we receive from our occupation. A good (and still young) friend of mine here in Ubud is earning a net income (after taxes and operation cost) of 33.5 million rupiah per

month from his villa rental, whilst his living expenses are only 20 million rupiah per month. He does not need to work anymore, and could retire today. However, instead he is still working and his active income is invested to buy the next properties so that he would gain even more income later on, for even greater luxury without having to work. A nice aspect of life indeed ? Yes, you bet!

If this appeals to you, if you want to do the same, - the key question about the property is: "which is the right location?" Where should you buy, which area has the highest rate of return? Then you have to consider which kind of property will be rented out at a high price, followed by looking at the average maintenance cost. Based on experience, I do suggest Ubud for it's natural environment and cultural appeal, and Canggu if you prefer a beach view.

How to find such suitable property which is rentable at a high price? Again, best to work with an experienced agent in the area and also gain some knowledge about property investment. The right agent will make your search effective, can teach you the ropes and your investment will be profitable and safe. Happy investing!