"Buying a new investment property should be a fun and exciting process"

\- DALE WALSH

THE NEW PROPERTY INVESTMENT GUIDE

WRITTEN BY DALE WALSH

WWW.ESTEEMEDPROPERTY.COM.AU

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ESTEEMED PROPERTY

www.esteemedproperty.com.au

The New Property Investment Guide

This is a guide only and many figures are imported from historical data to act as a sample of a possible outcome of purchasing an investment property. It should not be used to purchase a property until you have discussed with Esteemed Property and understand how this sample works. We do not offer any financial advice and the tax amounts are only samples supplied by the ATO and any financial advice with regards to tax benefits should be supplied directly by your accountant. We are not responsible for any incorrect figures as they are samples only.

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Forward

Entering the property market as soon as you can opens doors to opportunity, growth, wealth, and in many cases, happiness. I was once told 'money doesn't bring you happiness…but it does buy you things that do' and real estate is probably the safest way to build your wealth.

Our team guides buyers through the entire investing process that not only teaches the 'ins and outs' of property investment, but also gives buyers the knowledge to make a confident decision on when and what to buy, and when you have knowledge and confidence, the process is fun and enjoyable. Buyer's remorse is the definition of someone who is not confident they have bought the right property, but with education buyer's remorse is not something that will ever enter your vocabulary.

We do this every day and doing the same thing every day you get pretty good at it pretty quickly and we have a proven track record of making buyers money by guiding them in buying and managing profitable properties.

There are 2 basic lessons to investing:

1. ***Never lose money.***
2. ***Never forget Lesson 1.***

This Investment Guide acts as a road map to show you the process of researching the right property, assessing its suitability for investment, understanding how to hold and manage the property successfully, how to set it up and most importantly, when to sell it for the most profit. It is easy to learn and easy to implement and best of all, we hope it is easy to replicate for the rest of your life.

We see it as the cash machine that will work behind the scenes to give you and your family the lifestyle you deserve and set you up for an enjoyable and stress free life and happy retirement.

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Introduction

Esteemed Property specialises in new lifestyle and investment property on the Gold Coast.

We work closely with our clients and we see buying an investment property as an intimate thing as we are there from the start, we do all the hard work and research, we find the right options, we help you get finance and settle the property, we help you get the best tenant and we are there when you crack the champagne when you sell the property for profit.

We also know that there is a big difference between buying a successful investment property and just buying a property as a hopeful investment.

Our experienced team provides a very honest, professional and personalised service to every one of our clients. We guide you through the whole process from the initial stages of beginning your search, right through to settlement. We don’t rush things as we really want to understand our client’s goals and plans, before we chart out a course of successful property investment. Some people may want to invest money they have lying around to turn into weekly income with a larger deposit and smaller loan, some wish to set their kids up for the future, some want to create a wealthy retirement while others may wish to pay down debt using tax benefits and annual depreciation to own their own family home.

Investing in real estate is extremely financially rewarding when done correctly. We believe that investing in the right property will set both you and your family up for the future. We provide you with the knowledge and tools to design a fool proof ‘turnkey’ solution for long term wealth generation and financial stability and we do it for free, now you can see why we get so many referrals.

Our team are constantly researching and sourcing the latest properties for our clients. We look at each potential property and study several influential factors that qualify it as a suitable investment. It must fit into set criteria and provide potential high yields and or growth for investors.

Some deciding factors for investing are capital growth of the area, population increases, local infrastructure, rental yields, total properties, employment, macro and micro drivers and occupancy/vacancy rates.

Our team of professional experts will also assist with maximizing tax benefits, finance options, legal support and any other required investment service you may need.

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Chapter 1

WELCOME TO NEW PROPERTY INVESTMENT

Firstly, I love what I do and I love the Gold Coast. I have lived here most of my life and in that time, population has grown and so has the dream of owning property on the Gold Coast, either to one day live in, or simply to use the increasing demand to create lifelong wealth.

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What We Do

Our professional investment team offers a wide range of property investment services however we specialise and focus on new investment property because it offers the best chance of investing success and high returns from capital growth for wealth creation, and high rental yields and multiple tax benefits for debt reduction.

Investment should be treated as a business, or at least handled by experts who do it fulltime (not just a small part of a business as an ‘after thought’). Investing is ‘not a toe in the water’ exercise because if you get it wrong it can take years of hard work to get it back, however if you get it right it could set you and your family up for a stress free future and very enjoyable life.

We study market trends, external drivers and influences and match potential investment properties to clients. It is a full time job and we get great results for our investors.

We have 100s of new properties on our books and we search through our database to find the perfect investment that suits our client’s needs.

We assess every property and our time and knowledge is **FREE** for our clients as we get paid like normal agents…by the seller…. so as a buyer you get our expertise and save money…. it’s a ‘win win’ situation and it works extremely well. We don’t play favourites, we are totally neutral and our goal is to provide the knowledge so that our clients can choose the best property, not us, we simply assist every step of the way and provide the information to make the decision easy and fun.

We compare properties head to head which provides clear, measurable evidence on the right investment for our clients and we are confident enough to voice our opinions when required.

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How We Work

1. We get to know you and understand your personal situation and goals with regards to your investing.
2. We outline a strategy that will create the financial rewards you want from your investment. This can vary from long term wealth generation through capital growth to set up retirement, negative gearing the property to reduce tax and pay down debt, higher deposit to produce revenue building rental income, short term ROI and a couple more.
3. We walk you through the plan and educate on every part so you understand the strategy clearly enough to be confident you are buying the right property.

4. We search through our database of analysed investment properties and show you how they were assessed.
5. We assist you to organise pre-approve and budget setting so we can narrow down the correct property by capital investment range.
6. We go and inspect the recommended properties with you and compare apples to apples.
7. We decide on the best option for your strategy.
8. We make an offer to purchase and negotiate the best deal for you.
9. We finalise the finance and work out the best lending structure with regards to loan type, rate, account set up and repayment planning.
10. We settle the purchase and you become a property investor.
11. We assist to find the tenant ready to move into the property at settlement so there is no financial downtime with regards to rental income.
12. We assist with the management of the property and ongoing rental yields.
13. We will assist with annual market reporting and work through market trending with regards to property values and suitable selling windows for maximum profits.
14. We assist you building a lifelong successful property portfolio and passive income (cash machine) so you can keep replicating the aquire-hold-sell model for the rest of your life.

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Chapter 2

INVESTING YOUR MONEY

In order to build your wealth, you will want to invest your money. Investing allows you to put your money in vehicles that have the potential to earn strong rates of return and make you more money. If you don’t invest, you are missing out on opportunities to increase your financial worth. Often investments offer way higher returns than wage increases and inflation or economic growth.

* * *

Why Invest Money

Investing your money can allow you to grow it. Most investments offer returns on your money over a long period of time. This return allows your money to build, creating wealth over time and often compounding.

While you are working you should be saving money for retirement. Investing in property **NOW** will allow you to build equity and therefore income and then, at retirement age, you can live off funds earned from these investments via rent or selling the asset for a profit.

Property Investment tends to offer the opportunity to earn higher rates of return than savings accounts; therefore, if you want the chance to earn a higher return on your money, you will need to explore investing your money in property.

As a property investor, you may be able to reduce your taxable income by using tax deductions then using those rebates/deductions to pay down debt or invest elsewhere while your asset continues to grow in value.

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Moving From Saver To Investor

Most Australians are brought up understanding that each week they need to put a small amount of money aside as savings to slowly grow their wealth. The problem is when most people go through a period of unemployment or illness, or even expansion of the family, those long term savings are spent.

While it is true we do need to save, the greatest step we can make is move from being a saver to an investor. Making money is slow and tedious when we do it week by week.

The ultimate goal is to use the savings to make money then use that money to create growth and more money.

* * *

Personality Types

The world is a wonderful place full of different races and religions and even languages, however success is often a mindset and most successful investors have a very broad outlook on life.

Depending on the personality of the client, we often create strategies that match the clients mental comfort zone. For example, one of our clients has a lot of cash but since she retired she is dipping into her savings. She stresses about money every day so we knew we had to address her thought patterns first. We worked out how much she spends each week and then looked at investing her excess cash into a short term investment property (unit) that allowed her grow her wealth while retired.

We set her up with an offset account so she could see her cash whenever she wanted to and we got her to draw down money each month to live on while her remaining money reduced her debt by utilising her offset mortgage account.

A lot of potential investors suffer from anxiety and buyer's remorse but we know that if you are well educated and knowledgeable about what type of property suits your needs, buying an investment property is actually a fun and exciting process.

We spend a lot of time with our potential buyers and are very hands on throughout the entire process and often 'steer the ship' so to speak to make it a smooth and fun experience that you will want to do over and over again throughout your life.

* * *

Understanding Human Nature

Human nature is a funny thing, while we are all different funnily enough we can broadly brushstroke some traits with all of us.

The most dangerous trait in real estate is greed. Greed kills deals, misses profits and creates risk and danger for potential buyers.

We always advocate creation of a portfolio or cash machine as we like to call it however a portfolio to us is 3 or 4 properties that are cycled every 5 years creating lifelong wealth. It is not owning 75 properties, it is not stress and it is not hanging onto to properties too long until they require costly repair or refurbishment and it is not kicking out tenants over a $5 rental increase and leaving it empty for 3 months while a new tenant is sourced at the slightly higher price.

While Gordon Gecko said 'Greed is good" in Wall Street, in property, success and greed do not go hand in hand. Often we have advised clients to sell a property that they loved because it is close enough to the financial ceiling and clients want to hang on to 'ring its neck' so to speak and in the end accepted a lot lower offer or had to pay for repairs to get the value of the property simply because they were greedy.

We often advise to sell a property even if there is still some potential growth because we know that is a way safer and more profitable option that missing the boat all together.

* * *

Retirement And The Australian Pension

One major worry for all Australians these days is retirement and to most that means the pension. After we pay our taxes and top up our super there really is bugger all left and it is really a matter of fending for yourself these days with regards to funding your retirement.

Investing in property is actually the perfect vehicle to protect your retirement but it can't be left too late in life to start. The banks look at age before lending and the optimum time to start to set up your retirement is **NOW**.

A good strategy is to use a current property as equity, borrow against that property to purchase and investment property while you are working then use the rebated tax deductions to pay down the debt so by the time retirement comes around there is huge equity in the property from capital growth and due to the debt reduction the incoming rental return is not only high but increasing each year and becomes cash flow positive accessible income for lifestyle and living.

The perfect model is to purchase multiple investment properties over a 20 year window allowing for equity creation, debt reduction and rental yield increases so that 1 property can be sold every 5 years of your retirement to make sure your cash flow always outweigh your spending and this model makes retirement fun and exciting prospect. The best part is the tenant, and the government, have actually paid all the costs and created your wealth, you haven't had to work extra hours in your already busy life to fund your retirement.

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Chapter 3

WHY INVEST IN PROPERTY

Investing in property is one of the best things you can do for you and your family, it not only sets you up for the future, but can provide a comfortable retirement.

The financial steps to wealth are simple:

1. Make and save money
2. Make your saved money make more money for you.

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Why Choose Property

South East Queensland has been one of Australia's most consistent property markets over the past 30 years, providing secure returns in excess of 7 - 8% per year, and has experienced fewer years of decline than almost any other property market.

The Australian property market as a whole has shown an ability to resist downward shifts in prices, this allows investors to hold property over the long term with great confidence and huge financial gain.

The price of real estate continues to increase every year, therefore purchasing real estate is one of the safest long-term investments a person can make.

If you had the choice between putting money towards a new car or boat or a new house, a house should win every time, as it will appreciate in value over the years whereas a car does the opposite.

A stable rental market also ensures that investors can readily obtain tenants for their property, essential for the long-term success for any investor.

Assets build wealth, so investing in real estate is a great way to build wealth as the property continues to grow in value, in fact the longer you can hold onto the property the more valuable it becomes, the complete opposite to most things we desire in life.

With a property investment several years can fly by and when you finally decide to sell the property, you may have $100,000s of dollars in capital growth and equity and while investing in property might be slow and not so glamorous, the financial returns allows us to buy whatever is glamorous.

* * *

Investor Mind Set

Buying an investment property continues to be one of Australia's favourite ways to invest hard earned money.

Buying an investment property should be about growing your wealth and securing your financial future. The cost of owning an investment property can be surprisingly low after you take into account your rental income and the tax deductions you'll be entitled to.

To most, investing in real estate is all about capital growth, so choosing a property that is more likely to increase in value is the most important consideration, so buying the right property is absolutely critical. We have valuable data on different locations and property developments and this will help you pick the best investment property.

Ensuring that you have a steady rental income stream is also vital because this cash flow will make the holding of the asset more affordable and provide income. Getting a tenant to pay the rent will also reduce your loan or debt and over a number of years this can be huge amounts of equity created by the tenant on your behalf. In other words, the money they invest in rent ends up in your pocket as equity.

Different types of property can outperform each other over time. For example, investing in a unit might mean less maintenance costs but higher body corporate and less capital growth than investing in a house and land package that has huge capital growth but higher maintenance costs. Yet the unit is most often the perfect entry level due to the lower purchase price. Some areas offer higher rental yields, but it does not guarantee higher capital growth.

It is also important that a property suits the demographics of renters in the area. For example, if it is near a university more bedrooms will be in greater demand than a big backyard for kids to run around. A family home that is close to schools and parks on a quiet street will be more desirable than a property on a busy road.

Once you own an investment property it can be quite inexpensive to keep it and service the loan, that's because you earn rent and get a tax deduction on many of the expenses associated with owning the property and remember that over time rents tend to increase as does your own income – so you can expect things to get easier the longer you hold onto the property. Interest rates can vary over time but the good news for property investors is that in times of rising interest rates you can normally expect to be able to increase the rent.

Negative gearing can offer tax benefits if the cost of the property investment exceeds income it produces. Australian law allows you to deduct your borrowing and maintenance costs for a property from your total income. So, while you are actually making a loss on the property, the advantage is that the loss can be used to reduce the amount of tax on your other earnings while you are accumulating wealth through compounding capital growth.

Remember that property is a long term investment and you should not rely on property prices rising straight away. It's a marathon not a sprint. The longer you can afford to commit to a property the better the return, and 'investment' by definition means an asset purchased with the idea that the asset will provide income in the future or will be sold at a higher price for a profit.

There are a heap of great advantages to buying an investment property. Here are just a few of them:

Leverage
You can borrow more to fund real estate purchases than any other asset because of its 'bricks n mortar' high security. You can actually receive returns on money that is not even yours. So in other words, you invest a deposit of $40,000 on a $400,000 property

and you will receive from 5-15% annual return on the $360,000 that is not even your money (borrowed funds).

Returns
Over the long term real estate has returned around 10% per year in capital.

Security
As long as you purchase within your means and you have a deposit large enough to create equity in the property you will never go broke as there will always be demand for property (either a home or investment to rent out).

Forced Savings
Owning real estate creates a good discipline when it comes to saving money. People paying off a mortgage are less likely to waste money on things they do not need as they have a financial commitment each month that is accumulating wealth, not wasting savings.

Forced savings also turns into compounding profits so as the property increases in value, your money is turning into more money that is why the earlier you start investing in real estate the better.

Value Adding
Property allows you to add value at any point by adding new features, upgrading or just repairing parts of the property that will dramatically increase the value of the property. Sometimes it’s just new paint, tidying the gardening or even new carpet that can dramatically increase the value of the property.

Lucky One
Some owners of property have had agents calling them asking if they are interested in selling their property as they have a buyer ready to make an offer, well over the normal asking price. This is the result of being in ‘the game’, no one has ever knocked on a door offering anyone double what’s in their bank account.

As an owner of a property many opportunities to buy more property, or sell the property for big profits, will arise, if you don’t buy property none of these opportunities will ever come your way

* * *

Making Money From Property

Real estate is the cornerstone of the world’s great fortunes. It has created more billionaires than any other asset class. In the recent Forbes Billionaire’s List, it reported that a total of 135 property tycoons now make up the world’s wealthiest list.

As we said earlier there are 2 important lessons to making money:

1. *Never lose money*
2. *Never forget Lesson 1*

Some Gold Coast areas have had periods that have seen many home owners with properties that have, in some cases doubled in value over a short period of time.

While there is no guarantee your property will gain in value over any given period, and capital growth largely depends on where and what you buy, historically real estate experiences steady growth over the long term. Demand overrides everything, if large number of keen buyers are fighting over limited property, then prices get driven up and the Gold Coast continues to grow in population and if development struggles to keep up with demand, then prices will continue to go up and up, following the huge demand of inner city Sydney property.

History has shown that property located within 2 to 10 km's of the CBD should follow the pattern of around 10 to 11% capital growth over the long term.

If your property grows quicker than this, it's more likely to be for the short term only due to some major changes in the area such as an improvement to the local amenities or infrastructure and in some cases opening of mines or large industry.

You can maximise your return on your investment by structuring your finances in the best possible way and ensuring that you pay fair market value in an area within our investment property guidelines.

We find, deliver and negotiate property that will achieve good capital growth over the long term after researching the historical data of the chosen area.

To protect yourself make sure your purchase is under $500,000 as this entry level price appeals to the entire buying market and is easy to sell, in fact even easier to sell in poor economic times as more buyers move back into this entry level backet.

There never seems to be enough money left over to really enjoy. It seems like wealth generally doesn't come from blood, sweat and tears like we were all told growing up.

It seems like real wealth in generated in the background and is a bit more of a slower process. I mean, even if you are paying off your own home, the forced savings are far better than dead rent, because when you sell it you get your invested money and, in most cases way more back, but when you move out of a rented property after 3 years the $75,000 has gone down the drain. Obviously investment property works even better whereby the tenant reduces the debt while the property value goes up by capital growth, it's a win-win.

I do a lot of in home consultations and get to meet some great people, but doing this has giving me a very clear insight into how important having a clear property investment strategy or plan really is. Firstly, when customers tell me they want to buy an investment property I explain the process and steps and also let them know important points for consideration as well as the risk and reward. Generally I explain to them they will need to be assessed by a mortgage broker to confirm a suitable purchase budget to get things underway and tell them what their most likely purchase deposit will be. Most time customers tell me they don't have much deposit as they hadn't really decided to buy until recently so they hadn't really been saving for anything. If they had planned to buy they would have been focused more on saving money.

Secondly, I ask them what type of property they would like to purchase and in what area. I also ask them about their planned tax benefits and also how they intend to rent it and how much for, their desired returns and also the type of capital growth they are planning for and even ask them what type of loan they plan to get. Every time the answer is the same… 'we have no idea'.

From here I generally back track and start to create a plan with the customer. This does 2 things 1; it shows them the process and educates them on what they need to do and how best to do it and 2; it gives them complete confidence that they are buying the right property for their circumstances.

I have a heap of information that we walk through step by step and the clients really enjoy learning the 'ins and outs' of investing in property and it sets them on a path of financial success.

Once they understand how to buy the right investment property it is simply a matter of sitting back enjoying life and letting the property accumulate capital growth.

Don't forget...buying an investment property should be a fun and exciting process.

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Lifestyle Vs Investment Property

While we specialise in investment property, we also try to clearly define there is a big difference between lifestyle and investment property. Our ultimate goal is to use profits from an investment property to purchase your dream home to live in.

Investment property is about money, stats and spreadsheets whereas lifestyle property is all about the family home and enjoyment.

One funds the others…it's that simple. Our job is to advise you how to make the most money from an investment, once you set up the investment property, what you do with your profits is totally up to you and, frankly speaking, we all dream of owning the perfect family home and investing in property is the first step to this dream.

Having a dream home does not need to be profitable as you can't put a price on the perfect life or lifestyle, but the things you love in your dream home are not the same as what we look for in investment property. We can't be too attached to the dream and try to find it in investment property, facts and figures are the key, not the look or appliances or backsplashes or garden landscaping. This is one of the keys to successful investment…it's not glamourous…it's not red, fast and shiny…..it's a marathon, not a sprint.

* * *

Market Trends

Like everything in life property goes in historically recorded cycles. Traditionally the market has worked in repeated 10 years cycles that tend to show 7 years of good growth, 2 years of no growth and 1 year of slight losses.

A smart investor will know how the market is sitting and where it is trending. Our most successful investors have been able to purchase a new property, follow our advice on the market trends and sell on the way up (not at the top) and make great profits.

Once we analyse that the property has had 4 years of good growth, history tells us it is time to sell the property otherwise if the market downturns we may have to wait another 7 years until we see the same period of consistent growth.

Often we have assessed a property and advised the best outcome over a 7 year window and found the same projected profit was achieved in a 3 year window due to the market trend. Doing this made the most profit from the property and hanging onto the property any longer would not have created anymore equity or profit.

Often an investor will have no idea what the market is doing and therefore is likely to miss the optimum sale window and end up selling at either the incorrect time or holding it for too long while another property could have been making more equity for them.

* * *

When To Buy

While experts will tell you about trends and markets and blah blah, and don't get me wrong, in the perfect world these are key factors to influence your decision when to buy, for most of us the best time to purchase property is **NOW**……..in other words, the cost of property and more so, land, continues to grow annually and unless your wages increase at the same rate, property becomes tougher to purchase every year.

If you have a deposit then now is the time to purchase as this time next year the required deposit may have increased by more than you can save in that period.

If you purchase now the annual growth will actually go into your pocket and not into someone else's pocket. Every year property goes up by around 6 - 8% and living costs go up by 3% yet there is minimal increases in wages so if you do not use your deposit this year you may be actually getting further away each year if you stay in the same job or financial position.

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Return On Investment (ROI)

The ultimate way to measure success and failure in investing is 'return on investment', in other words, how much did you get back from how little you put in.

Property is not only one of the safest investment options but it also is potentially the most lucrative if you consider the cash investment required to get started. In the old days investors could get started with as little as 5% deposit and the bank would do the rest, the tenant would pay the repayments and the client would make between 6 to 8% capital growth (on the banks money).

Say you purchase a property for $400,000 and you have $40,000 deposit and the property grows by 5% every year until you sell in year 6 at a sale price of $535,000 with a profit of $135,000, the return on investment ($40,000 deposit) is actually nearly 350%…where else can you get that sort of return.

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Chapter 4

CHOOSING THE RIGHT INVESTMENT STRATEGY

Now that you have researched why you should be investing in property, it is important to understand what type of property you should buy that suits your plan. Setting a budget, finding the best returns, protecting yourself from risk and getting pre-approval for finance are all important steps before you are able to go ahead and put an offer on a property.

* * *

Deciding On A Strategy

When we meet a new client, we discuss the many investment strategies they can use to set up a successful process. Here are a few successful options we have used:

Buy and Hold
This is perhaps the most popular investment strategy among industry advisers and professionals. Buy and hold refers to acquiring property with the goal of generating long term capital growth. Usually you buy a property (using borrowed funds) that appreciates in value over time, with live-in tenants to help you pay off the mortgage.

As property values go up and rents increase, Buy and Hold investors often parlay their equity into purchasing the next property in their portfolio. Then in future, they may sell some of their stock to reduce debt and emerge with income generating assets.

With good asset selection and the benefit of time, Buy and Hold can be a very effective and low-hassle strategy.

Negative Gearing
Negative gearing refers to a property investment where the annual expenses exceed the rental income. This leaves the investor with a loss, which under Australia’s tax laws, can be claimed as a deduction. Historically, particularly in capital cities, property prices have grown more than enough to offset the small loss incurred by a period of negative gearing.

Positive Gearing
The flip side of the coin is Positive Gearing – where the property puts cash in the investor’s pocket *after depreciation and tax deductions are taken into account*.

Positively geared properties are usually hard to find (and if a newly purchased property is genuinely positively geared, there will usually be a downside, such as poor capital growth prospects).

However, properties may *become* positively geared over time, as increases in rental income outstrip expenses. New properties have the greatest potential to deliver positive cash flow because they offer the largest depreciation benefits.

Positive Cash Flow
A close cousin of Positive Gearing is Positive Cash Flow. Positive Cash Flow properties are properties that put cash in the investor’s pocket each week.

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Chapter 5

UNDERSTANDING YOUR FINANCE

When it comes to getting an investment property loan, the process can seem daunting – especially if this is your first application, but it doesn't have to be. By being aware of the loan application process – and the documents and information you may be asked to provide along the way – you can ensure everything goes as smoothly as possible.

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Getting Finance

The first thing you'll want to do is research the type of mortgages available from different lenders. Loans can differ significantly and you will want to factor several considerations – including fixed or variable rates, payment plans and other terms and conditions – into your final decision.

You will also want to set yourself a budget and determine the amount of money you need to borrow. Getting pre-approved for this amount could be a wise idea if you are still shopping around for the perfect property. Pre-approvals tend to last for up to six months and can help you move more quickly once you have found the perfect property.

During this application process, you'll be asked for several pieces of documentation. If you are self-employed, you may be asked to show tax returns and other financial information from the past two years, while anyone who is employed will need to show evidence of their pay slips. Group certificates and 100 points of ID may also be requested.

If you are a property investor, you are probably aware of the fact that sourcing a loan for investment properties is a different proposition to finding the right loan for a home in which you will be residing. Property investment loans come with different features and options, such as interest-only repayments, and you generally need to have a solid deposit.

The minimum deposit you need for an investment property is usually 5% of the purchase price in genuine savings. The dollar amount will obviously vary depending on the cost of the property, and depending on the terms of the loan, you might not need to provide a cash amount.

If you do not have enough for a cash deposit, consider using the equity in your other properties as security for your loan. This will eliminate the need for a cash deposit. Alternatively, you can have a family member, such as a parent or a sibling, guarantee your loan – as long as they have enough cash or equity to cover 20% of the purchase price of the investment property in a property they own in Australia. These options can make it easier and quicker for you to get started in property investment.

You should also allow sufficient funds to cover associated costs, such as stamp duty, borrowing fees, and legal fees for settlement.

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Using A Broker

Many buyers now rely on Mortgage Brokers to get their property loan. The main reason for this is they understand the relationship between debt and income with regards to all lenders borrowing criteria.

If you have a credit card with a $10,000 limit, then your borrowing power will be reduced by around $40,000. If you have a personal loan of only $6,000 your lending capacity could be reduced by as much as $19,000. Most people do not know or understand this relationship but luckily a good broker does and will guide you through the process of preparing for a loan application so that you get the best result and highest loan option available.

The broker will advise you what to do in preparation for applying for the loan. In some cases this may be cancel a credit card, cancel store cards, eat at home for a few weeks to increase savings and finally if all else fails, sell one of the kids…..

Each bank has its own lending criteria and the broker will know all of them. When you go to a bank, you are only offered that banks products and they may not suit your requirements or situation. The broker may know that ANZ does not have a product that suits however WESTPAC may be the best solution. So instead of getting a knock back and feeling deflated, the broker will only send the application to the lender who he knows is looking for that type of client and loan.

We always strongly recommend that a buyer talks to a broker before they contact the bank. Often if the bank says ‘no’ that does not mean the buyer does not qualify for a loan, it just means they do not qualify for that bank’s types of loans.

To increase your borrowing power you have 2 clear pathways. Firstly reduce debt, and secondly increase income. Sounds simple enough but let’s look deeper.

Reducing debt simply means trying to pay out any credit cards or personal debts that require ongoing monthly payments. The bank’s lending formula really impacts on total lending power if monthly payments are required to other sources.

Increasing your income might sound easy also, but most of us have been trying to do that our entire lives. One way to do this is to buy the property with a partner which increases total income (2 incomes) and increases lending power. Another way is to make sure you add all income such as rebates, rental income and deduction and make sure the lender values your employment type or status. Some lenders only value 60 - 80% if income earned while casually employed while others may recognise 100% in their criteria for lending.

A broker knows all the criteria of every lender and they will find you the best possible outcome. They do the leg work and you get the rewards.

* * *

Brokers v Banks

Banks only offer their own loan products and unless you fit their specific lending criteria, you may struggle to get approval even though you use their qualifying calculators online.

Brokers on the other hand have access to hundreds of loan options from every bank and can tailor your needs to the most suitable product from which ever bank suits.

Mortgage brokers are paid on a commission basis which means they're invested in your application and will work hard to get you approved and provide you with an amazing service. Because they're experts in credit, they can answer all of your burning questions instead of directing you to another department.

* * *

Getting Your Documents Ready

Once you are thinking about buying an investment property the first thing you need to do is get your financials in order and keep then up to date so they are available when the right opportunity arises and you can take advantage of a good deal.

Get your BAS and GST returns up to date; make sure you have copies of everything you will need from Tax Returns to certified ID and also current statements such as bank statements, credit cards, loan statements, registrations and so on.

Just taking a few days to get these up to date will save you time and money and more importantly disappointment if the right property is lost due to lack of preparation.

* * *

What You Will Need

To proceed with you application you will need to provide the financial documents that the broker requires to get pre-approval for you.

These may include:

Employed (PAYG):

- Personal Identification
- Pay Slips
- Bank Statements

Self Employed (ABN):

- Personal Identification

- Income Statements / Declaration
- Bank Statements
- Tax Returns

* * *

Getting Pre–Approval For Finance

You don’t need to find your new home before you can apply for a loan. In fact, there are good reasons to speak with your broker to get your loan sorted beforehand.

Some lenders provide a loan pre-approval which is usually subject to meeting required terms and conditions. This is where your loan limit is approved for a certain time (usually around six months), and providing your circumstances have not changed you’ll know exactly how much you can afford to pay for a property, and you’ll have the freedom to make an offer on a property knowing that your finance is already organised.

You’ll have a better idea of what properties to look for, because you won’t waste time looking for something outside your price range, and once you find the right property, you’ll be able to focus on the purchase rather than having to sort out the finance at the same time.

With a pre-approved loan, there are fewer chances of hiccups with the sale process, and in some cases, vendors (sellers) will accept an offer below list price and take the property off the market with confidence knowing the buyer is serious.

There are hundreds of different loans out there in the mortgage marketplace. But fundamentally, they are all based on two key things:

- Principal – the amount of money you borrow
- Interest – how much you pay to borrow the money. It’s calculated on the outstanding principal

From here, there is a wide variety of loan features and structures to choose from, and it’s worth knowing what’s involved with each to make an informed decision.

* * *

Types of Loans

Interest-only property loans are often used by investors for a number of reasons. Mainly investment property loans should be interest only because the interest is fully tax deductible. It is also the best cash flow solution when combined with good capital growth.

Simply put, an interest only home loan is when borrowers only have to pay the interest for the period as well as any fees for a fixed period of time. The interest only repayment keeps the payments low and allows for cash flow positive returns from the rental yield. This can also allow for additional injections of cash to reduce the loan or use the extra income to purchase another investment property.

The main benefits of Interest Only Loans are:

- **Smaller repayments:** For the first five to 10 years, your monthly repayments will be significantly lower.
- **Tax deductible:** As the loan on the investment property is tax deductible debt, investors are often advised just to pay the interest and thereby receive an interest tax deduction for exactly what they pay. By not having to pay principal initially, it also allows them to put extra money towards their non-tax deductible debts and funding other assets.
- **Ability to redraw extra payments:** Any extra payments on the loan can be redrawn at any point as the extra payment in owned by the investor and not the bank so the investor has full access to redraw and use the extra payments. This is very important if they are panning on building a portfolio of investment properties as the extra payments can be accessed for future property deposits
- **Increased borrowing power:** By keeping repayments low your bank will allow greater borrowing power on future property investments as they can see the current payments do not stretch your budget and provide the bank with proof of loan sustainability.
- **Get your foot in the door sooner:** An interest only loan could be an option for those who want to ease their way into the investment market without spending too much initially.

However, most interest only loans are generally no longer than 5 years. Once the interest-only period ends, the loan will revert back to a principal and interest loan over the remaining term unless refinanced or re-negotiated.

Interest Only Loans						
End Year	Loan Amount		Balance		Cash Out	
1	$	500,000.00	$	490,000.00	$	10,000.00
2	$	500,000.00	$	480,000.00	$	20,000.00
3	$	500,000.00	$	470,000.00	$	30,000.00
4	$	500,000.00	$	460,000.00	$	40,000.00
5	$	500,000.00	$	450,000.00	$	50,000.00

The table shows the difference between the available redraw cash for an interest only loan that has $10,000 extra paid off the loan each year using tax deducted rebates or extra cash. You can see that after 5 years the interest only loan will allow enough cash out for a deposit on another investment property.

Getting the right financial lending structure can have a massive impact on your investment success but don't get stuck on the interest rate alone. Although one of the most important parts of the process, they are not the 'be all and end all' as many advertised interest rates don't include application fees or any benefits lenders offer that separate themselves from the next.

Some banks will offer loans at 4.5% but when you add the application fee, annual fees and even exit fees you may find the loan actually sits around 4.9%.

While we talked about using an interest only loan because the interest is totally tax deductible, the loan account can also be important. Where possible an offset account should be set up so that way any spare cash can be put into the offset account and this will, as the term says, offset the amount of the money owed in the loan. So, if the loan is $400,000 then putting $100,000 into the offset account will mean you are only charged interest on the differential ($300,000) while still having access to utilise the $100,000 at any point.

You will need to talk to your broker about which options suit you best as they will have an understanding of your financial situation and your financial plan for the future.

* * *

Lenders Mortgage Insurance

Almost everyone wants to be able to buy an investment property sooner rather than later, however saving the typical deposit can sometimes be nearly impossible in this day and age. With property prices increasing rapidly, saving a deposit can be tough.

By reducing the lender's risk at the outset, taking out Lenders Mortgage Insurance (LMI) allows you to purchase your investment property with as little as 10% of the purchase price. This can open up many possibilities such as better location, larger property and so on, so Lenders Mortgage Insurance brings you that much closer to achieving your financial goals, earlier than you ever thought possible.

The cost of Lenders Mortgage Insurance varies depending on a number of factors, including but not limited to; the amount of the loan, the level of your equity in the security property (how much of your own savings you contribute to the purchase) and the level of risk associated with the particular loan you choose.

Some lenders will allow you to add the cost of the Lenders Mortgage Insurance premium on to your loan, meaning you will not have to pay this amount upfront. Your loan repayments will increase marginally to cover the cost of the Lenders Mortgage

Insurance premium however Mortgage Insurance on an investment property can be tax deductible over time, as part of borrowing expenses.

* * *

What Is LVR

LVR stands for Loan to Value Ratio of a property and is the proportion of money you borrow for a property compared to the total value of the property. It is used to assess the 'risk factor' of you as a borrower and lenders will calculate your LVR before deciding whether to approve you for a loan or not.

The higher your LVR is, the more of a risk you may be to your lender. For example, if you wish to purchase a $400,000 property and have a $100,000 deposit saved, you will need to borrow $300,000 and this would be an LVR of 75%.

Be wary of high LVR. LVR plays an important part in the assessment of a loan application, so the more you know and understand about how it is calculated, the better chance you will have at finding the right loan for you.

* * *

Required Deposit

When you decide to purchase a property and know the property you wish to purchase, you will be required to pay an agreed deposit once the contract goes unconditional. In some cases the client will be approved for a loan that is paid in full upon settlement however you will still be required to pay the agreed deposit upon unconditional.

* * *

Chapter 6

FINDING THE BEST LOCATION

While most experts tell you the perfect place to invest is close to a major city, 5km from the beach in an area close to shops, schools, transport, industry...in a growing area with population increases...blah blah blah and while all of these things are very important it is near impossible to get them all in one property and most of us don't have a crystal ball to look into the future.

* * *

Why The Gold Coast

The Gold Coast has always been held in high investment regard due to the fact it is surrounded by magnificent sandy beaches to the east and lush green rainforest to the west and continues to enjoy population growth, in other words it is a place where both young and old dream of living.

New exciting areas like Varsity Lakes and Robina continue to attract new residents due to the fact that they cover many of the bases outlined above...schools, shops, transport and hospitals and so on and therefore the area prices continue to go up by demand, in other words, people want to live there.

While location is important the location doesn't have to be perfect to make it a great investment. I know many areas that people told me will never work that are now town hubs fetching massive financial returns for investors from capital growth due to increases in industry and population, so when you purchase a property, location is a major factor but don't let it be the only deciding factor.

* * *

Understanding External Drivers

In the good old days we lived where ever we wanted but mostly near lifestyle influences. With the changing of eras, these days we live close to our work, mainly because we spend more time working than doing anything else. The full weekend is now a thing of the past with most people working Saturday mornings, at least, to cover increased living costs.

External drivers are key factors to determine desirability or demand for an area and more particularly a certain property. The 8 main external drivers we use are Population, Education, Medical, Transport, Industry, Hospitality, Tourism and Recreation.

When assessing the suitability of a property the key drivers are rated and added to the overall assessment and its long term investment potential. The more drivers an area has the better the long term sustainable potential for growth an area will have. The more drivers basically means there will be more reason for people to live or want to live in an area thus driving up demand for property in that area.

Investors in mining towns have suffered of late as the long term sustainability of an area is much lower when there are only 1 or 2 external drivers in an area. If the mines close the population tends to move on looking for employment, leaving property values crashing.

* * *

Chapter 7

CHOOSING THE RIGHT PROPERTY

Once you decide that you wish to invest in property, you will need to assess and analyse which property will suit your plan and safely set up your financial future. There are several key factors to research before you move forward with purchasing the property.

* * *

New Property v Established

If you've made the decision to invest in property, your next choice is probably between buying a new investment property that is ready for a tenant to move in, or buying an existing property, finding a property manager, advertising and sourcing a tenant to move in.

One big advantage of buying a new investment property is that you'll get a property that's been specifically designed and built to be rented out. In other words, it is designed more for durability and multiple tenant privacy than a normal home that may be built for luxury, so to speak.

The other reason why new property is the most popular property of choice is the great tax benefits. New property offers more tax benefits via tax deductions and multiple tax depreciation divisions. New property often comes with builders guarantees and warranties so that no 'out of pocket expenses' should be incurred for repairs during the offered time frame.

New property is also purchased at the lowest price the property will ever be valued at, as capital growth with increase the overall value of the property over time and you are therefore not buying someone else's growth.

The only advantage of older property is the scope to renovate and increase the value of the property. However the down side is the older the property the higher the cost to maintain it to its current value, and this is the opposite of what we are trying to achieve.

Buying an older property is sensible if you have both the time and skill to improve it and increase its value however many renters don't like living in older property and prefer newer property making new property far more desirable and in demand.

Here are some of the benefits of buying a new investment property:

Tax Depreciation
New property offers 2 types of Tax Depreciation (Division 40 & 43) that will reduce your taxable income and therefore allow you to use the returned tax to pay down debt or purchase another property.

Demand
There is always more demand for new that old in everything and property even more so.

Location
Most developments are built in the best areas close to infrastructure and lifestyle.

Maintenance
New properties come with builder's guarantees and warranties.

Management

Many new properties have onsite managers and tenants waiting to move into the property.

Vacancy Rates
Vacancy rates are very low in new properties as they are built in areas of high demand.

Rates and Water
Rates are payable on new properties but water consumption is payable by the tenant in new property.

NBN Internet
NBN is linked directly to the new property where established property has a central hub distributing the Internet.

Capital Growth and Equity
When you purchase a new property you will often find the pricing structure was set several years before completion often creating capital growth before settlement.

Value For Money
Often you will see established property that may soon require refurbishment priced higher than new property.

Body Corporate
Body Corporate fees are often lower on new property as facilities are being reduced and features designed to last longer and as the building is new there would be product warranties in place to reduce maintenance costs.

Rental Yield
Rental yields are higher on new properties from high demand.

* * *

Types Of Investment Property

While historically houses have made up the majority of the market, the current living trends have driven apartment demand up dramatically and while all of us were taught to buy your own ‘piece of dirt’ the current generations are foregoing these ideas to live closer to work in major cities in densely populated apartment blocks and residential developments.

Many young families these days are time poor and they are not motivated to work in the garden or potter around maintaining their dwelling, they much prefer to live in an apartment that is private with no maintenance requirements. So that means that apartments are growing in demand and with demand comes higher rental yields and high potential capital growth. So while people continue to want to live in major cities, the demand will always be there for apartment blocks.

Apartments
Apartments are the most popular investment type as they are what some would call the easiest option to start investing in property. They are easy to rent, often located in high density areas and in most cases the ‘buy in’ price is much lower.

Units should be close to major cities with not too many units in the development, low body corporate, a high amount of owner occupiers with a low number of available rental units in an area that is densely populated, so further development is unlikely.

Buying in large developments exposes you to fire sales that devalue your asset or rent reductions to get tenants into the development that reduces your overall yield.

Houses
House are the holy grail of property investment as they have a large land component however they should be located on the urban fringe and outskirts of a major city and not part of a development where multi stages are being built with all houses similar in size and design (and no price increases have been allocated for each stage).

House and Land packages offer far more potential for capital growth and add on value however the entry level price is way higher and a stretch for a lot of people, so obviously the type of property you buy is purely decided by your situation.

New houses are often located in large estates which, in theory, means that while new houses are being built in the estate your value does not increase until there is large demand and lack of supply which in most cases can take several years.

Investing In Land
Some people say to put your money into land because they can’t make anymore of it (land). While this is partly true as they are reclaiming some land these days from dredging and what not, the overall theory behind it is very sound.

The longer you can hold onto to vacant land, the more demand is driven up and so is the price. With land availability drying up you can basically write your own ticket if you are the last man standing with the only available land in an area.

Of course for every action there is an opposite reaction. Holding of land is very expensive and there are no real options for rental income and no depreciation benefits as depreciation is only offsetting the building and internals, not the land. And while the land value will continue to go up, you have to come up with the money repayments and many banks won’t lend on an investment where there is no direct financial return from rent so really the buyer needs to come up with a lot of the purchase funds directly and this can be risky as sustainability can be a problem. The upside is if the zoning changes in the area the block could triple in value in a short period of time, but who can see into the future.

* * *

Suitable Investment Property

Just because a property is available for sale does not mean that it is a suitable investment. Very few properties are suitable for serious investment and if every property continues to increase in value (like we are told) nothing would ever be sold, no recessions would happen and the banks would never take back homes. The reality is most bad investments in property are not a death sentence, but they do take way longer to become profitable and mostly are sold because they are more trouble than they are worth.

A good investment property needs to have a vast range of features; multiple external drivers, demand, potential and most of all income. We look at hundreds of properties every month and overall only a few are kept on our books as suitable investment properties. We use a range of measures including property type, style, location, design, condition and age, number of properties in the area, rental yield, vacancy rates, external drivers, area growth, catchment areas, demographic (both socially and economically), town planning, infrastructure and most importantly population potential.

Our team spends every day creating comparisons and assessments for each property we get our hands on, and we show our clients the head to head difference and most times the client can clearly identify the better long term option for their own money.

We create a full assessment document that covers all areas of the property and its potential and this takes a long time but is well worth the effort and even the most seasoned investors' use us to help them find their next investment property.

By buying the right property, equity will be created very quickly, rental demand and yield will increase for wealth creation, deprecation and gearing will allow for debt reduction and overall peace of mind will be created for the future. That's why we love property so much.

* * *

Buying Off The Plan

Buying 'off-the-plan' basically means entering into a legally binding contract to purchase a property before it reaches the stage of final development and occupancy approval.

There's no doubt that buying off-the-plan can have significant financial gains for a buyer. In Australia, buyers can enjoy tax depreciation benefits, government incentives and the 'newness' of a new property without paying the market premium.

Buying off-the-plan allows you to buy at today's price. In a rising market, this can mean you own a property worth more than you paid for it by the time the deal settles after construction. If the value goes up by 20% or 30%, then the biggest concern you'll have is how to spend the money.

Buying new property that is off the plan or under construction has many benefits. Apart from being an exciting process, buying off-the-plan is one of the easiest ways to get into the property market. Firstly, you only need a 5 - 10% deposit today and can pay the balance of the purchase price at settlement or once construction is complete.

Established stock in premium areas, tend to have a higher initial buy-in cost compared to new developments.

From an investment perspective, newly built properties offer depreciation benefits on fixtures and fittings in the first five to ten years or so, which may be attractive to buyers on rising salaries. It goes without saying that a brand new property will not need the ongoing maintenance that an older property often needs.

We have new property available in some of the best new developments on the market.

* * *

Understanding Demand

Demand is pretty simply to understand, if there are more people in an area than dwellings then demand is going to be extremely high. Conversely, if there are more properties being built than new people in the area then demand will be low.

The Gold Coast is considered to be a desirable investment hot spot because each year more people relocate to the Gold Coast than properties are built, thus meaning property is in demand and therefore high yields and growth are regularly achieved.

The formula used is simple:

Demand = population / average household size.

With increases in population, demand continues to grow, so population growth is a very important external driver for investment success in an area.

* * *

Choosing High Growth or High Yield

While both high growth and high yield are important factors when choosing the right property, if you were to choose one, then high growth will always beat high rental yield. Often high rental yields are driven by singular external drivers such as mining, and therefore can be difficult to sustain long term, given the volatile history of single driver areas and the long term sustainability of mining in set regions.

* * *

Assessing Historical Data

Historical data allows us to assess the history of growth in a set area. Data allows us to predict the value of a property or more importantly the profit on a property at a set point in time.

We know from the history of property that property generally works in a ten year cycle so we can therefore roughly predict the value of properties over the coming couple of years depending on the value trends of the data.

* * *

Researching Rental Yield In The Area

Running the numbers before you purchase a property is hugely important. A property can look good visually but when we assess the feasibility, it may come up way short of a good investment.

One key investment factor is rental yield, or the annual amount of rent you can charge for the property.

Rental yield is basically a % calculated by dividing the annual rent by the purchase price. This can then show us if we are getting a good annual return or yield from the rent.

Now getting a good rental yield is important however capital growth is a more important influence as capital growth in a popular area will return way more money than a good rental yield will.

Normally you can either get a high rental yield or high capital growth but every now and then we see both but often they are by good luck more than good judgement.

Many people measure the rental yield against the loan interest and holding costs and then see the capital growth as their real profit.

Here is an example of a good rental yield for a property:

For example:

- Weekly Rent: $500
- Annual Rent: $26,000

- Purchase Price: $500,000

Gross Yield = $26,000 / $500,000

Property Yield = 5.2%

A good rental yield normally sits between 5% and 6% however the higher rental return does not mean the property will increase in value.

Often high rental demand can be driven by short term economic factors such as mining or industry booms that may not last forever and once the boom finishes the value and demand of the property may diminish.

That is why rental yield is important however capital growth is what should be valued more when assessing a property's suitability. A 10% increase in rental yield could return the owner another $2,600 annually against capital growth at 10% that would return the owner $50,000 (on the above property).

* * *

Understanding Body Corp and the Fees

When you purchase a unit or townhouse you are likely to be faced with body corporate or strata title fees.

These fees do 2 things: firstly they allow you to access facilities that you would not normally afford in a property, such as pools, gym or tennis courts and secondly, they protect the value of your asset by maintaining the property and surrounds and keeping the property modern and in high demand.

These body corporate fees will be disclosed upon purchase and an important influence on buying the correct investment property. We assign these fees to the holding costs

If you are the owner of a unit in a property that has a body corporate, you are a "member" of that body corporate. When a lot is sold, the new owner becomes a member. A tenant paying rent to an owner is not a member of the body corporate and does not generally interact with the body corporate. The body corporate is responsible for a range of compliance, financial, insurance and essential services matters.

* * *

Annual Rates

When you purchase a new property you will be responsible for paying the council rates from here on in. The annual rates do vary depending on the area and type of property.

Rate notices are generally issued twice yearly, usually in January and July, and cover six-monthly billing periods (i.e. January to June, and July to December, unless otherwise required).

Rates are a contribution each ratepayer makes towards the cost of running the city and the provision of community facilities and services, including water and sewerage. Each property is allocated a rating category according to land and property use, which is used as a basis for calculating the general rate charge.

* * *

Water Charges

One great thing about new property is that the tenant is responsible for the water consumption charges. Gone are the days of communal water paid by the owner. The new properties bill the tenant directly for water used saving the investor money on annual water charges.

* * *

NBN Internet Access

With the development of the new NBN Internet Network, new property is the big winner. Unlike established property where NBN will run to a hub then re-distributed to the local properties, new properties have direct access to NBN so the NBN is at its maximum in a new property.

* * *

Buying Incentives

When you buy a new property, often the developer will throw in some great incentives that will really assist the buyer. My proven favourite is the first tenant guarantee.

Here is a few buying incentives that may be offered to you when you purchase a new investment property:

First Tenant Guarantee
The developer will pay you the agreed rental fee every week until a tenant moves into your investment property. Very handy if the buyer is time poor and doesn't have the time to set up a property manager or interview potential rental tenants.

12/24 Month Rental Guarantee
The developer will pay you an agreed rental amount for the period whether the property is tenanted or not. This can be quite handy particularly if you are taking fixed rate loans as you can budget to the dollar however on the Gold Coast the rental costs are

increasing regularly so you do not want to be tied into too long a rental period as you may be getting way under market value.

Free Legal Services
Free legal services means the developer will cover the legal costs for your conveyancer who will assist you with signing the contract and settling the property purchase.

Furniture Package
Obviously as the name suggests this includes the furniture that would fill the property. Often this offer comes at the end of the project and the property may have been furnished as a display. It is important to remember that most properties rent unfurnished so this type of incentive may only be helpful if you wish to upgrade your furniture at home.

* * *

Compounding Capital Growth

Compounding growth is the hidden secret of investing success. Basically compounding growth means that if you invest today and you get a 10% return on the investment via capital growth, next year you will be getting growth on the total of the investment plus the growth from the previous year and so on and so on.

Here is an example of compounding growth in an area on the Gold Coast over the last 10 years. You can see how each year the value of the property has changed and the following years valuation has then been based on the annual increase.

The graph shows potential capital growth on a $500,000 property located 5kms from the centre of the Gold Coast.

The forecast shows results at 5% capital growth returns. While you never can see into the future, historical data in a set area can provide a good guide as what could be expected in future years.

Year	Price	Growth 5%	New Value
1	$ 500,000.00	$ 25,000.00	$ 525,000.00
2	$ 525,000.00	$ 26,250.00	$ 551,250.00
3	$ 551,250.00	$ 27,562.50	$ 578,812.50
4	$ 578,812.50	$ 28,940.63	$ 607,753.13
5	$ 607,753.13	$ 30,387.66	$ 638,140.78
6	$ 638,140.78	$ 31,907.04	$ 670,047.82
7	$ 670,047.82	$ 33,502.39	$ 703,550.21
8	$ 703,550.21	$ 35,177.51	$ 738,727.72

9	$	738,727.72	$	36,936.39	$	775,664.11
10	$	775,664.11	$	38,783.21	$	814,447.31

You can see that the original purchase price of $500,000 has grown to around $814,000 in the ten years, that is a gain of over $314,000 plus the debt reduced from tax rebates and rental income, not bad hey… and that's at 5%, imagine what it looks like at 7%.

* * *

The Rule of 72

The rule of 72 is a measure in real estate that links time and growth to produce a prediction of the time it takes for a property to double in value.

It predicts that the current annual capital growth x (the amount of years it will take to double in value) will equal 72 (or close to).

So a house that has 7% annual capital growth will take just over 10 years (7 x 10 = 70) to double in value. If your investment only earns 6% then it will take approximately 12 years to double in value and so on.

* * *

Using Equity To Invest

Often when you are purchasing an investment property you can use available equity in another property you own as the deposit on the investment property. There are many great benefits of doing this; obviously the first one is saving your hard earned cash however there are a few pitfalls also.

As the bank normally requires a 10-20% deposit for the investment loan to protect their interests, their obviously has to be more value available in the other property. The other property then becomes security and the loan amount will be offered at 100% of the investment property value as the LVR will be worked out on adding both properties together.

So in other words if you own a house worth $600,000 and you only owe $300,000 and you wish to purchase an investment property for $400,000 then the other property's equity can easily cover the deposit for the investment property as the combined values equals $1,000,000 with loans of only $700,000 making the LVR only 70% which is under the banks required 80%.

While it sounds a bit complicated it is quite simple and once again equity borrowing is another great example of how important it is to get into the market sooner rather than later as the leverage and wealth creation options that come from using property as security are endless.

* * *

Comparing Apples To Apples

When we look at a potential investment property we use a comparative method to analyse and assess the property's investment potential and hopeful outcome. Often I hear potential buyers talk about 2 properties that are polar opposites and have no real cross over with regards to measurable outcomes.

When you decide on what type of strategy you want from your investment, it is important to analyse the property correctly.

We always compare type, bath and bed, car spots, m2 size, rental income, body corporate fees, project facilities, area growth (last 12 months), project size, risk rating, town planning and so on before we qualify the property as a sound investment.

* * *

Viewing Properties

Once you work out your strategy and decide on what type of property you prefer, the fun part begins…going to view the properties. We organise inspections for the properties we have short listed, then once we have inspected them we sit down and go through our assessment then we can make the right choice as a group using the data supplied by our experts who have spent countless hours assessing all facets of the property.

The inspections are the best part of the buying process. We get out and about looking at great new property, we get to chat and have a couple of coffees and if we are lucky enough time wise we may even get to sneak in a nice relaxing lunch.

The hard work is done long before we go visit the property and all visiting the property does is give us a feel of what the tenant is going to be looking for in the property and how the area looks and where it is going long term with regards to population, planning and demand.

* * *

Chapter 8

BUYING THE RIGHT PROPERTY

Once you decide that you wish to purchase the property, you will need to make an offer on the property to secure it. Making an offer is non-binding and will hold the property for 48 hours while you decide to proceed and it also stops anyone else from purchasing during this window.

* * *

Using Experts

To buy the property for the best price, you need an experienced team that can assist, guide and drive the deal with you.

Your buying team should be made up of:

- Property Investment Expert
- Taxation Accountant
- Conveyancer
- Financial Advisor
- Mortgage Broker

* * *

The Purchasing Process

Buying an investment property continues to be one of Australia's favourite ways to invest hard earned money. This is how the process of buying works.

Buying a property should be a fun and exciting experience and if you do your homework and learn how it all works, you will enjoy it even more knowing you are buying the right property for you and your family.

Most clients we talk with surf the net and go and visit open home inspections but at the end of the day they all say the same thing…."we don't really know what we are looking for and don't even really understand how it works".

Luckily it is not that hard and once you understand the process, you will get better and better at it each time.

Step 1
Contact your mortgage broker and tell them you are looking at buying a property. They will ask you if you have found a property but you will need to let them know you are looking for pre-approval only so you can then look at suitable properties within your approved budget.

Step 2
Provide the financial documents that the broker requires to get pre-approval for you.

These may include:

- Personal Identification
- Pay Slips or Income Statements
- Bank Statements

- P & L Statements
- Tax Returns
- Credit Card Statements
- Loan Statements

Step 3
Once you have received your pre-approval you will be able to start to source the best property for your needs. If you are looking to become an investor, you will need to find property that fits within your budget. At this stage we will start to go and look at suitable properties and work out the clients preferred property.

Step 4
If you find the suitable property it is now time to put in an offer to purchase. If the property is new, this may be in the form of an Expression Of Interest. If the developer agrees to the price they will sign the sale contract.

You should also obtain advice regarding the contract, and particularly any rights or liabilities you have under the contract. You should contact your lawyer and let them know you are purchasing the property for them to handle the conveyancing or finalising of the title and settlement. If you don't have a lawyer, many law firms specialise in Conveyancing and they can be engaged to assist on your behalf.

Step 5
Complete the final finance application. The contract of sale will generally be subject to finance approved by a set date after signing. This will normally be 14 – 21 days after signing. A small deposit should be paid along with the signed contract and then generally the agreed deposit (most times 5 - 10%) will be due upon approval of the finance and the contract going unconditional.

Step 6
On the set date that the property is agreed to settle, the lawyers who have been corresponding will contact you to finalise the purchase. At this point the lender has already finalised the payment for the property to the seller and you are now ready to go in and collect all the keys and whatever else is required for the purchase. The documents may also include release of mortgage documents, and anything else required to ensure you obtain clear title to the property.

If everything has progressed well, hopefully this will be as uneventful as possible. Essentially at settlement your solicitor (or your bank) will hand over the money to the seller in exchange for the transfer documents to the property.

Step 7
You are now the proud owner of a new property.

Step 8
After a few years and you have built up equity and reduced some debt, we can get a valuation done and then start at Step 1 again building a portfolio and setting up retirement.

* * *

Costs Of Buying

Once you have decided on the property that suits your investment needs and worked out your budget, several other costs will be incurred while purchasing the property that most buyers are not aware of.

Here are a few costs to consider when buying an investment property:

- Stamp Duty
- Legal Fees ad Conveyancing
- Mortgage and Lending Fees
- Rates in advance (up to 3 months)
- Body Corp in advance
- Any special levies (very rare)
- Any preparation costs such as valuations and so on (very rare)

Here is an example of purchasing costs:

Cost	Amount	
Property Purchase Price	$500,000.00	
Stamp Duty	$ 10,000.00	
Conveyancing	$ 1,300.00	
Valuation	$ 199.00	
Loan Application Fee	$ 299.00	
Total Buying Cost		$511,798.00

**samples only as these costs can vary from property to property*

* * *

Making An Offer (EOI)

When you are thinking of buying a new property you are able to place and Expression of Interest on the property. This expression along with a deposit of $1,000 (fully refundable) will take the property off the market for 48 to 72 hours while you confirm you wish to proceed and purchase the property.

Once the holding period is up and you wish to proceed with the purchase, the sales contract will be sent to your supplied property lawyers contact details in preparation for signing and proceeding with the sale.

* * *

Signing The Contract

Once you decide to make an offer on the property, a contract will be sent to your conveyancer who will contact you to go through the contract and get you to initial or sign the parts of the contract that you are required to acknowledge.

Once the contract is signed it will be sent back to the developer to counter sign and activate the contract.

The contract will have a “Subject To Finance” clause in there with a deadline to get the finance approved on the property. A signed copy of the contract will be sent to the broker to supply the details of the property and purchase price to the lender.

If finance can not be approved with in this window, you can request an extension if you think you will source finance elsewhere otherwise the contract will be null and void and all deposits returned.

Once this date arrives and finance has been approved the conveyancer will notify the developer that the finance has been approved and the buyer is going unconditional on the purchase of the property, in other words everything is approved to buy.

* * *

What Is a Conveyancing

Conveyancing is the term for the legal and statutory processes required to effect the transfer of ownership of real estate from one person to another. The preparation, execution, verification and lodgment of numerous legal documents are important elements of conveyancing.

A good conveyancer will explain clearly the meaning and importance of each process, using plain English (not complicated legal terms) to help you understand exactly what's involved and what documentation you are signing. Investigating the title of the property is one of the most important elements of conveyancing.

When buying you should be aware of anything affecting the property such as proposals by government departments, illegal buildings, or outstanding rates. On your behalf, the conveyancer will conduct the appropriate searches and inquiries on the property.

In summary, conveyancers undertake:

- Certificate of Title searches
- Searches of government departments and local authorities
- Advice on the effect of the contract
- Preparation and certification of legal documents
- Stamping of required documents
- Calculation of adjustments of rates and taxes
- Preparation of settlement statements
- Liaison with mortgagors and financiers

* * *

The Property Valuation

When you apply for a property loan or mortgage the bank will order a valuation. A property valuation could be a key element for your successful real estate purchase. Benefiting the buyer, a property valuation can help you to assess the current value of a property in an open and competitive real estate market and protect you.

A property valuation is generally conducted by lending institutions (such as a bank) that are looking to fund the purchase of your property.

Normally produced as a report, a property valuation includes property information – rates, size of the land and building, physical details on the construction and condition of the dwelling, details on any immediate issues that may need addressing – as well as information on comparative sales in the area.

If you are obtaining a mortgage or refinancing, a bank requires a valuation to ensure the security value of a property covers the loan. If anything happens and the mortgage is unpaid, the bank needs to be confident that it can recover any outstanding amount owing on the property if it had to re-sell it.

A property sale may fall over on a valuation if the property's value doesn't come close to the agreed sale price.

* * *

Transferring The Deposit

Once the offer has been accepted and the contract has gone unconditional, the buyer will be required to transfer a deposit (generally 5 - 10% unless otherwise agreed). This deposit may be more than required to add to the approved loan amount so you have to make sure you have the available cash deposit to transfer prior to settlement and then the difference will be refunded at settlement once the loan funds are released.

Here is an example:

Hugo wanted to buy a new unit for $440,000. The bank had given him approval for a loan of $430,000 so he called me and said he was ready to buy. I said terrific let's talk about your finance. He said the unit is $440,000 and I have $15,000 in the bank and the bank is lending me $430,000 so I only need to use $10,000 or my own money.

I said the developer will require 10% deposit on going unconditional so we will need $44,000 as the deposit. He said I don't have that much money so unless the developer will accept a lot less deposit then there is no deal here…..note…some developers will take less deposit but in these times where demand is so high it is unlikely.

* * *

What Happens At Settlement

Property settlement is a legal process that is facilitated by your legal and financial representatives and those of the seller. It's when ownership passes from the seller to you, and you pay the balance of the sale price.

The seller sets the settlement date in the contract of sale. Property settlement periods are usually 30 days, but they can be longer or shorter.

On settlement day, your conveyancer co-ordinates the documents to be transferred and the balance of the purchase price to be paid to the seller.

Your lender will:

- register a mortgage against the title of your new property
- provide the funds to purchase the new property.

Your conveyancer checks that:

- all clauses on the sales contract are fulfilled
- the transfer of land and mortgage is registered with the title office in your state or territory.

Just before settlement, you'll have the opportunity to do a final inspection of the property. Often this is done the day before or the morning of the settlement.

If you're buying a new home, make sure all the work is finished and that the appliances are installed and working. You can organise a defects inspection by a building inspector, if you don't feel confident checking these things yourself.

After settlement, your lender will draw down on your loan. This means that they'll debit the amount they've paid at settlement from your loan account.

You're also responsible for paying stamp duty and any other costs such as legal fees as well as rates in advance and in many cases, Body Corporate fees in advance (up to 3 months). The title to the property won't be transferred to your name until you have paid your stamp duty.

* * *

Transferring The Final Money

When the lawyers book in settlement with the developer and the lender, they organise a time that the money is to be transferred so that the transfer of ownership occurs.

The lawyer will organise this and let you know when settlement will occur and once it does occur they will notify and congratulate you on your purchase and we then go get the keys and if we are lucky move the tenant in right away.

If the buyer has paid a large deposit, then any amount left over from the outstanding amount and the total borrowings will then be returned to the buyer from the lawyers trust account.

For example if the loan is $460,000 and the property is sold for $480,000 the buyer will have paid $48,000 deposit then the buyer will be rebated $28,000 on settlement as they only needed to add $20,000 on top of the loan to purchase, but had to put down a 10% deposit at the time of their offer being accepted, so they are out of pocket $28,000 until the property was settled and monies balanced up and returned to the buyer.

* * *

Extra Costs To Complete The Purchase

When you purchase an investment property, your conveyancer will advise you of the extra costs that are required for settlement. These costs will include the legal fee or conveyancing fee depending on what they have been required to do, body corporate fees in advance and local council rates in advance. Sometimes this can be small amounts and other times it could be up to 3 months in advance depends on the time of settlement within the billing cycle.

The lawyer will let you know what he/she requires to settle the property and this will be required to be paid into their trust account in advance before settlement occurs. Often they will ask for a figure such as $3,000 deposited and they then balance and refund what is not required at settlement if they do not know the exact figure at time of offering.

* * *

Setting Up A Property Management Account

As settlement comes closer and you are about to own your investment property, it is a good idea to set up a new bank account that is designed simply for managing the investment property.

The account should be used for the property rent to be deposited by the manager every week and the bank will also be able to withdraw the monthly loan repayments and you can also use it for rates, fees and maintenance if you so please. This will make it very easy to manage when you come to doing your tax return and accessing any rebates or tax deductions the property will provide you.

The bank will also be comforted to know the account they draw from is also the account the rent is deposited into.

* * *

Chapter 9

HOLDING & MANAGING THE PROPERTY

Once you settle the property and become an investor, the next step is maximising the returns on your investment. The property will have several ongoing holding costs that you will need to be aware of. This section outlines the cost of holding the property and growing your wealth.

* * *

Holding Costs

When it comes to property investing, most of the focus is put on the cost to buy the asset. However, there are also ongoing expenses that investors need to be aware of.

If you can't meet these ongoing costs, then you'll likely be forced to sell the investment property and end up in a worse situation than when you started. Therefore, it's essential to know that you can afford the associated holding costs.

Here are some of the typical holding costs of an investment property:

Property Management Fees
A good professional property manager will proactively manage your portfolio and deal with any issues that may arise. While this is a holding cost, it's important to note that property management fees are tax deductible.

Strata Fees
Apartments, villas and townhouses will often require investors to pay strata fees, which are the responsibility of the landlord, not the tenant. These fees are used to maintain common areas of the property (i.e. lifts, gymnasiums or garden maintenance). The more additional features there are within a complex, the higher the strata fees will generally be.

Mortgage Repayments
Mortgage repayments are generally the biggest holding cost for an investor. However, it doesn't have to be a drain on your hip pocket. For example, for investors on tighter budgets it would be better to target properties with higher rental yields to help cover more of the mortgage. On the other hand, investors with bigger budgets don't have to be as concerned with finding a property with high rental yields. As a general rule of thumb, properties with higher rental yields will record lower capital growth, and vice versa. Therefore, investors also need to consider why they're buying an investment property – for rental income or for capital growth?

Insurance
There are a number of different insurances that investors can buy to help protect themselves, their assets and to minimise risk. These include income protection insurance, landlord protection insurance and life insurance, among others. In the event that you fall ill, lose your job or your property is damaged, these types of insurances will help cover financial loss and keep your investment journey on track.

Here is an example of holding costs:

Interest On Loan	$20,000
Body Corporate:	$ 2,000
Management Fee:	$ 1,400

Commission:	$ 450
Maintenance:	$ 0
Rates:	$ 1,600
Insurance:	$ 350
Total Holding Costs	$25,800

* * *

Using A Property Manager

Managing the property yourself is not a good idea as most owners don't have the time to dedicate to doing the job well and it will become time consuming. The most important role of a Property Manager is to act as a professional link between the landlord and the tenant. This ensures that the landlord will not be exposed to uncomfortable and difficult situations, while at the same time ensuring the tenant does not have to confront the landlord directly with issues.

Finding a good Property Manager is extremely important and should be a priority the moment you decide to purchase a property for investment.

Many new developments offer onsite managers and done correctly this can be a very good option as they are based on site, can market the properties before they are completed so there is no down time or vacancies and can field walk in enquiries and keep potential renters on file as properties become available thus reducing advertising costs.

The best time to appoint a property manager for your new investment property is the moment you go unconditional on the property and you officially own it. This will give them plenty of time to understand your needs and expectations and also source a suitable tenant therefore creating income from the moment the property settles and is ready for tenanting.

Your agent can charge you commission on the rent you receive. Normally, your agent will withhold their commission from the tenant's rent payments and forward you the balance.

You should compare agents based on the services they offer, as well as their pricing structure. If you aren't happy with the commission that your agent charges, you can shop around for another agent as soon as their appointment period has ended.

Letting commission
A letting commission (sometimes called a letting fee) is a one-off payment that you make to your agent at the start of a new tenancy agreement. This will usually come out

of the tenant's first rent payment. It covers the agent's costs for advertising your property and setting up the tenancy agreement with your new tenant.

Commission on rent
An agent can charge commission on the regular rent payments from your tenant. This is in payment for handling the property and rent on your behalf. Many agents charge this as a percentage of the rent payment from the tenant. In Queensland this is normally between 6 and 8% depending on what services are offered by the Property Manager.

Other charges
Your agent may charge further payments if you want them to supervise any repairs or replacements at your property. You must agree in writing in advance before they do this.

Setting the correct rent, choosing suitable tenants, checking references, agreeing on the lease terms, compiling a property condition report and bond lodgment are just a few of the initial tasks required to properly lease a property. Add to this list ensuring the rent is paid on time, conducting periodic inspections, paying insurances and other outgoings and, most importantly, complying with the complex and ever changing residential tenancy laws.

Most landlords underestimate the amount of time that goes into managing a property. If a dispute arises, say if the tenant defaults on rent or requires eviction, things can become difficult and expensive.

* * *

Onsite Managers

As the development of apartment buildings continues unabated in all our major cities, property investors have an important decision to make on whether to use the onsite manager or an external agent.

Normally apartment buildings with more than 30 apartments will have a resident manager. They'll have purchased the rights to the onsite leasing and caretaking of the building. Quite often they'll also purchase an apartment in the building and live onsite.

Often it's a lifestyle choice. They live onsite, have great pride in the upkeep of the building and build relationships with the residents. The perfect onsite manager!

The important thing to remember as an investor is you do have a choice initially. My advice is to check out the onsite manager's experience and communication skills in the same fashion you would if you were choosing a property manager.

Onsite managers offer the following advantages:

1. They have tenants waiting to move into the new building who have been enquiring during the construction period and have registered to move in upon completion. This means no empty downtimes from the period of settlement until the tenant moves in.

2. They have a strong knowledge of the building as they generally live onsite.

3. They are able to show prospective tenants through at short notice.

4. If they're a unit owner, they'll also have a financial and vested interest in the building.

* * *

Finding A Tenant

The Property Manager will ensure that you have a reliable tenant by personally checking each one of the potential tenant's references (current and past tenancies, employment history and referees) after evaluating all applications. Your Property Manager will discuss their recommendations with you. Of course, the final selection of tenant is up to you as the owner.

The Property Manager will require a new investor to sign a Form 6 in QLD which will outline all costs of management and commissions required to manage the property and give them authority to act on the investors behalf.

* * *

Chapter 10

APPLYING YOUR STRATEGY

Every year you will need to reconcile your investment and understand its current situation. If you intend to use tax benefits to pay down debt then now is the time to use your financial team to guide you through applying your investment strategy, whether it is debt reduction, wealth creation or renovation and sell.

* * *

Tax Benefits

Investments should always be selected on the basis of the returns generated and how well the investment will help you meet your individual goals. However property investors can tap into some very useful tax benefits. These include the ability to claim a tax deduction for many of the costs of owning a rental property; the tax savings of negative gearing; and the availability of capital gains tax discounts.

Let's take a closer look at how each of these tax benefits can work for investors. As a landlord you can normally claim a tax deduction for a wide range of the expenses related to your rental property including interest on the loan. It should be noted that these expenses can usually only be claimed if the property is tenanted or available for rent.

Your tax accountant can give you a clear picture of what you can claim for your personal circumstances. Though in general the following expenses can normally be claimed on tax:

- Advertising for tenants and property management fees.
- Loan interest and ongoing loan fees.
- Council rates, land tax and strata fees.
- Building depreciation plus depreciation of fittings and fixtures like stoves, carpets and hot water heaters.
- Repairs, maintenance, pest control and gardening.
- Building and landlord insurance.
- Accounting or bookkeeping fees.

The above is not a full list of what you can claim. Always get proper advice from a tax accountant.

* * *

Negative Gearing

'Negative gearing' refers to the situation where the costs of owning your rental property exceed the rental income. The difference, which represents a loss, can normally be offset against your other income like salary and wages.

So, say your income is $60,000 a year but your property expenses are $15,000 a year, you'll only need to pay income tax on $45,000.

This way you'll pay less tax, but don't be mistaken, it is still a loss that hopefully will be more than made up for by an increase in the property's value over time. Do note capital expenses like the repayment of your loan principal or renovations that add value cannot be claimed as an ongoing tax deduction.

The main advantage of negative gearing is that it makes a rental property much more affordable as the tax savings can be substantial.

Investment properties don't have to be negatively geared. If the rent outweighs the costs of owning the property, it is said to be 'positively geared' and you can expect to pay tax on the profit the property generates each year.

* * *

Depreciation

Of all the tax deductions available to property investors, depreciation is most often missed because it is a non-cash deduction – the investor does not need to spend money to claim it.

As a property gets older, items wear out – or 'depreciate'. The Australian Taxation Office (ATO) allows property owners to claim this depreciation as a deduction.

Claiming depreciation on an investment property can make a big difference to an investor's cash-flow. New properties have the potential to attract significant depreciation benefits for the owner to claim as a tax credit. Property owners are also able to go back and claim missed deductions on previous financial year's tax returns.

For an investor experiencing negative cash-flow on their property, depreciation can be the key to turning their situation into a more positive scenario.

A new property allows for 2 types of deprecation. The first is division 43, which is depreciating the building, and the other is division 40 which allows for a shorter term depreciation of internal fixtures and fittings.

By depreciating the property, the annual deprecation amount will be deducted from your taxable income and used wisely, this can be used to reduce the debt or even used to increase your portfolio and purchase another property.

* * *

Chapter 11

SELLING THE PROPERTY FOR PROFIT

Once you have owned the property for a period of time and assessed the valuation and the market, you may decide to sell the property or use the equity to purchase another property to build a portfolio.

* * *

Why Sell A Property

There are many reasons why people sell an investment property but the most obvious reason is to enjoy the cash that selling at the right time or after a great offer brings. There is no use investing if you never get to enjoy the rewards however there are several other reasons people sell their investment properties.

Here is a just a few:

1. They receive an offer they can’t refuse.
2. They receive an offer with conditions they can’t refuse such as cash offer and short settlement period.
3. They wish to pay down debt on another property.
4. The property is getting close to its financial ceiling, in other words the value is not expected to go up or, not go up for some time, due to an expecting flattening of the market.
5. The property is starting to get tired and may need a ‘freshen up’ or refurbishment.
6. The owner is looking at investing elsewhere or using the investment for other reasons such as retirement, kid’s education or even a bucket list holiday.

* * *

When To Sell The Property

If you ask a property guru when the best time to sell a property is, they will tell you...NEVER.

The longer you can hold onto the property the more capital growth the property will achieve, however while this is true in theory there are a heap of reasons why people sell their properties but it is important to know when the right time to sell is.

Property goes in 10 year cycles and historically this goes the same, 7 years of growth, 2 years of no growth and 1 year of decline in value or negative growth. The growth always outweighs the decline over time so patience and knowledge of the market is extremely important.

For example.. *if the property has had a couple of low years where it hasn’t gained much value, it is likely that if you hang onto it for another 4 or 5 years it will go through some huge growth and you will make some great profits.*

Likewise, if the property has just gone through 3 or 4 years of great growth, then it may be time to sell as you may be coming into a couple of years of no growth and the money could be re-invested elsewhere where it could be entering 3 or 4 years of great growth again.

* * *

Cost Of Selling

While selling an investment property can be a lucrative experience, there are several costs that must be considered when selling a property.

Not including capital gains tax, here are few costs that most investors do not budget for when they list a property for sale:

- Sales Commission
- General maintenance for presentation
- Marketing and advertising the property
- Conveyancing and any legal fees
- Discharge fees on the mortgage (if applicable)
- Staging and presenting the property

Here is an example of selling costs

Cost	Amount	
Sales Commission 3%	$ 10,000.00	
Marketing Costs	$ 1,300.00	
Repairs	$ 199.00	
Staging Fees	$ 299.00	
Photographs	$ 200.00	
Signage	$ 200.00	
Total Selling Cost		$12,198.00

* * *

Selling Team

To sell the property for the most money, you need an experienced team that can assist, guide and drive the highest price for the property. You sales team should be made up of:

- Residential Real Estate Agent
- Taxation Accountant
- Conveyancer
- Property Investment Expert

* * *

How To Sell The Property

When it is time to sell, here are three recommended methods for selling a property:

1. Auction
Some of the benefits of selling your property by auction include:

- Auctions attract more buyers to your property because prospective buyers aren't put off by an asking price.

- The auction date creates a sense of urgency that prevents buyers delaying their decision and lets them know you are serious about selling.

You are protected by a reserve price. This means your property won't sell unless bidding reaches a pre-agreed level.

There is no ceiling price so you have the opportunity to achieve a price above your expectations. Auctions produce an unconditional contract for sale with a set settlement date.

2. Private Treaty
Some of the benefits of selling your property by private treaty include:

- A fixed price makes it easy for buyers — they don't need to 'guess' your desired sale price.

- The price can be adjusted throughout the marketing stage, based on qualified buyer feedback and local market conditions.

This method of sale is a tried and tested style of marketing. It assists buyers to formulate offers that address your desired selling price, which leads to a faster negotiation process.

3. Tender
Some of the benefits of selling your property by tender include:

- This method of sale shows you are confident about your property and a successful sale.

- Tenders offer the intensity of an auction but without the potential stress of an auction day.

- Tender enables you to keep the price you may accept for your property discreet and lets the market dictate the price buyers are prepared to pay.

A tender has a closing date to create a sense of urgency in the buying process. This method of sale generates competition for your property.

* * *

Adding Value To Your Property

If you are looking to sell your property in the future and want to know what might help when the property is valued, here are some helpful pointers.

Make sure the property is well presented. Can you tidy up the garden or remove any untidy trees or structures? Are there any views that can be taken advantage of?

Give your important rooms – the bathroom and kitchen – a mini makeover. It can often be fairly cost effective to update cabinetry, the bench top, light fittings and fixtures. Even a quick lick of paint can do wonders!

Give your property a general tidy up. If your block and house are neat and tidy and look well maintained, it is likely to benefit the valuation.

* * *

Time In The Market v Timing The Market

Time in the market vs timing the market has been a long debate with experts sitting on both sides of the fence. Interestingly enough from my experience with investing, there really is no one size fits all theory on this. I have worked with investors who are looking for short term (3-5) year gains due to retirement or illness as well as long term set and forget investors who are keen to leave the property for 20 years and create equity and wealth slowly and organically.

Once you have made the most profit you want out of a property, sell it and start the process again. So a unit bought in a complex for $400,000 will naturally grow to $640,000 or so over the years but at some point it will hit its financial ceiling and then it is time to add value by renovating and make it look modern and new or sell it in its perfect profit window. That same unit may get $640,000 but it won't get to $4,000,000 so if you are looking at making $200,000 profit why wait 20 years just for the sake of it, if the property value spikes, sell the property and start the process again, all be it in an new area because this area is now too expensive for a new property.

Now I am not saying hang onto it or sell it, I am saying be clear on your goals and act accordingly depending on what you want to achieve….both investment models work well.

* * *

Demand Is The King

When purchasing an investment property there are many things to assess and consider. Size, location, growth, vacancy…blah blah….but above all of these things is demand.

If people want your property then they will fight for it and demand drives up sales price above the value of the property and using this knowledge can get you way more than you bargained for when you go to sell your investment property.

If you buy in a development that has a limited number of properties then demand will be high quite quickly and as long as you market your property for sale when no other properties are for sale in the complex, then demand will drive prices up as an added bonus on top of capital growth and high rental yield.

* * *

Re-Entering The Market

Once you have sold your investment property for a healthy profit, the first thing you will want to do is replicate the process and get another property. The longer you leave it the harder it is to re-enter the market.

The perfect scenario is to grow equity in your first property and use that for a deposit on a second property and then once you have 2 properties sell one ever 5 years to top up your bank account and repeat the process for the rest of your life.

Once you sell your properties it is way harder to get back into the market but using the assets as leverage will allow you to keep open your line of credit and allow for easy borrowing against the secured property….and simply repeat the process.

* * *

Buying Before You Sell

One of the easiest or perhaps smoothest ways to buy another property is buy using equity or value you have in a current property. If you are planning to sell your property it is easy to buy another property before you sell the current one. The reason being the equity can be used as your deposit and you also have a current open line of credit that the bank or broker can easily access and most of your information is currently on file.

Using another property will also reduce your LVR and protect you against a lower valuation on the newer property, thus saving you cash and as we know cash on cash is a great way to measure success and using no cash to leverage profits is the best way.

If you do sell the property used as security the bank will ask you to pay down some debt on your investment property however this will create added equity and protection and also the money will have been paid down from profits on the secured property.

Example*….John bought an investment property for $400,000 using equity from his home. He was not required to pay a 10% deposit as his home had $200,000 equity. He decided to sell his home and thus the lender asked him to pay down the investment property to 90% so he paid $40,000 from the sale of his home to pay down the debt to the required LVR to protect him and the bank.*

* * *

The Target Dartboard

While it is the perfect result to buy a property and 7 years later sell it for a $200,000 profit, it does bring a couple of little things to consider.

The main one is when you re-enter the market you will need to move 10km away from the property to be able to purchase at entry level similar to the last property. You cannot buy in that same area as the market is now too expensive and the more you tie up money in an expensive investment property the higher the risk.

Every time we re-invest we have to move further out of town, but as we know further out of town slowly becomes in town as the value goes up and up. Once again a process we replicate with each new investment purchase.

* * *

Capital Gains Tax

If you sell a capital asset, such as real estate, you usually make a capital gain or a capital loss. This is the difference between what it cost you to acquire the asset and what you receive when you dispose of it.

Individuals can discount a capital gain by 50% if they hold the asset for more than one year.

You need to report capital gains and losses in your income tax return and pay tax on your capital gains. Although it's referred to as capital gains tax (CGT), this is actually part of your income tax, not a separate tax.

When you make a capital gain, it is added to your assessable income and may significantly increase the tax you need to pay. As tax is not withheld for capital gains, you may want to work out how much tax you will owe and set aside sufficient funds to cover the relevant amount.

If you make a capital loss, you can't claim it against your other income but you can use it to reduce a capital gain.

Purchase Price	$	500,000.00				
Extra Costs	$	17,500.00				
Total Purchase Price			$	517,500.00		
Sale Price	$	625,000.00				
Selling Costs	$	30,000.00				
Net Sale Price			$	595,000.00		
Net Profit					$	77,500.00
Minus 50% Discount					$	38,750.00

In this scenario, the seller would add $38,750 to their taxable income in the financial year they sold the investment so the remaining $38,750 would go straight into their pocket plus the other $38,750 minus the tax payable at their taxable rate.

* * *

Chapter 12

MINIMISING RISK

One of the most important issues you will need to understand before you make the step of investing in property is the risk. Understanding risk is very important but understanding how to mitigate risk is even more important.

* * *

Buying Well

The safest way to reduce risk is to buy well. Buying well can mean either, buying at a great price, using a larger deposit to create equity protection or buying a property in high demand with long term growth potential. By buying well you are safely protected if the market was to fall or demand was to reduce in the area.

We have a set formula that protects our buyers from unnecessary risk. Here are a few things we research to protect our client's investment:

- Do not over capitalise on the purchase price
- Research rental yield and study rental appraisals
- Assess Depreciation Schedules
- Confirm Rates, Body Corporate and Management costs
- Make sure the property is completed within 6 months
- Make sure the property is low to medium density so the value and demand remains long term
- Check historical data to confirm area suitability
- Assess future planning to make sure capital growth is sustainable

* * *

Entry Level Price Protection

The best method of property investing is always the one with the lowest risk. The great thing about property investment is that the entry level property is not only the one with the lowest risk, but also the one with the highest demand.

When you purchase at entry level you are protected from market influence and fluctuations, in fact in bad times the market for that type of property and demand actually increase, the bottom of the market increases in value while the top crashes. Most successful investors have a range of entry level properties that have increased in value by demand and population growth, but beyond that they are able to increase and decrease their investment exposure at any point by selling down a property.

You often find a property purchased for $450,000 can easily increase in value to $640,000 in several years while a property worth $900,000 may have only increased to $1,000,000 in the same time to due to less demand. So financially purchasing multiple entry level properties is not only more rewarding, it is also safer as one property could be sold for a profit at any time if need be and the other would continue to make consistent growth and income potential.

* * *

General Insurances

The other way to reduce risk is to use insurance to protect yourself, your family and your assets. Insurance might be a pain in the butt but it can save your life.

Some insurance you may want to include are:

- Life Insurance
- Health Insurance
- Income Protection
- Trauma Protection
- Landlord Insurance

People often criticise me for making buyers aware of the risk in investing in property but outlining risk actually gives buyers more confidence they are doing the right thing, or buying the right property, which is very important as confidence in buying is a major part of investing success.

* * *

Landlords Insurance

Once you purchase your investment property it is important to make sure it retains its value and Landlords Insurance is one of the most important things you will need to implement once you purchase a property.

Landlord Insurance is a type of insurance policy designed specifically to help financially protect landlords for some of the common risks associated with renting their investment property.

Landlord Insurance is different as it provides protection for some of the tenant related risks that may not be covered by standard Building Insurance, including damage caused by your tenant's visitors and friends.

For example, Landlord Insurance includes cover for:

- Loss of rental income should your tenant abscond, default on the rent in some circumstances, experience hardship and are released per court order, or you're prevented from accessing the property due to damage caused by an insured event; or
- If your property is un-tenantable for a minimum of 7 days whilst tenant related damage to contents by an insured event is being repaired.
- Damage to fixtures and fittings, such as hot water systems, built-in air-conditioners and heaters, built-in cabinetry, doors, walls and windows,

fencing, paths, driveways and in-ground swimming pools, rainwater tanks and solar panels, floor tiles.

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Chapter 13

HELPFUL RESOURCES

Here is a list of handy terms that will assist you when purchasing an investment property.

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Handy Tips & Terms

Application fee / Establishment fee
Fee charged to cover or partially cover the lender's internal costs of considering and processing a loan application. The fees are sometimes required to be paid upfront and are not usually refundable unless the loan is refused.

Assets
A list of what an individual currently owns, such as real estate, savings accounts, cars, home contents, superannuation, shares etc.

Capital Gain
The monetary gain obtained when you sell an asset for more than you paid for it. Such gains may be taxable.

Deposit
An initial cash contribution towards the purchase of the property, usually payable on exchange of contracts.

Equity

The value of an asset not subject to any lender's interest, e.g a property worth $500,000 with an outstanding mortgage debt of $150,000 - equity is $350,000.

Equity loan
A loan that uses the equity in your property to borrow for any personal purpose, including personal investment. It usually operates like an overdraft, where the borrower has a set credit limit to which they can draw funds. The term Equity loan can also refer to a Line of Credit loan.

First Home Owner Grant (FHOG)
Various State Governments provide financial grants to purchasers of their first home, to assist in meeting the purchase costs.

Fixed interest rate

An interest rate set for a fixed period. At the end of the fixed rate period, most lenders will allow you to fix again at the prevailing rates or revert to their standard variable rate.

Freehold title
The form of property ownership where a parcel of land fully belongs to the owner.

Interest Only (IO)

A loan in which only the interest on the principal is repaid with each repayment for a specified period.

Lenders Mortgage Insurance (LMI)
A form of insurance taken out by the lender to safeguard against a financial loss in the event of a security being sold due to the loan going into default. The borrower pays a once-only premium. The insurance covers the lender, not the borrower.

Loan to Valuation Ratio (LVR)
The ratio of the home loan amount compared to the valuation of the security. Commonly called LVR, e.g for a loan of $270,000 on a home valued at $300,000, the LVR is $270,000 divided by $300,000 expressed as a percentage i.e 90%.

Low documentation (Low Doc) loan
Loans available to applicants who may not have up to date or complete financial information available at the time of application.

Mortgage
A form of security for a loan, usually taken over real estate. The lender (mortgagee) has the right to take the property if the mortgagor fails to repay the loan.

Mortgagee
The lender of the funds and holder of the mortgage.

Mortgagor
A person who borrows money and grants a mortgage over their property as security for the loan.

Offset account
A transactional account linked to the home loan. The balance held in this account offsets the balance in the home loan, helping to reduce the interest paid and the overall term of the loan.

Principal
The outstanding loan amount on which interest is calculated.

Principal and Interest (P&I)
A loan in which both principal and interest are paid with each repayment during the term of the loan.

Redraw facility
A loan facility whereby you can make additional repayments and then access those extra funds if necessary.

Refinancing
To replace or extend an existing loan with funds from the same lender or a different lender.

Settlement date
Date on which the new owner finalises payment and assumes possession of land. Sometimes called the "draw down" date, as this is the date the loan is usually fully drawn.

Transfer stamp duty
Calculated on a sliding scale based on the purchase price of the property. Significant concessions on transfer stamp duty may be available for First Home Buyers. The amount varies from State to State.

Title search
A request to the Land Titles Office to ascertain the ownership of a specified property and any encumbrances, covenants and easements that may be recorded on the title.

Valuation
A report required by the lender, detailing a professional opinion of property value.

Variable rate loan
A loan which has an interest rate that varies according to market forces. The interest rate charged is lower than a standard variable rate loan but the loan may have fewer features.

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Chapter 14

PUTTING IT ALL TOGETHER

Once we have all the required information we can now put it all together and work out how it is going to look in the long term and also assess what we require to hold and manage the property until you sell for maximum return.

To do this we have to look at the purchase price and buying costs then assess our holding costs against our rental income then manage our tax rebates and depreciation and assess potential capital growth then bundle that all up against capital gains from selling at for the most profit...sounds simple enough.

Here's how it all looks:

PROPERTY		
Property Value		$382,000
PURCHASE COSTS		
Stamp Duty	$12,844	
Legal Costs	$ 1,000	
Bank Costs	$ 300	
Furniture Package	$ -	
Surveying	$ -	
Valuation	$ 249	
Total Purchase Costs		$396,393
SUBSIDIES		
Grants		
Deposit		$ 38,200
LOAN DETAILS		
Loan Amount		$358,193
Interest Rate 4%	$14,328	
Weekly Payments	$ 276	
INCOME DETAILS		
Annual Income	$90,000	
Current Tax	$31,250	
RENTAL INCOME DETAILS		
Property Rent	($450p/w)	**$ 23,400**
HOLDING COSTS		
Body Corp	$2,000	
Rates	$1,600	
Maintenance	$ -	
Commissions	$450	
Management Fees	$1,400	
Insurance	$350	
Total Holding Costs		**$ 5,800**
DEPRECIATION		
Internal Division 40	$ 9,950	
External Division 43	$12,000	
Total Depreciation		**$ 21,950**

Capital Growth

Purchase Price	Capital Growth 5%	New Price
$ 382,000.00	$ 19,100.00	$ 401,100.00

Post Tax Summary *(Sample Only)*

PERSONAL DETAILS	**CURRENT DETAILS**	**NEW DETAILS**
Annual Income	$ 90,000	$ 90,000
Rental Income		$ 23,400
Total New Income	$ 90,000	$113,400
MINUS COSTS		
Interest Payable		$ 14,328
Holding Costs		$ 5,800
Total Holding Costs		$ 20,128
MINUS DEPRECIATION		
Property Depreciation		$ 21,950
TAXABLE INCOME		
Net Income	$ 90,000	$ 71,320
TAX PAYABLE		
Tax On Income	$ 20,932	$ 14,726
Total Difference in Net Cash Profit		**$ 6,206**
Plus Capital Growth		**$19,100**
Total Annual Profit		**$25,306**

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Chapter 15

ONGOING SUPPORT

Some of the most important things you need to do to be a successful property investor are being aware of the market, monitoring the value of your property and having a plan on what you are trying to achieve with the property.

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On Going Support

I often sit with investors who already have investment property and ask them all sorts of weird and wonderful questions to see where their head is at. Most times I open up with where the property is located and what type and also why they bought it.

I then move into the interesting part…'how long are they planning on keeping it?' and what is its current value. Normally the investor will reply with no idea to both. I ask them how they will know when to sell to get the most profit if they don't know its current value and the angle the market is flowing in.

You need to treat your investment property the same way you treat day to day business, by working it and keeping your eye on the ball. We always advise that you get an independent valuation of the property every 2 years to make sure you know its value and how it is trending. We also supply a range of great resources to help buyers understand the market, trends and external drivers that may be influencing their investing success.

Investing success isn't just buying a property and hoping like hell it grows in value, it is a tight system of processes that you must undertake and continue to manage to get the very best result and the very last dollar of profit out of the property.

We are always available to contact if a potential investor has any questions and our website has a huge range of regularly updated information about investing, property and finance that will help investors understand how to get the best outcome for their time and hard earned money.

* * *

The Successful Investor

The mindset behind investing success must include patience and outline a clear path of how to make the most return on investment and how to grow and re-invest to create long term wealth.

Basically if you break it down, the investment model is simple....use as little cash as possible to purchase a property that creates more money than it costs to hold on to (so you can afford to keep it for a long period so it accumulates huge amounts of growth), re-invest the rental surplus and any depreciation returns into the property to reduce the debt or save the money while the property continues to create equity and wealth via capital growth every year.

So while these are not physical gains you can touch or spend, they are 'on paper' gains that are accumulating until you sell the property and get to access the cash or profits created.

Each year you should check the new (re-calculated) value of the property and when you have created enough equity in the property you can then afford to buy another property and replicate the system.

In the perfect world you would have 4 properties that sell every 10 years but in fact create a sale each 5 years for you and therefore the capital growth will be topping up your bank account for the rest of your investing life. This would also give you time to grow great growth and also be patient enough to never have to sell through a down period of little or no growth.

For example:

Buying:

- Year 1: Purchase Property 1 - $400,000.
- Year 5: Purchase Property 2 using equity from Property 1 - $400,000.
- Year 10: Purchase Property 3 using equity from Property 2 - $400,000.
- Year 15: Purchase Property 4 using equity from Property 3 - $400,000.

Selling:

- Year 10: Sell Property 1 - $600,000 (4% annual growth).
- Year 15: Sell Property 2 - $600,000 (4% annual growth).
- Year 20: Sell Property 3 - $600,000 (4% annual growth).
- Year 25: Sell Property 4 - $600,000 (4% annual growth).

Total selling profits (25 years): $800,000.

* * *

The Media….Friend or Foe?

Every day in every newspaper across Australia you will see articles about real estate and investing. Normally articles need to sensationalise the news to sell paper and attract readers so generally you need to see beyond that and look for the core of the article.

Often I see a Monday paper saying 'home prices are going through the roof', Tuesday talks about 'lack of property affordability', Wednesday 'lack of rental properties', Thursday about 'an investor who lost money on property', Friday says 'now is the time to buy' and Saturday warns about 'an impending crash'. Every day seems to contradict the previous. The old saying about 'todays newspaper is tomorrows fish and chip wrapper' is very true when it comes to real estate.

Very few articles address the reality of the market, purchasing or investing so it is important that were always look beyond the media for market assessment.

As we know investing in property is a long term plan and any small reduction in land value doesn't affect anyone unless they are selling in that period. For the rest of us, falling prices just means we hold off another 6 months, 1 year or even 2 until the market returns to steady or hopefully large jumps in capital values.

The media warns of a pending crash after the Commonwealth Games however most people in the know can't seem to put their finger on why the market will crash. Visitors arrive for 2 or 3 weeks and boost the economy, some buy investment properties and most come and go likes ships in the night. Afterwards we are left with great stadiums to hold international events, more lower end property to accommodate increases in population and general increases in visitors all round.

Once again investing is a marathon not a sprint so any small changes in the market won't affect you if you are patient and prepared to hang onto property for the long haul and only sell when the market is right for you to make maximum returns.

* * *

Final Word

Every day I get the pleasure of meeting people who are looking to set up their family's financial future. Whether it is for retirement or simply setting their kids up the base model and plan is the same. These people are often on the right track, but without the correct advice and guidance, investing in property can be a bit of a mine field.

I have seen clients buy the wrong property, pay too much, buy in bad areas, set up the wrong finance and worst of all lose money, which goes against the term "invest" completely.

Investing correctly in property is the best thing you can do to set up a safe financial future.

The model is so strong:

1. Save up a deposit.
2. Use the deposit to borrow a large amount of money to purchase a property.
3. Use rental income from the huge rental market to cover holding costs and use tax rebates to pay down debt.
4. Allow the property to grow in value.
5. Use the equity created from growth in time to purchase another property.
6. Allow both properties to grow in time.

7. Use rental income to live off in retirement.
8. Sell properties at high point in the market and live like the King Of England.

It’s that simple but there are so many variables in between that can influence a positive outcome. I hope taking the time to write this book will provide you with the confidence to think you can invest safely and really enjoy your later life with no financial stress and if not, remember we are always only a phone call or email away and we will walk you through every step ourselves.

We know it will be the best thing you ever do and hopefully it will be also be one of the most enjoyable things you do as well.

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