PROPERTY INVESTING

A Beginner's Guide

propertywizards

SMARTER, FASTER WEALTH STRATEGIES

Welcome to ***PROPERTY*** *INVESTING - A BEGINNER'S GUIDE*– **Your 5-step guide to strategic property investment.**

This guide takes you through 5 SIMPLE STEPS to help you understand strategic property investment and how to make it work for you. Whether you're a first-time investor or re-entering the market, this guide will help you navigate the sometimes complex world of property investment and associated issues you need to consider.

You will learn how to:

- Step 1: Create your wealth plan & investment strategy
- Step 2: Assess your financial position & find the right loan
- Step 3: Research the market & create a shortlist
- Step 4: Minimise risk & conduct due diligence
- Step 5: Add value to increase returns

It will then give you a few insights into getting started.

We hope you find it invaluable.

1. CREATE YOUR WEALTH PLAN & INVESTMENT STRATEGY

What's the plan?

The first step is establish your wealth plan and select the right investment strategy for you.

To do this, you need to assess your current situation to understand where you are now, and where you'd like to be in the short-, medium- and long-term.

While it might be easier to focus on your ultimate, long-term goal, it's worth remembering you need to enjoy the road to get there and have tangible, achievable milestones along the way.

So it's important to formulate short-, medium-, and long-term goals.

Write down your goals and regularly refer back to them as they will inform which investment strategy is right for you.

SHORT-TERM GOALS

Pay off credit cards
Pay off short-term loans
Start saving $X every month

MEDIUM-TERM GOALS

Increase equity in your home
Save for another deposit

LONG-TERM GOALS

Fund your retirement
Travel the world

Ask yourself:

What do I want to achieve from buying property?

Do I just want to get my foot into the market?

Do I want to own several properties?

Do I want to help fund my retirement?

Do I want to retire and travel the world?

Do I want some extra cash flow?

Or a combination of these things?

'Enjoy the journey!'

Which strategy is for me?

Once you understand your wealth plan, you need to figure out which strategy will work best for you. Again, you'll need to ask yourself a few questions

Ask yourself

Do I want ongoing rental yield with high-quality tenants?

Do I want strong capital growth?

Do I want sell and reinvest?

Do I want to add value to the property?

Do I want to subdivide or develop?

Or is it a combination of these strategies?

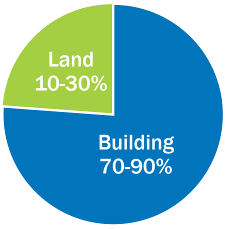
Things to consider

- Income security
  Build a buffer into your calculations.
- Market conditions
  Your strategy has to work in any financial climate. Don't base your strategy on a booming market.
  A depressed market or interest rates should NOT be a reason not to get started.
- What's more important to you?
  Capital growth or rental yield to achieve your goals?
- Property type
  Apartment, house, subdivision, multi-dwelling development, commercial?
- Investment type
  Are you looking to 'set and forget' or add value to your property/ies?

4 strategies to success

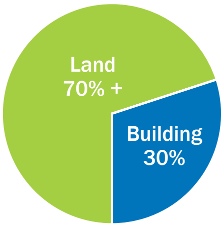
Before you consider which strategy is right for you, it's important to understand land and building ratios. Every dollar you spend counts – one portion goes towards the land; the other towards the building, and potential rental income. Our four strategies outline the impact of the different ratios and help determine which strategy is best for you.

Strategy 1: Yield/Cash Flow



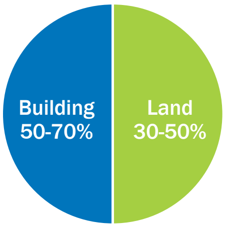
- Land-to-building ratio: 10-30% land: 70-90% building
- Strong yield, lower growth potential
- Strong depreciation benefits
- Seek best location, excluding inner city
- Seek small apartment blocks
- Low maintenance – set and forget
- Ideal for passive investors and SMSFs targeting rental yield/cash flow

Strategy 2: Capital Growth



- Land-to-building ratio 70%+ land: 30%- building
- Hold for long-term, organic capital growth
- Well maintained older houses
- Seek growth drivers – infrastructure, transport, convenience, jobs and amenities
- Ideal for passive investors and SMSFs targeting growth

Strategy 3: Part Capital Growth-Part Cash Flow



- Land-to-building ratio: 30-50% land: 50-70% building
- Balance between cash flow and growth
- Good depreciation benefits
- Seek good growth drivers and yield
- Low maintenance – set and forget
- Ideal for investors and SMSFs targeting rental yield and growth

Strategy 4: Add Value or Develop

- Add-value properties have greater potential for growth
- SMSFs can't develop the property, but can buy and hold for potential accelerated growth
- Seek strong growth drivers
- May be duplex, triplex, multiple, future rezone
- Hold as is, renovate and hold, or develop and hold
- Ideal for investors, first-time developers and seasoned professionals

2. ASSESS YOUR FINANCIAL POSITION & FIND THE RIGHT LOAN

Now that you have considered and established your wealth plan and investment strategy, it's time to assess your financial position, and find the right loan. Consult a trusted professional to conduct a comprehensive financial assessment. This will inform: what you can afford, how much you need to save, and how to go about achieving your goals.

Selecting the right financial partner

While many people navigate the property market on their own, it pays to engage a professional. After all, it's their job to be in the know.

Seek advice from property investment or finance professionals – a finance broker and accountant is the best place to start.

6 tips for finding the right loan

1. Consult professionals
   Finance brokers, buyer's agents and accountants can all add value to your strategy. Talk to them first.

2. Target finance brokers who specialise in property investment
   Talk to people who know their stuff.

3. Get your buying structure right
   Ask your accountant if you should buy the property in your own name, in joint names, through a trust, or through a self-managed super fund.

4. Get your paperwork in order before you start looking
   It may take time to prepare your documents and you can't make an offer until they are ready.

5. Choose a tailored loan
   It should be flexible to cater for short- and long-term change.

6. It goes beyond the interest rate
   Offset accounts and flexibility to access property equity are also important.

Things to consider

- Principal and Interest (P&I) loan or interest-only loan?
  Investors often choose a P&I loan for their home and interest-only loan for investments.

- Offset account
  Ask how you can use an offset account to reduce interest with savings while retaining the tax deductibility after redrawing from funds.

- Tax
  Ask how you can minimise the impact of tax on your investment returns.

- Line of credit
  Ask if you need a line of credit (LOC) to use – but ensure the extra is worth it.

- Non-deductible debt
  Ask how you can reduce non-deductible debt in your home by paying off the loan as quickly as possible, freeing up equity to fund future properties.

- Future projects
  Discuss how your advisor can help you plan to finance add-value or development projects.

3. RESEARCH THE MARKET & CREATE A SHORTLIST

With the insights gained from your wealth plan, investment strategy, financial assessment and loan research, now it's time to hit the market. Highlight locations and property types that align with your property strategy, then create a shortlist to work with.

Educate yourself

The more you know, the better. While it is worth engaging professional advice, any additional, independent research you do will enhance your strategy.

- Read property articles and books online and in print.
- Study accredited courses in property and development.
- Research online – particularly independent, unsponsored content.
- Attend as many home opens as you can.

DIY or hire a PRO?

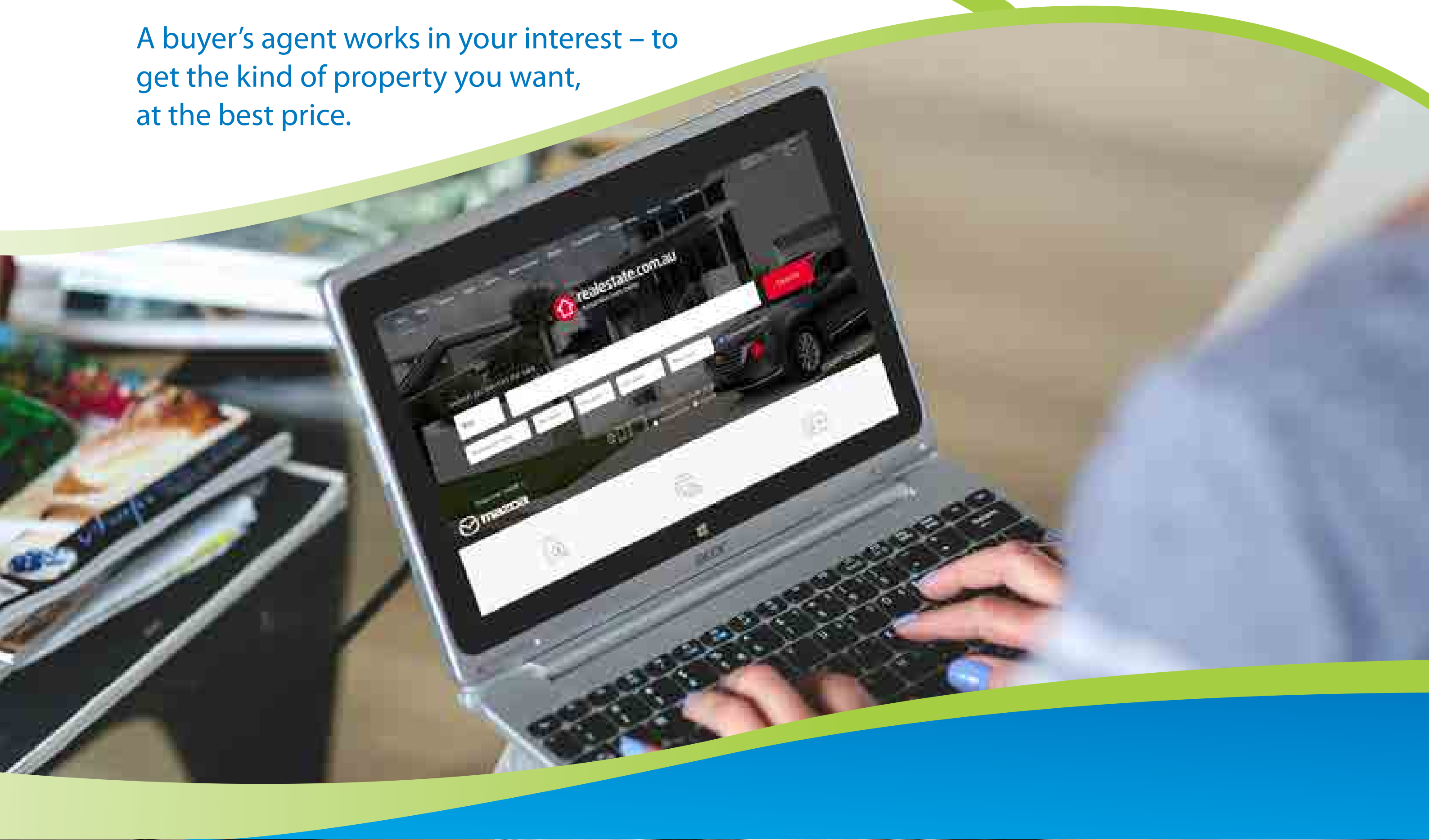
You can do all the research and legwork yourself or you could hire a buyer's agent to help find a property that aligns with your strategy.

Just as a seller's agent represents a seller, a buyer's agent acts in your interest.

A buyer's agent takes away the daily grind of searching for properties as they scour through databases and unlisted sales, and use their network of contacts to look specifically for your property. A good buyer's agent should take the time to understand your needs, budget and expectations, and explain the best property investment strategies for the current market.

REMEMBER:
A seller's agent offers value and information but is legally obliged to work in the seller's interest.

A buyer's agent works in your interest – to get the kind of property you want, at the best price.



Location & property type

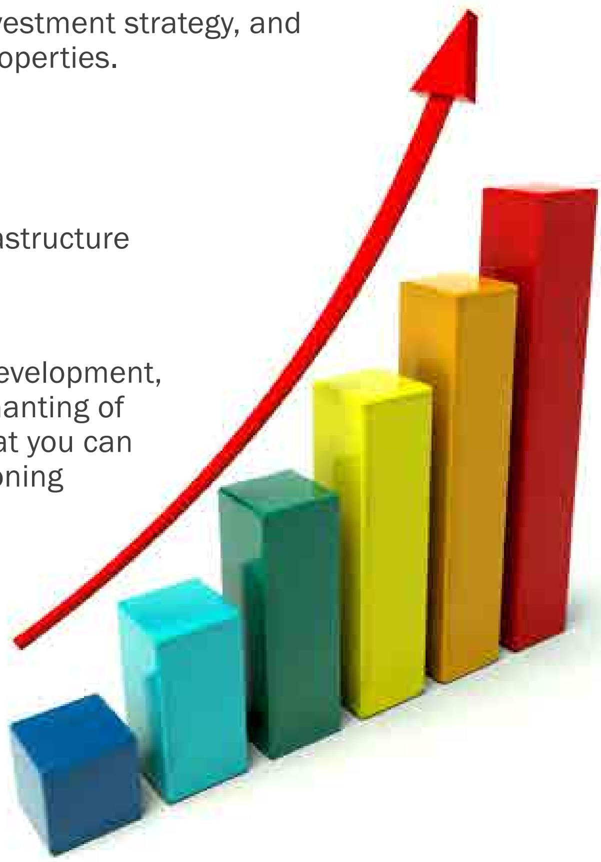
Location and property type are key, regardless of your investment strategy, and require extensive research before you start looking for properties.

Things to consider

- If you want to hold the property medium-to-long term
  Look at areas with several growth drivers, such as infrastructure development, scarcity and gentrification.

- If you plan to develop
  Look at properties that are either correctly zoned for development, where there is already a good market for resales or tenanting of new properties, or properties proposed for rezoning that you can hold on to, and which can increase in value as the rezoning approaches and demand increases.

- If you have a yield strategy
  Look for the right balance between land value, building value, and other factors to deliver the yield you need.



HINT: Your strategy may be a combination of these factors. Your initial research will help you narrow down the right, high-performing properties.

TIP: The location you can buy in depends on your budget and availability of properties that align with your strategy, so don't define your location too narrowly.

Tips for finding your ideal location

- Research cities
  Aim for properties in cities with high population growth, good employment opportunities, and high average wage growth.

- Research suburbs
  Find suburbs with a strong history of capital growth or potential, or that are soon to be revitalised.

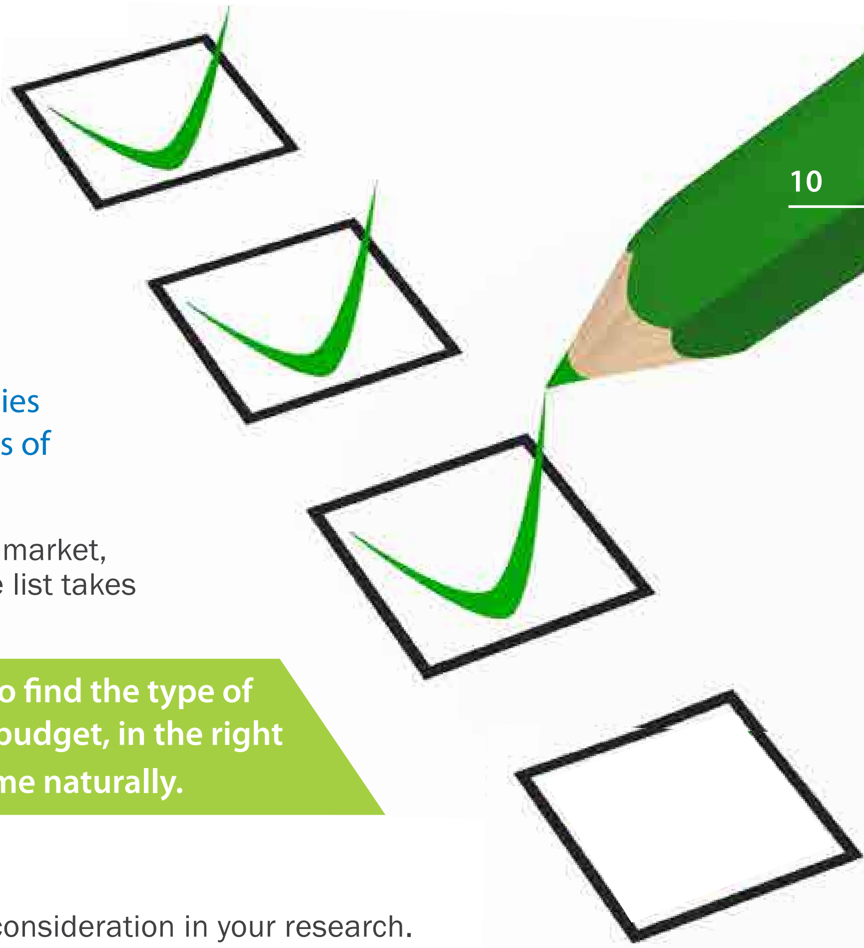
- Research streets
  Not all streets (in the same suburb) are equal. Some streets have more potential if they have popular restaurants along them, while others may be close to commercial areas.

- Range of growth drivers
  Areas in which new infrastructure is underway and more than one growth driver is evident, are great for potential property growth.

- Consider demographics
  Find suburbs where owner-occupiers want to live and where people can afford to pay a premium to live because they have higher disposable incomes. Affluent, inner-city suburbs may be beyond your budget, but how about middle-ring suburbs of the capital cities?

- Don't focus on finding a bargain
  You can spend a lot of time bargain-hunting, but it is often fruitless. It's better to focus on the right property in the right location.

- Renovate or redevelop options
  Many people don't want to put in the work to renovate or redevelop properties, so you may find some gems in great locations at more reasonable prices.



Create your shortlist

Research may sound like a simple task but it will account for a large proportion of the hours you put in to finding the right property. Without it, you may make costly mistakes.

TIP: Don't look at a few random properties – you need to sift through hundreds of properties systematically.

There are thousands of properties on the market, and narrowing them down into a workable list takes patience and practice.

HINT: If you have done your research to find the type of property you need, within your budget, in the right suburbs, the shortlist should come naturally.

What if you want to redevelop?

If you want to redevelop, this is a critical consideration in your research. Make sure you research what type of property is in demand in a particular location. There's no point buying land to build a multi-unit complex if there's no demand for this type of property in that area.

Conduct a feasibility study to identify what's possible – the number and types of dwellings, expected costs and expected profit. You can then consider individual blocks and properties more closely.

4. MINIMISE RISK & CONDUCT DUE DILIGENCE

Once you've conducted your research and isolated your property, you must consider risk and conduct due diligence. If your search strategy is thorough and you take steps to minimise risk, due diligence should ensure you buy the right property at the right price.

Minimising risk

Savvy property investors do their homework on every property they buy to minimise risk.

While uninformed investment is the greatest risk, if you have followed the advice in Steps 1, 2, and 3, you should be well informed and ready to go.

If you hire a buyer's agent, it's their job to conduct risk minimisation, due diligence, price assessment and negotiation. If you are doing it yourself, make sure you go through all the steps to protect yourself.

Tips for minimising risk

- A property that appeals to owner-occupiers
  Not because you want to sell it, but because other people buying in the area increase demand and raise prices.
- The right property in the right location at a well negotiated price
  This is usually less risky than hunting for bargains and hot deals.
- Areas with a range of growth drivers
  This could include a history of strong capital growth, good demographics, and good infrastructure, or where planning is underway.
- Add-value properties
  Refurbish or renovate to add value to your properties, to attract a high-quality of tenant and help add your own capital growth.
- Subdivision or development
  This can increase your equity over and above market growth, provided you conduct thorough due diligence.
- Professional advice
  Engage the services of a buyer's agent to help you choose correctly and minimise risks.
- Don't skip or cut corners during inspections
  Make sure you always know what you're buying by seeking professional help to assess your properties.

Due diligence

Whatever property you plan to buy, you must have it inspected to ensure there are no hidden problems.

While the number and type of inspections you need will depend on your investment strategy, the most basic inspection should check:

- ✓ The property is structurally sound
- ✓ Termite activity in the house or surrounding property
- ✓ Signs of repairs that don't add much value, eg rewiring
- ✓ Easements on the land

Getting the right price

Once you are convinced the property is right for you, how do you ensure you get the right price?

Remember you are looking for the right property at a good price – not bargain hunting. Quite simply, good properties in the right locations are the best way to minimise risk and ensure high returns.

This is because your property will continue to be in demand by owner-occupiers, who push up property values, and tenants, who help pay your mortgage.

If you are using a buyer's agent, they should analyse recent sales of similar properties to work out the property value and plan a purchase strategy to give you the best chance of success at the best price.

If you are doing it yourself, you should now be more skilled at research and analysis. Attend as many home opens of similar properties as you can, and follow up with the agent to find out the sales prices.

This will help you ascertain the property value and help you negotiate the price.

Once you can predict the sales price of homes in your chosen area within a few percent and understand why they sold for that price, you know the suburb well enough and are ready to buy.

It is imperative to be able to walk away if the price is not right. Remove the emotion from the negotiation and never be swayed by 'gut instinct'.

5. ADD VALUE TO INCREASE RETURNS

If you've followed Steps 1-4 and are ready to become a successful property investor, there's one more step you can take to increase returns – add value.

Many investors 'set and forget' properties to focus on steady cash flow and rental yields. However, adding value to a property in the right areas can accelerate capital growth, increase rental yields and move you closer to those wealth goals you planned way back in Step 1.

What are the add-value options?

If you're considering adding value to your property, it should not be an afterthought; it should be an integral part of your plan from Step 1.

It can be a lucrative strategy to buy, develop and hold on to properties, because while you are earning rental income you can benefit from the depreciation schedules and increased capital on your balance sheet for further borrowings and development in other projects or investment options.

You can always sell or borrow against a property if you require cash to fund other projects or your lifestyle.

It's important to understand what you can afford to do and plan for it. Some buyers may purchase a property and have the financial capacity to redevelop it immediately; others may max out their borrowings to buy the property and work with a savings plan to fund the development in six months to a year, or several years later.

TIP: Look at investment properties with the zoning for immediate redevelopment; or if you need time to raise the capital to redevelop, buy where the zoning is set to change in the future.

Develop and subdivide or renovate?

Once you have purchased the right property, you have two main choices for adding value:

1. Subdivide and/or develop:
   If your property is large enough and has the right zoning you may be able to subdivide it to create two or more dwellings. Alternatively, you can obtain approval for the development, then revalue the property with subdivision or development approved.

2. Renovate and/or refurbish:
   Make sure the cost of the project will be offset by increased rental income and/or growth in value and calculate the expected payback period. *Be aware that it may take time.

WHY: Increasing rental value and capital growth has immediate and long-term benefits of generating more cash flow and building up equity to refinance your loan and purchase another property – this is when you start to leverage your investments and accelerate wealth creation.

If you are using a buyer's agent that specialises in add-value properties, they should have the knowledge about the kind of add-value property that aligns with your strategy and the best add-value options for the property.

Tips for development

Adding extra homes to your property and renting them can increase rental yield for property owners, help you to pay off the mortgage and create equity.

- Use your feasibility study information.
  Carry out the planned work according to its findings, but first assess if anything has changed – the market, finances, regulations, or your objectives.

- Structure your finances – to minimise interest repayments.

- Don't be fooled by false economies.
  Doing the work yourself may save costs initially but can end up costing more. Demolishing a property and only having time to work on it on weekends can not only delay completion, but it can be more expensive than you think to take trailer loads of rubble to the tip. Hiring professionals will reduce the construction time, get tenants faster, and eliminate potential surprise costs.

- Engage a professional.
  If you don't have the time or experience, consult with a buyer's agent with local zoning and development expertise.

Tips for renovation or refurbishment

Renovation can be a very smart way to quickly add value to your property.

- Research, research, research. If you want to renovate, you would've already looked for properties with renovation potential. That's why the research step is key to every aspect of property investment.

- Modest renovations. You can sometimes add value with simple refurbishments such as painting or new carpet. Don't overspend on premium appliances if the rental yield doesn't justify it.

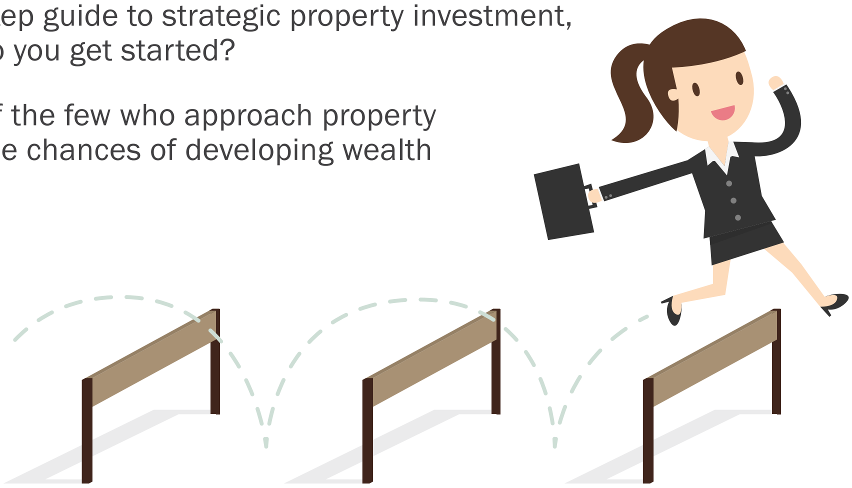
- Match the renovation to the area. Don't overcapitalise in a cheaper area or under-spec in a more expensive area. Granite benchtops and high-end kitchen appliances may be a waste of money for properties in areas below median value, but are almost certainly required in more well-heeled suburbs.

TIP: To ensure you are not just beautifying a property for the sake of it, the returns must outweigh the outlay.

GETTING STARTED

Now that you've read through our 5-step guide to strategic property investment, you may be ready to invest. So how do you get started?

It's relatively simple to become one of the few who approach property investment strategically, increasing the chances of developing wealth and a more certain financial future.



Overcoming obstacles

Most of the common obstacles to getting started are in the mind. That means that they can be overcome simply by a little education and a change in thinking.

Fear

Whether it is fear of the unknown or of making a mistake, it can be conquered by learning more about property investment – as you are doing by reading this eBook. This helps you take measures to minimise risk, increase the chances of success, and become a confident investor.

It's too complicated

Thinking property investment is easy is a mistake, but so is resisting because it seems too complicated. Knowing it is not easy means many people will make mistakes. But by developing a professional investment strategy you have a clear advantage in the market.

Lack of funds

You may need less than you imagine to get started. Okay, you need an income to qualify and pay off loans, but this doesn't have to be an executive salary. Careful planning, good advice and good financial practice can help you achieve a lot with a little.

Bad timing

There is always something else happening, but until you prioritise wealth creation, property investment will always be pushed aside.

Peer pressure

Family, friends or colleagues may try to talk you out of property investment. However, if you have done your research and aligned yourself with the right advisors you have all the tools you need.

What's the secret?

The good news is, there is no secret! There is only strategy, research and relationships.

Most people don't do the things outlined in this eBook. They have no strategy. They may read a few articles and jump head first into property, or believe that one property is enough to fund their retirement. They may buy on impulse, emotion, or in the wrong location without researching well.

The final word

Treat property investment like your own small business:

- Focus on developing and implementing a well-considered strategy.
- Form relationships with the right people.
- Educate yourself about the market.

Whether you are a first-time investor, a seasoned pro or a home buyer, please contact us for information or a free consultation to help you build a property portfolio for financial independence.

- Property Wealth Strategists
- Licensed Property Buyer's Agents
- Finance and Mortgage Brokers
- Subdivision and Development Consultants

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