

FIRST TIME RESIDENTIAL PROPERTY INVESTORS GUIDE



BUILD WEALTH WITH PROPERTY



This E-Book has been prepared by Build Wealth with Property for the benefit of first time residential property investors. It is intended to be a guide only and readers should seek independent professional legal, financial and real estate advice, prior to the purchase of any investment property.

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CHAPTER 1

MINDSET REQUIRED

INVESTING IN RESIDENTIAL PROPERTY REQUIRES A FIRST TIME PROPERTY INVESTOR TO ADOPT THE MINDSET OF AN ACCOUNTANT, RATHER THAN THE MINDSET OF A BUYER SEEKING TO PURCHASE A PROPERTY FOR THEIR OWN USE.

It is important to use your thinking skills, rather than your feeling senses, when it comes to selecting an investment property. Keeping personal emotions out of the picture in all steps of the property purchasing process, is the best way to avoid making many of the common mistakes, that sour the property investment experience for many new or inexperienced investors.

Having made the decision to become a property investor, you should treat your property investment activity like a

real business, one that requires an adequate return on investment and which ultimately will provide a solid base, for the purchase of additional investment properties to secure your long term financial independence.

For further information on treating your property investment activity as a real business see:
Section 20: Professional Advisors



CHAPTER 2

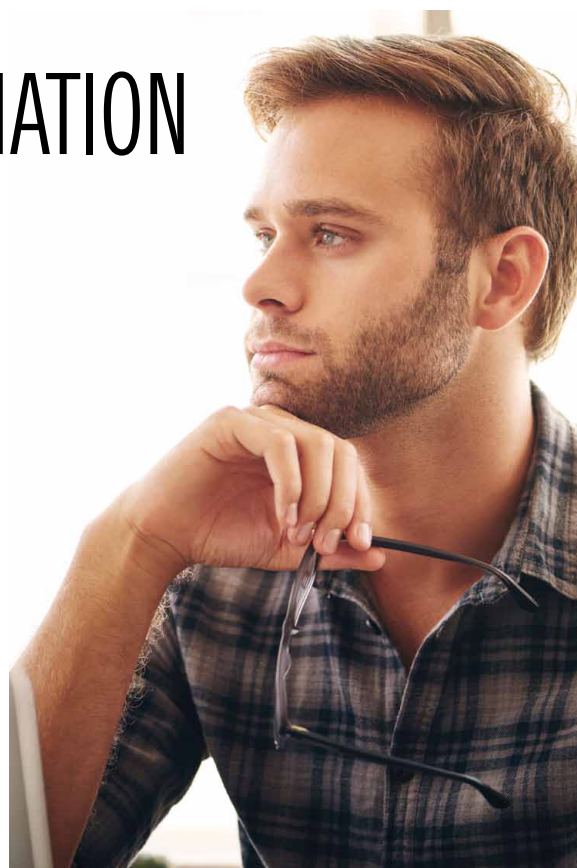
AVOIDING PROCRASTINATION

Whilst a new investor should never rush headlong into the market unprepared, once prepared, it is time to move forward and act in a decisive manner.

Failing to do so within a reasonable period, can result in lost opportunities that may not come around again, creating the strong possibility of property values increasing and thereby placing good properties beyond your existing financial capability, and increasing the likelihood of ill-considered purchasing at the wrong time arising out of frustration for not having acted sooner.

The best way to avoid procrastination is to establish a time table that leads up to the date by which, you as a new residential property purchaser, will have settled your first purchase.

This timetable should be broken down into series of steps that address many of the pre-purchase items covered in this E-Book.



CHAPTER 3

AVOIDING PARALYSIS BY ANALYSIS

One of the traps many first time residential property purchasers fall into is over analysing everything, and eventually succumbing to what is known as paralysis by analysis.

This affliction effectively prevents the sufferer from ever being able to make a decision to move forward on any property purchase, as they continue to seek more and more data, to assure themselves they are not going to make a mistake.

As an investor, you need to understand that there are risks associated with any property purchase, and it is never possible to completely remove all risks. You also need to understand that there will always be unknowns and unpredictable elements in many aspects of a property purchase.

One of the reasons professional advisors exist, is to help inexperienced investors to understand that money in the market has a far greater chance of providing a good return than money sitting with a lender looking for an opportunity to help an investor.

Using professional advisors to help you understand why too much analysis is the enemy of a good property investor and also to discover the key indicators that you should focus your analytical efforts on, is the best way of preventing paralysis by analysis.



CHAPTER 4

UNDERSTANDING CASH FLOW

To prevent your first foray into residential property investment from being something you may live to regret, it is important that you develop a basic understanding of managing cash flow. Without this understanding, it is far too easy to over-commit and to find that at some point in future, you are unable to continue to hold your new investment property and potentially being forced to sell at a loss.

Simply put, managing cash flow involves knowing well in advance all of the costs associated with holding an investment property. Matching these costs as they fall due against the actual cash being produced via rental income, while at the same time ensuring that you have a buffer of available funds, or guaranteed access to an additional

source of funds, should any unplanned events occur. Being prepared in cases such as the loss of a tenant and difficulty reletting the property, or loss of personal income where that income supports the payment of the mortgage over the investment property, is simply good management.



CHAPTER 5

UNDERSTANDING TOTAL COSTS OF PROPERTY INVESTMENT



Far too many first time residential property investors find out after the purchase of their first investment property, that the cost of purchasing and maintaining an investment property far exceed their expectations, and then experience cash flow problems as outlined in the previous section.

Despite these costs (the majority being tax deductible), you should not be deterred from proceeding with a property investment, but should take them into account to avoid over-committing when considering whether a particular property purchase is appropriate to your financial position and future plans.

To give an indication, as an investor you will need to at the minimum, consider all of the following in order to see the full picture of the total costs of owning an investment property;

- a) Purchase Price
- b) Stamp Duty
- c) Legal Fees
- d) Inspection Fees
- e) Accounting Fees
- f) Property Management Fees
- g) Property Maintenance Costs
- h) Body Corporate Fees (if applicable)
- i) Council Rates
- j) Land Tax (if applicable)
- k) Insurances
- l) Fees relating to obtaining Depreciation Schedules (where not provided)
- m) Where applicable - Water Rates, Utilities, Mortgage Fees, A/C Fees



CHAPTER 6

UNDERSTANDING PROPERTY CYCLES

Historically, over a period of over 100 years, Australian residential properties have doubled in value every 7 to 12 years, the relevant time frame depending on location and demand drivers.

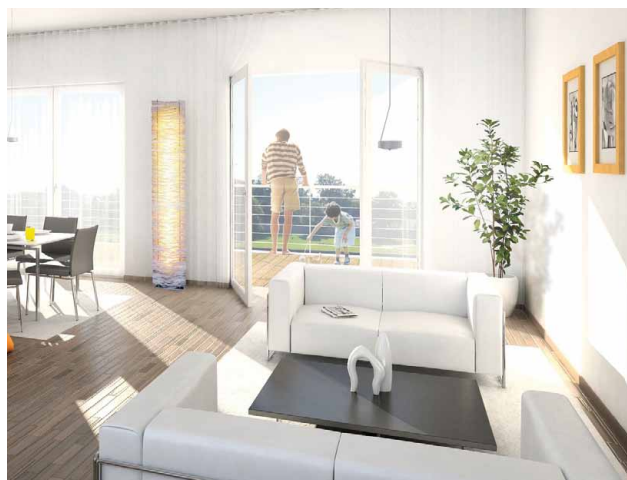
As a first time residential property investor, you need to understand this does not mean that a property purchased today, will probably be worth twice what it was purchased for, if sold within a 7 to 12 year time frame from its date of purchase. Timeframes can fluctuate over cycle periods but when averaged over the longer term, the 7 - 12 years generally prevails.

This is because of the fact that the property market moves in cycles from boom to bust and back again in an average time frame of 7 or so years. As a first time property investor, you need to understand that while 7 years is average, sometimes booms can last that long, and at other times busts can last that long, or even longer. This may result in the doubling effect being delayed for a longer period when recovery from a bust period is slow.

Therefore it depends on what point in the property cycle you initially purchased and where the property cycle sits at the time you want to sell, whether or not you will see

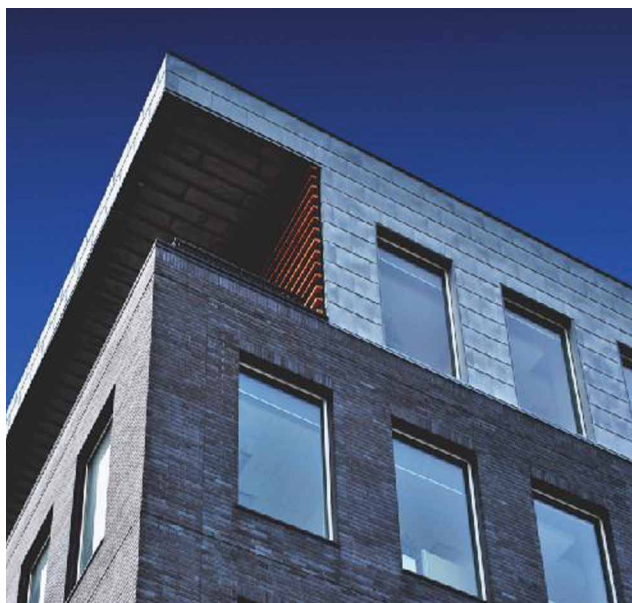
the historic level of capital appreciation during the period you held the property.

Successful residential property investors understand the need to be in the market for the long term to ride out these peaks and troughs. Hence the buy and hold mentality that most successful property investors develop as they grow their portfolios.



CHAPTER 7

UNDERSTANDING DEPRECIATION BENEFITS



Depreciation and its role in tax effective property investment strategies can be a mystery even to some accountants, and as a first time residential property investor, you need to either spend time learning all you can about depreciation and its benefits to a property investor, or preferably engage a knowledgeable professional advisor to quickly bring you up to speed.

It is important to understand the types of properties that attract the greatest levels of depreciation, as well as learning the difference between building depreciation and depreciation of fixtures and fittings, and how these are treated differently for taxation purposes.

If the vendor of the property you eventually purchase does not provide a Depreciation Schedule, you will need to engage a Quantity Surveyor to assess the property and prepare a Depreciation Schedule. This Depreciation Schedule should be obtained as soon as possible following the settlement of the property.

CHAPTER 8

UNDERSTANDING NEGATIVE GEARING

Negative gearing is a property investing strategy whereby the investor seeks to utilise losses from a property investment to reduce their tax obligations in respect to their other sources of income earned in the same fiscal period.

These losses are incurred when the rent received from a property is insufficient to meet all of the costs of holding the property. In other words the property is cash flow negative.

This strategy enables the property investor to be more highly geared (holding less equity in the investment property), and in a rising market, benefit from the capital growth achieved whilst having to outlay a minimal amount of capital to enter the market.

The downside of a negative gearing strategy becomes very evident if the markets go into reverse and the property value declines to be worth less than the outstanding



mortgage amount. Should rents also fall in such a downturn, the amount required to continue to meet mortgage payments will of course rise, and could rise to a level where the investor is unable to continue to hold the property.

CHAPTER 9

UNDERSTANDING CAPITAL GROWTH DRIVERS

All property investors, and in particular those adopting a negative gearing strategy, need to focus on purchasing property in areas where the likelihood of good future capital growth (the growth experienced in the underlying value of a property during the period in which it is held) is strong.

Determining an area's potential for future capital growth is a key element in the property investment decision making process. First time property investors need to understand that all areas are not created equal, some areas experience negative growth over time, others little or no growth for decades, whilst the best areas can see double digit annual growth for several years at a time.

The secret to success is to understand the factors that act as capital growth drivers. The following are some of the key capital growth drivers that need to be understood;

- a) Demographics of the area including population trends
- b) Local existing and commissioned Infrastructure
- c) Scarcity of land for future local development
- d) Level of supply of existing housing stock to meet demand for same
- d) Local planning environment
- e) Local economic profile and future employment availability
- f) Past, present and projected Rental Vacancy Rates
- g) Local impact of Federal and State Government policies

The complexities in assessing the capital growth potential of any one area, let alone multiple areas, is daunting and this is why a first time residential property investors should always seek help from professional advisors, especially those who continually monitor key areas around Australia, to identify future "Hot Spots". This advice should be "de rigour" until you develop your own understandings and experience in this key element of successful property investment.

CHAPTER 10

UNDERSTANDING RENTAL GUARANTEES

Generally opinions can range from rental guarantees not being worth the paper they are printed on, to being a real valuable incentive to purchase the associated property. The challenge comes in identifying if the rental amount so guaranteed is true market rental.

Rental guarantees have their place, but first time property investors must understand why they exist and why developers offer them. Consideration also needs to be given as to the likelihood that when the guarantee ends it is entirely possible, and indeed probable, that your rental return may also fall, and the value of the property itself, may also fall in line with the reduction in rental income. If there has been a genuine rental guarantee then this likelihood is greatly reduced.

As an inexperienced residential property investor, you should always seek the advice of an independent advisor, if you intend to proceed with the purchase of any property that is offered with a rental guarantee.

Always bear in mind that the rental guarantee covers any shortfall between the actual rent received and the rent the developer guarantees, and the developer is obligated to make up the difference. Often to cover an anticipated claim on the guarantee, the developer concerned may inflate the asking price for the property, so that it is actually not a cost for them at all.



CHAPTER 11

IMPORTANCE OF PROPER PLANNING



Like any worthwhile endeavour, investing in residential property requires a long term commitment. Given the substantial size of the financial commitment you will be making, careful consideration needs to be given to the investment objectives. To achieve the right outcome, an assessment process which details and covers off the risks involved, is mandatory. This should help in avoiding the mistakes made by many investors who have gone before you.

Those who plan for investment success generally achieve their objectives and avoid the common pitfalls, while those who rush in, act on gut feeling, and have no carefully developed investment strategy to guide them along the journey, have a much greater potential to be disappointed with the outcome achieved.

If you heed the earlier advice regarding treating your residential property investment activities like a business, you will of course take the planning to a whole different level, and prepare a comprehensive plan that will provide a road map for all of your future property investment activity.

It is important to put any plans in writing and very advisable to open them up for scrutiny by either a professional advisor, or an experienced property investor, who can provide you with a reality check.

Once adopted, your residential investment plan should become a living document, reviewed regularly and updated as required, or as dictated by changing circumstances.

CHAPTER 12

IMPORTANCE OF RESEARCH

The importance of conducting adequate research, firstly during your initial planning process and then on a property by property basis, cannot be over-emphasised. Professional advisors have a role to play here, but total reliance on advisors is not recommended until you have developed trusting relationships that take time, and a few purchases, to fully develop.

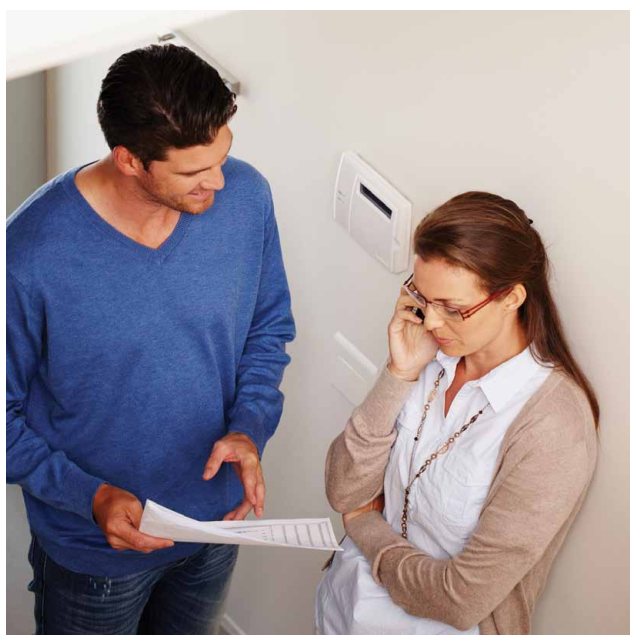
At the very least, any information provided to you in your initial property investment days, that you intend to rely upon heavily when making any key decisions, should be reconfirmed by yourself or an independent third party.

Developing the ability to research the property market and its trends, will stand you in great stead as you become a more experienced property investor, and as your need for professional advisors diminishes to some extent.



CHAPTER 13

IMPORTANCE OF PRE-PURCHASE PROPERTY INSPECTIONS



The property industry abounds with tales of woes regarding investors who have purchased properties sight unseen without at least having arranged building and pest inspections, as part of the buying process.

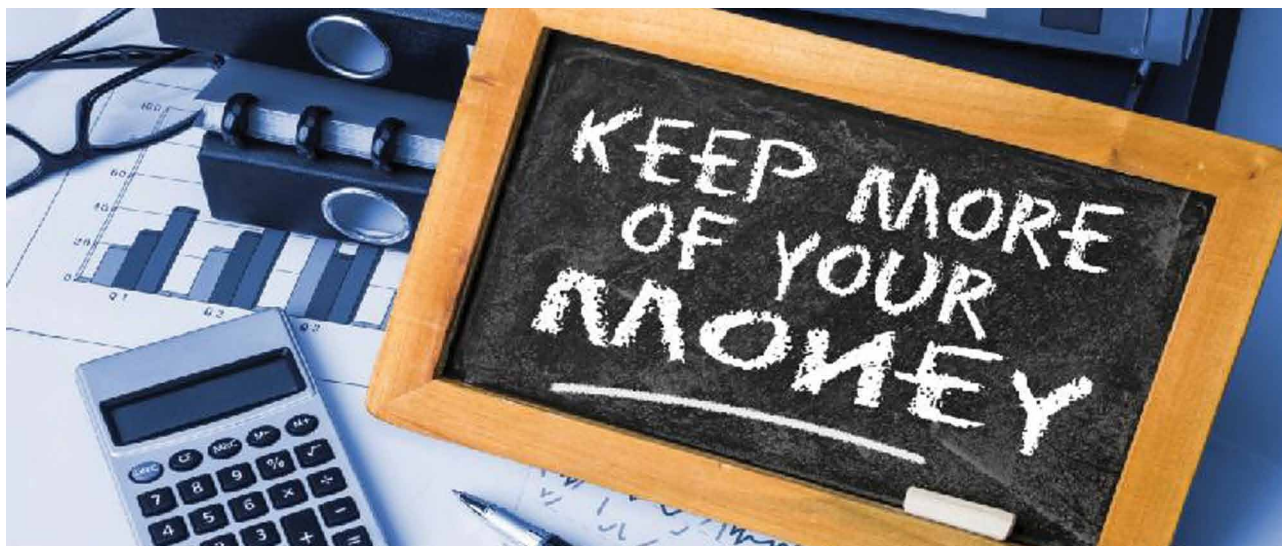
Don't become one of those investors who either willingly or unknowingly, waives what is an essential risk management item, especially given the amounts of money involved, and the high costs that can be involved in rectifying undisclosed problems.

If you are purchasing a property that is already tenanted, be particularly mindful that it is important to sight the original condition report of the property to determine how well the tenants are treating the property. This is important because you will be tied to these tenants until the lease expires (remember always that landlords with problem tenants do sell as a way of resolving their problem when other avenues have failed).

See also Section 15 >> Off the Plan Property Purchases

CHAPTER 14

IMPACT OF CAPITAL GAINS TAX, STAMP DUTY, AND LAND TAX



Federal and State Taxes and Duties directly impact on residential property investors and first time residential property investors need to be aware that while Federal Taxes such as Capital Gains Tax apply uniformly across Australia, State Taxes and Duties can vary from State to State both in application and rates applied.

The impact of the Federal Government's Capital Gains Tax comes into play at the time of selling an investment property and careful consideration of the timing of any sale needs to be completed to minimise the impact of this tax.

Stamp Duty applies to the purchase of residential property and is generally assessed on the basis of a rising percentage of the total purchase price. It is payable on the value of the land and any improvements thereon as at the date of signing the contract to purchase. Failing to allow for the stamp duty amount (which is payable upon settlement of the property purchase) in performing your calculations relating to the financial viability of any investment, is a mistake made by many new investors, and one which should be avoided at all costs given the amounts involved, which are not insignificant as property values continue to rise.

Do not accept as true, any amount provided to you during the sales process as being the actual amount of stamp duty payable or the amount of stamp duty savings to be made. The reason for this is that any Stamp Duty discount, off what would normally be paid on the full purchase price of the property, is calculated solely on the value of completed works undertaken on the property

after the date the contract of sale is signed through till the date of settlement.

In order to claim any stamp duty discount, a certificate from the builder or developer attesting to the value of completed building works in the relevant period must be provided to the relevant authority. It is important to note, especially where building works have commenced prior to the contract of sale being entered into, that the amount of discount to the normal stamp duty calculated by the relevant authority, after receiving the statement of the value of completed works as described above, can be far less than promoted, resulting in a significantly higher amount of stamp duty being payable than that which was promoted during the sale process.

Land tax is a tax levied by all State and Territory Governments (except the Northern Territory) and it can be a heavy burden if you do not adopt strategies to avoid it completely or at least minimise the amount payable.

Professional advice is recommended to ensure that you develop the best land tax minimising strategies for your personal circumstances.

Land tax is assessed on the accumulative value of all of the land (other than your principal place of residence) that you own in the relevant state. As the rates of land tax vary from State to State, and different exemptions and thresholds apply in each State, it is important that you research the tax laws for each State where you intend to invest in property.

CHAPTER 15

PURCHASING “OFF THE PLAN” APARTMENTS & “CONSTRUCTION HOUSE & LAND PACKAGES”



For the uninitiated, purchasing a property “Off the Plan” relates to entering into a contract to purchase a property for which a Plan of Subdivision of the original land holding or a building or buildings to be built upon the original land holding, has yet to be approved, thereby allowing new titles to be issued in order to facilitate eventual settlement of the purchase of a specified lot (allotment) on the proposed Plan of Subdivision.

In the case of an “Off the Plan” apartment or a “Construction house and land package”, sales can occur at any stage prior to titles being available following the approval of the Plan of Subdivision. This allows developers to market and sell their product before, during, or after the building works have been completed, but before the properties are titled.

There are numerous advantages and disadvantages in regards to purchasing a property “Off the Plan” or purchasing via “Construction House & Land Packages”. As a general guide the following are regarded as the main advantages and disadvantage of such purchases;

ADVANTAGES

- a) provides purchasers with an opportunity to obtain a property at the current market price on payment of a deposit (usually no more than 10% by law for “Off the Plan” apartment sales), with the majority of the purchase price being payable at settlement at some distant date after the property is completed and individual apartment titles are issued.
- b) provides purchasers with time to organise their finances and, if required, sell an existing property and avoid the need for bridging finance.

- c) provides purchasers the opportunity to obtain early purchase discounts when a builder or developer needs to achieve a certain volume of presales before the banks will finance construction.
- d) provides purchasers the opportunity to cherry pick the best apartments or house and land packages in a development before they go on general sale.
- e) provides purchasers the opportunity to achieve greater equity in the property by the time of settlement if the property market rises, as is often the case, during the normally long settlement period.
- f) provides the purchaser the opportunity to receive a discount on the stamp duty payable if the Contract of Sale is executed on a date that precedes the completion of construction of the relevant property.

DISADVANTAGES

- a) the proposed development may never proceed and the opportunity cost of such an event can be high for a first time property investor.
- b) the deposit is held for a long period where it cannot be used for other activities.
- c) the contract price may, by the time of settlement, actually be higher than the value of the property should property markets have moved in the wrong direction.
- d) the standard of completed works may be lower than the standard expected, all expected inclusions may not have been installed, or internal spaces may vary in size or positioning to that shown on plans.
- e) the often used “Subject to Finance” Clause in Contracts of Sale, is more often than not, not acceptable to developers selling “Off the Plan” due to their own need to have unconditional sales before they can be financed to commence construction.
- f) the lending institutions will not provide loan approvals that stay in force for the usual long time frames (especially with apartment construction) involved between the Contracts of Sale being entered into, and the actual settlement date (a date that is never known in advance of title issue despite an indicative date on the Contract of Sale), therefore a purchaser may have no guarantee that at the time of settlement, they will receive the necessary finance approval.

All “Off the Plan” contracts (especially for apartments) are extremely lengthy, contain many clauses written heavily in favour of the developer, can often omit clauses that reduce the element of risk for purchasers, and always contain terms that can have different legal meaning to the meanings often assumed by those not legally trained. You **MUST** fully understand the nature of the contract you will be entering into, and be absolutely clear on what you are bound to in terms of the performance of your side of the contract.

Providing advice on all of the complexities involved in purchasing properties “Off the Plan” is well beyond the scope of this guide, and it is highly recommended that you seek and obtain advice from reputable and experienced professional advisors, at every step of the process if you decide an “Off the Plan” purchase is right for you.

At the very least, you **MUST** always engage an experienced property lawyer to examine and provide detailed advice on every element of any proposed Contracts of Sale for an “Off the Plan” purchase, **BEFORE** you sign anything.

Prior to settling on your new purchase, you or your representative (such as inspection services) should **ALWAYS** inspect the completed property and it is advisable that you attend this inspection armed with a checklist of plans including dimensions, expected fixtures and fittings, and details of extra inclusions as per the



contract of sale. The purpose of this inspection is to ensure that the completed apartment has been delivered to the contract specifications and your reasonable expectations in terms of build quality and standard of finishing work.

If issues arise, it is far easier to address these with the vendor prior to settlement. If dissatisfied for any valid reason, you should immediately involve a legal practitioner, firstly to make sure you are clear on your rights in these situations, and secondly to act on your behalf in negotiating with the vendor’s legal team to resolve matters of concern.

CHAPTER 16

PURCHASING ESTABLISHED PROPERTIES



An established residential property can be a previously lived in property being sold as is, a property which was previously available for sale “Off the Plan” but which is now completed and titled, an existing property which has been renovated or renovated and extended for sale, or an existing property converted from another use to residential use.

Established properties can be purchased and settled far more quickly than “Off the Plan” properties, the Contracts of Sale are generally reasonably straight forward, finance approvals will generally still be valid if a purchase is made soon after an approval is obtained, and the valuations of the purchased property received by the lenders tend to have less variation between licenced property valuers, and offer a reasonable level of consistency with other recent purchase prices in the relevant area.

Established properties can be purchased by private treaty, by public auction, by expressions of interest campaigns, by closed deadline offer campaigns, and one or two less common means.

Usually, but not always, a Real Estate Agency will be engaged by the seller (vendor) to conduct a marketing campaign on their behalf, introduce interested parties to the property, and then negotiate the final offer price on behalf vendor or place the property on the market for public auction. Always remember that the real estate

agent is paid by the vendor to act on their behalf to obtain a sale at the best possible price, and they must act at all times, in the best interest of their vendor - not yours.

Occasionally, a solicitor will act on behalf of a vendor who has, through their own endeavours, located a purchaser for their property and negotiated a satisfactory price, but requires assistance to ensure the Contract of Sale is correctly completed and executed.

First time residential property investors seeking to buy an established property should, after deciding on the location(s) that have potential as good places to invest, inspect as many for sale properties as possible over a period of at least eight to ten weeks, and try to estimate the likely selling price of each property.

The purpose of this recommended activity is to inspect at least 100 properties prior to their sale, and then compare the eventual selling price to your estimates, and in doing so obtain a very good picture of current property values in the area you wish to buy. This is the best way to make sure you do not get caught in overpaying for a property, and also to ensure that you know a great opportunity when you see it, so that you can move quickly to secure any such property, before others also see the opportunity.



Prior to settling on any property purchase of an existing property, always exercise your legal right to conduct a final inspection of the property. Your lawyer or conveyancer will expect you to instruct them whether or not to proceed to settlement, after you have conducted your final inspection.

KEY FACTORS

You should take into account during your final inspection include;

- a) Ensuring that the property is in the same condition as inspected at the time of purchase
- b) Checking that all fixtures and fittings inspected at the time of purchase remain in place
- c) Making sure that all appliances that are considered fixtures are still in working order (test them, don't rely on the say so of the vendor or their estate agent)
- d) Confirming that any special conditions pertaining to the property as per the contract of sale have been met to your satisfaction
- e) Visually inspecting the landscaping to ensure that no in ground plants that were a feature of the garden areas have been completely removed or removed and replaced with inferior plantings (it pays to take photographs of the gardens of any property you make offers on at the time of making the offer so you have proof of this not uncommon activity by departing vendors who may or may not be aware of their legal obligations).
- f) If any issues arise during the final inspection, refer these immediately to your lawyer or conveyancer, and let them handle the issue in conjunction with the vendor's lawyer. It is prudent to avoid entering into negotiations directly with the vendor or their estate agent at this point of the sales process, without the involvement of your lawyer or conveyancer.

CHAPTER 17

TAKING ADVANTAGE OF GOVERNMENT INCENTIVES



From time to time both Federal and State Governments offer incentives to property investors to purchase certain types of property or properties in certain areas to meet government policy objectives.

Usually these incentives are quite attractive, but as with any Government initiatives there are always layers of complexity involved to protect all parties, and this fact often stops investors from seeing the true value on offer.

As a first time property investor, you should always find out what incentives are currently on offer at both the Federal and State level, and then do your best to wade through all of the available information to determine the true nature of what is actually on offer, the time frame in which the offer will remain available, and any conditions that apply to investors and you in particular.

Armed with this information, you should then determine if the incentive is worth pursuing as part of your overall property investment strategy, and if so, seek advice from a professional advisor with experience in assessing government property investment incentives, to confirm that your assessment is correct, before taking advantage of any government incentive on offer.

CHAPTER 18

CASH FLOW POSITIVE INVESTMENT PROPERTIES

Whilst a negative gearing strategy suits some investors better than others, investing in a cash flow positive property, is a much safer option for the first time residential property investor.

A cash flow positive property is one where the monthly rental obtained from the property exceeds the ongoing monthly costs of holding the property, meaning that the investor does not have to contribute money from other sources each month, to cover all of the relevant fixed ongoing costs.

Ideally a cash flow positive property will produce a small surplus each month, which can be saved towards a deposit on the purchase of an additional investment property in the future, after a good level of equity, has been built up in the initial property.

Cash flow positive properties need to be actively sought out, and a general rule of thumb in assessing whether or not a property will be cash flow positive, is to look at the amount you will need to borrow to settle the property after paying your deposit, and then consider the anticipated annual rental income, and if the annual rental figure exceeds 5% of the amount to be borrowed, it is likely that this property will be a cash flow positive property.

Ultimately, owning a number of cash flow positive properties, can provide sufficient income to comfortably retire on, and this is a key reason why investing in residential property is often preferred over investing in volatile share markets, where the entire value of a holding plus of course the associated income streams, can be decimated virtually over-night as many found during the 2007 Global Financial Crisis.

CHAPTER 19

CHOOSING THE RIGHT PROPERTY FOR YOU

Like most things in life, there are horses for courses, and the property that may be a good investment for you, may be the totally wrong property for someone else also looking for a good investment, and vice versa.

The key determinants of whether or not a property is right for you will depend on your investment strategy. Your investment strategy needs to be specific to your unique circumstances and risk profile, and you need to first develop your intended strategy **BEFORE** wading into the market to make your first purchase.

You may decide to invest primarily for capital gain or primarily for income, or for a combination of potential capital gains and an acceptable level of income. The decision you make will help determine the locations you will look to purchase in, the price ranges in which you will consider purchasing, the types of property you will consider buying, and whether you will purchase new or existing properties.

Your investment strategy will also need to take into account your ability to service any necessary borrowings,



and the time frame you have available to you to reap the benefits of investing in residential property.

The right property for you will be the one that satisfies the key elements of your carefully developed investment strategy, and that will position you to be able to consider the purchase of an additional investment property, sooner rather than later.

CHAPTER 20

PROFESSIONAL ADVISORS

As a first time residential property investor, you simply do not know how much you don't know about the property market and how it operates, and how complex the entire process of transacting real estate, can be at times.

Until you have had many years of experience, including years of utilising the services of professional advisors and having learned everything from them that you can along the way, it is foolish given the amounts of money involved, and the potential for bad mistakes to be made at any stage, to try to avoid engaging the services of professional advisors at every step of your initial property purchases.

Professional Advisors should be looked upon as a tax deductible investment in your future, rather than as an expense to be avoided at all costs. Ask any experienced and successful residential property investor, how valuable professional advice has been to them on their property investment journey, and the answer will usually be invaluable.

The key Professional Advisors involved in the investment property game are;

- a) Solicitors/Lawyers/Conveyancers
- b) Accountants
- c) Financial Planners
- d) Licenced Property Valuers
- e) Quantity Surveyors
- f) Real Estate Agents (including Buyer Agents)
- g) Mortgage Brokers
- h) Building and Pest Inspectors

It is beyond the scope of this E-Book to describe the roles each plays at various stages of a property purchase, but as a first time residential property investor you need to educate yourself on the roles each of these professionals play, and to determine at which stage it is appropriate to engage each particular professional.

CHAPTER 21

REAL ESTATE AGENTS



Although mentioned above under Professional Advisors, Real Estate Agents do not generally charge for advice they give to intending purchasers, the exception being the small number who act as Buyer Agents. The reason for this being that Real Estate Agents are usually acting on behalf of the seller of the properties they market to investors, and could be somewhat

conflicted, if providing advice to purchasers regarding specific properties they offer for sale in return for a fee.

They are however, great sources of general advice on the state of local markets, upcoming properties, development approvals in their area, rental demand in the foreseeable future, likely rental returns from different types, styles and sizes of properties, and much more.

As they play a central role in the residential property market, you will interact with many Real Estate Agents as you start out on your property investment journey. Estate agents come in all shapes, sizes and levels of experience and expertise, but generally fall into one of three categories; The Good, The Not So Good, and The Ones to Avoid.

As a first time residential property investor, you need to develop the skill of determining which category of agent you are dealing with, and then focus on doing the majority of your dealings with only those agents who fall into the first category.

CHAPTER 22

PROPERTY SEMINARS & PROPERTY SPRUIKERS

First time residential property investors generally have a strong thirst for knowledge, but often struggle to find the time to do all of the necessary research and preparation required, before being in a good position to proceed with the purchase of their first investment property.

If this describes you, then you need to be extra careful of the environment created in large scale property seminars you might attend and the level of influence that can be exerted on the inexperienced by professional property spruikers, who orchestrate these events for purposes not necessarily aligned to your best interests. These seminar organizations often own, or have a divested interest in the various additional advisory services, they direct you towards. In these circumstances, you will generally not receive true independent advice.

NEVER take your cheque book to such an event, NEVER commit to paying any form of deposit or signing anything of any nature at such an event, and even if you are tempted after the event to purchase any property promoted at one of these events, seek independent third party advice from legal, financial and real estate advisors BEFORE signing

anything. The key is the independence of the advisors and their experience and ability to check and verify any information you have been provided with by a seminar organisation.

Remember always, that the price of impatience can be a lifetime of regret.



CHAPTER 23

THE PROPERTY PURCHASING PROCESS

Once you have found a property that meets the requirements of your investment strategy you will need to enter into the process of acquiring the property from the vendor. This process is known as the purchasing process, and the process will vary depending upon the method of sale adopted by the vendor and their Estate Agent (if applicable).

In respect to a property being sold by auction, a preferred method of sale in some areas because of the short time frame provided to intending purchasers, and the fact that an unconditional contract is concluded on the day of the auction on the vendors terms and conditions, you need to be prepared well in advance of the auction date.

At the very least, you should have obtained a copy of the Vendors Statement and the Auction Contract of Sale and had these critical documents examined by your legal advisor, arranged pre-approval of your finance and established your upper bidding limit with your mortgage provider or mortgage broker, and have arranged and conducted building and pest inspections so you know exactly what you will be purchasing, if you are the successful bidder. Keeping in mind some properties sell via auction so as to hide property issues and create an unconditional agreement with a purchaser.

Should you be successful at the auction, you will be required to immediately enter into a binding, unconditional, Contract of Sale and pay an immediate deposit of 10% of the selling price (cash or cheque only). You will then be obligated to pay the balance of the selling price on the settlement date indicated in the contract. Failure to settle on the due date could or will see you in breach of the contract, and this may see you forfeit the deposit paid and possibly be liable for additional losses suffered by the vendor, if the property is subsequently sold for less than the original sale price.

If you do intend to bid at an auction to purchase your first investment property, it is critical that prior to bidding you have a very good knowledge of local property values, you set and stick to a pre-set bidding limit, and if you are prone to getting carried away with your emotions, have a more level-headed person bid for you on the day.



In respect to private sales, sometimes known as private treaty sales, an investor has the opportunity to negotiate all aspects of the sale from price through to settlement terms, can request any number of special conditions to be inserted into the Contract of Sale, and can make the contract subject to a range of items such as finance approval, building inspections, and pest inspections.

Depending on the level of demand for the property, and how close the vendor's price expectations are to market expectation of the value of the property, the time frame that the property will be available for sale will vary. Sometimes it is necessary to move quickly to secure a property, and in these circumstances it is important to involve your legal advisor as early as possible in the process, for advice relating to the Contract of Sale itself and any special conditions or subject to items that you wish to include.

Should you feel the need to immediately move to secure a property without first consulting your professional advisors, make sure you are fully aware of the cooling off provisions applicable in your State to Real Estate Contracts of Sale, and ensure you get the necessary advice immediately after signing the contract so that you can take advantage of the cooling off period, should it be necessary to extract yourself from the sale.

CHAPTER 24

LEGAL DOCUMENTS

As a first time residential property investor, you may be somewhat surprised in respect to the amount of legal documents that you will be signing, in order to purchase an investment property. It is important that you fully understand the nature of each of the contracts you will enter into, and until you are very experienced in this area, always involve your professional advisors before signing anything.

The key legal documents you may be required to sign include;

- a) Disclosure/Contracts of Sale
- b) Early Release of Deposit Forms
- c) Mortgage Application Forms
- d) Mortgage Documents
- e) Land/Title Transfer Forms
- f) Stamp Duty Declarations

Once having completed your purchase, and being in receipt of your Copy of Title to the relevant property, it is highly advisable to arrange for the safe and secure storage of the actual property title. Many legal advisors offer a title storage service and if this is not available, a safe deposit box in a bank is a good option.



CHAPTER 25

UTILISING HOME EQUITY TO FUND A DEPOSIT

Home equity is the difference between the value of your home and how much you still owe the bank on your mortgage. So if your home is worth \$800,000 and you owe \$460,000, you have \$340,000 in home equity.

Providing your equity is sufficiently in excess of the amount you require to cover the deposit and set up costs of the new property (stamp duty, legal fees and the like), most banks will allow you to access the equity needed, as a top-up loan or line of credit against your home.

Property investors generally want to combine the benefits of using none of their own savings along with the tax minimisation advantages of buying an investment property. Releasing equity from your home in a structured way, allows you to keep your savings in the bank and reduce the risk of overcommitting.

Funding everything bar the settlement amount from home equity, will leave you free to negotiate an investment loan for the balance, completely separate to your home loan, and even with an alternative lender.

This approach is preferable, for many reasons, to linking both your home and the investment property together as security under a single principal and interest loan for both

properties, with the one lender.

If you have good equity in your home, it is highly advisable to speak to your financial planner to obtain a full explanation of the benefits of this approach.



CHAPTER 26

FUNDING A PROPERTY SETTLEMENT



If you have used home equity as above, to meet the costs of the deposit plus stamp duty and legal and other associated costs, you will only need to fund the balance owing on the sale price of the property.

If your deposit was paid from your own reserves, as an investor it is advisable to fund both the balance of the purchase price plus all other associated costs due at settlement from borrowings.

In general, the majority of investors choose shorter term (10 to 15 years) interest only loans as the primary method of financing their investment property purchases. The alternative is to arrange a principal and interest loan over a longer period (25 to 30 Years), but if you might be tempted to take this approach, it is recommended that you seek advice from relevant professional advisors, before committing to this method of funding.

CHAPTER 27

PROFESSIONAL PROPERTY MANAGEMENT



As a first time residential property investor, you may be tempted to save money by finding your own tenant, and self-managing your new investment property.

It is highly recommended that you don't go down this path, unless you already have significant experience in property management, and possess a well-developed understanding of all of the legal aspects of residential tenancy arrangements, and the workings of various tribunals.

Remember that managing a property can be taxing (both time and energy wise) and that all of the costs associated with professional property management are tax deductible. Also be aware that estate agents will provide annual taxation statements relating to your investment

property, a service that your accountant will thank you for come tax time.

Your best course of action, in relation to the management of your investment property, is to take care in the choice of the estate agent you appoint to manage it.

Interview several, ask to meet the actual property manager who will be charged with managing your property, determine exactly what fees will be charged and what will be provided for the fees proposed (usually management fees and letting fees plus occasionally statement fees), determine their policy and practices in respect to showing prospective tenants the property, regular inspections during tenancies, key security, condition reports, bond lodgements and bond refunds, handling late payers, authorised repair amounts where approval is not sought, and most importantly the frequency of methods of communication with landlords. Always keep in mind that cheapest is usually far from the best when it comes to rental property management,

and in most locations there will be one or two standout real estate agents who capture most of the better quality investment properties for their portfolios, and who have strong and sizeable property management teams with limited turnover of staff.

These are the agents you should ensure that you approach during your quest for property management services.



CHAPTER 28

LEGAL RIGHTS AND OBLIGATIONS AS A LANDLORD



If you have followed the advice in the previous section, and engaged the services of a real estate business to manage your investment property, you will most likely be provided with a document outlining your rights and obligations as a landlord, as well as a document outlining the rights and obligations of your tenants.

These documents will be specific to the State or Territory where the investment property is located, and you need to be aware that these differ from State to State.

If these are not provided by the Real Estate Agent, or you decide to self-manage your investment property, you can search online for “landlord’s rights” and “tenant’s rights” in the State where your property is located, and these searches will provide a basic level of information.

It is advisable that you then do further research of Government websites to locate and download the relevant guides that they produce regularly to ensure that the correct legal information is available to both landlords and tenants.

As the rights of both Landlords and Tenants are specifically prescribed in legislation or regulations, and as these may change from State to State or Territory, it is prudent to be fully aware of your obligations and check carefully that any action you may propose to take in relation to your investment property or your tenants occupation of the property, does not place you in breach of the relevant legislation or regulations.

Your professional advisors should always be engaged for advice or representation if a dispute arises in respect breaches of any tenancy laws, or you are not sure that you are fully aware of your rights and obligations, in any particular situation.

CHAPTER 29

RISK MANAGEMENT/INSURANCES

As property investment represents a substantial commitment of funds into an asset that will hopefully appreciate considerably over time, it is vital that you effectively manage the risks associated with owning, and leasing out to others, an investment property.

The key risks to be managed are;

- a) Damage to the Building
- b) Damage to Fixtures and Fittings
- c) Loss of Rent
- d) Injury to any Person
- e) Breaches of Tenants Rights
- f) Non-Compliance with Legislative Provisions

The first risk can be covered by appropriate building insurance which you should have in effect on the day of settlement at the latest, although it can be prudent to put insurance in place from the date of purchase for a number of reasons. The insurance should be for full replacement cost of the building. You may need to seek professional advice to determine the correct figure that you should insure to ensure you don't under or over insure.

The second and third risk (and sometimes the fourth risk) can be covered by Landlord's Insurance, an insurance that is strong recommended to take out as soon as you are able, but definitely prior to the first tenancy commencing. This insurance is commonly referred to as a property investor's peace of mind, and it provides excellent protection for property investors against losses that can quickly mount up.

The fourth risk, if not covered by Landlords Insurance, will require you to take out a Public Liability Insurance Policy which thankfully is included in virtually all building and/or contents insurance packages. You need to verify this point to make sure this insurance is definitely included in your policy. This is important as the Australian courts have awarded many high damage settlements to people injured in accidents on rented premises. A property investor would be extremely unwise to neglect taking out this insurance.

The most effective way to manage the remaining risks is to appoint an experienced and professional property management team in a local real estate agency, to manage the property and its tenants on your behalf. As they are covered by professional indemnity insurance, you can claim against their insurance if they fail to effectively manage these risks on your behalf.



CHAPTER 30

CONCLUSION

We trust that the advice provided in this E-book is helpful to you as a first time residential property investor. It is not possible, in a guide of this nature, to cover every aspect of residential property investing, but if you have further questions about any aspect of purchasing your first investment property, please send us an e-mail at Info@BuildWealthwithProperty.com.au and provide your relevant contact details so that we are able to effectively respond to your request.





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