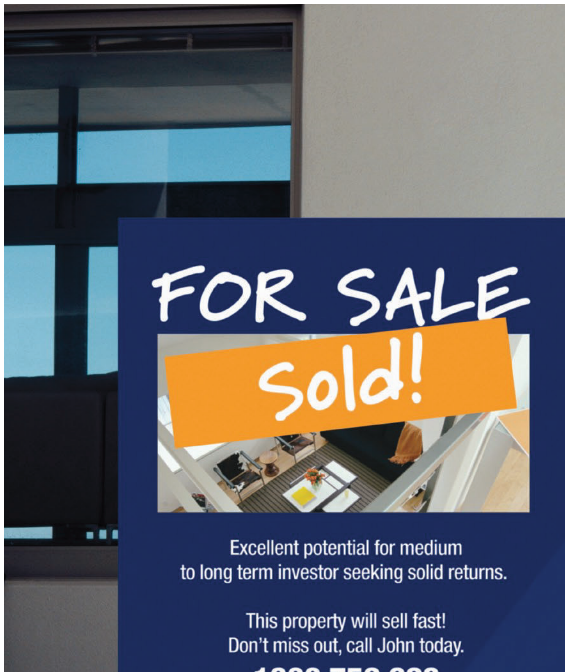
Investing in Your Future

Your Guide to Property Investment



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Welcome

Property has long been an attractive choice for Australian investors – and for very good reason.

While markets will fluctuate depending on geographic location, property in Australia on average doubles every eight to twelve years.

Investors that do their research, have a good understanding of their goals and take a long term approach will therefore usually realise good results from investing in property.

But it is not just the opportunity for capital growth that makes property a sound investment for the long term.

The opportunity to leverage your investment is one of the most compelling arguments in favour of buying property – no matter where we are in the market cycle.

By borrowing the bulk of a property's purchase price, property investors can achieve returns over the long haul that can far outstrip those offered by the share market or other asset classes.

I hope you enjoy *Investing in Your Future – Your Guide to Property Investment* and use it to make smarter property investment decisions.

Sincerely,

Phillip Tarrant

Editor

Good reasons to invest in property

Investing in property is a sound investment strategy for Australians that are focused, educated and proactive.

Property investment has long been a favourite with Australians and with good reason. Over the generations and numerous market cycles it has delivered solid returns and created lasting wealth for hundreds of thousands of everyday people.

Property investment is not as complex as investments such as stocks and shares, bonds or other financial products. The investment principles involved in property are also relatively simple and, with the right approach, realistic objectives and plenty of groundwork, the risks are comparatively low.

Choose your investment

In a time of increasing volatility in global share markets, there is significant appeal in sinking your hard earned funds into a stable investment.

Residential property is widely regarded as a solid and reliable asset class – but don't confuse a low risk investment with low returns. With the right structure and approach, property can deliver very attractive returns to investors over the long term.

So why exactly can property deliver the investor's Holy Grail of sound return on investment for the minimum risk?

One of the biggest appeals of property investment is the opportunity to leverage. Put simply, leverage means the ability to borrow money to increase your buying power and through this maximise your returns.

Most banks and other lenders will allow you to borrow up to 80 per cent of the value of an investment property and this can create incredible potential to generate significant returns on the 20 per cent that you contribute to a property purchase.

A quick calculation highlights just how effective this can be: An investment property bought for $300,000 would require a $60,000 deposit while the lender would provide a $240,000 loan – assuming the borrower was able to service the repayments.

Stamp duty, legal costs and other buying expenses can vary, but let's say they come to $20,000 for this scenario.

Let's assume that the property grew in value at a modest rate – say 5 per cent each year. So after 12 months the property would be worth $315,000, after 2 years $330,750 and after 3 years $347,287, 4 years 364,651, 5 years 382,883.

Let's assume that the property was sold after 5 years for $382,883. If the investor took out an interest only loan, the original $240,000 would still be owed to the lender.

For the sake of simplicity, let's assume agents fees and other selling expense came to $12,883 – that would leave $370,000.

Take away the $240,000 loan, initial $60,000 deposit and $20,000 expenses, and would deliver a gross profit of $50,000 less capital gains tax.

This is just a rough estimate, however it does illustrate the true potential investors have to maximise returns with the backing of a lender.

Research essential for good returns

While it is impossible to guarantee that property will go up in value year on year, historically on average Australian property has doubled in value every 8 to 12 years. Imagine, then, the potential to create wealth if an investment property was held for 20, 30 or 40 years?

It is easy to see the opportunities for significant capital gains but there is another equally compelling attraction to owning investment property: the potential for cash flow.

All the time that your investment property is quietly growing in value your tenants will be paying off your mortgage. While there may be a shortfall in the first few years, over time as the rental value increases, this shortfall should turn into a steady stream of income.

Rental values have also generally tracked upwards and so there is a very good chance that your investment property will also deliver rising income over the years.

And once the rental returns outweigh the mortgage repayments, the extra funds can be channeled back into the loan to help drive down the principal sum. While this may take some years, the result will be an income generating asset that is essentially index linked.

Of course, there may be times when the property is not rented – you should therefore have funds available to cover this possibility.

Know what you want

One of the fundamentals of success in property investment is to understand your objectives before you make a purchase.

And the first golden rule of investment is to be realistic.

If you expect to see your investment double in value in just a few years, you are likely to be disappointed. True, some properties can appreciate in value very quickly but this is the exception rather than the norm. And considering the current flat market in many locations across Australia, it might be unrealistic.

It is also important to remember that property is not a liquid asset – your money is tied up and can't be released quickly. It is for this reason that it is prudent to take a minimum of a three to five year view if selling the property for a profit is your goal.

Also, your return will depend on where the property is located – this includes access to transport, infrastructure, schools, hospitals and entertainment.

It is therefore essential to research an area thoroughly before you make a commitment. But an investment property in a good location that has been bought at or below market value is likely to deliver the richest returns if held for the long term.

Whether you're looking for a nest egg for retirement, a boost to your income further down the track or simply improving your financial position, property investment is a tried and trusted option for Australians of all walks of life.

> *With the right structure and approach, property can deliver very attractive returns over the long term.*

Planning your investment

Key to establishing your investment strategy is deciding whether you're seeking cash flow or capital growth.

Property ownership is close to the hearts of most Australians and so it's easy to understand why so many people consider property as a sound investment.

The beauty of property investment is its simplicity, however to achieve the greatest success with your investment strategy you need to be sure of your objectives from the outset.

If there is one trap that new investors fall into, it is not having a clear outline of their investment goals.

Set your sights

Goal setting is critical in property investment as it ultimately determines some of the subtleties of your approach when it comes to buying and managing your property/s.

While ultimately all investors are looking for the best possible return on their investment there are different ways that this can be achieved.

In simple terms, investors generally fall into two camps: short term and long term.

Short term investors are generally seeking the biggest possible return on their investment, which they will realise when they sell.

A short term strategy may involve finding property that is undervalued so that there is the greatest potential for capital growth. This could include buying property with the potential to add value through renovation, building a granny flat, a sub-division and development or just targeting a suburb that has sound potential for price growth.

Investors with a short term strategy are usually looking for the maximum possible capital gain in a set timeframe, where they may seek to sell or to refinance the property to release some of the increased equity.

Looking for liquidity?

With a focus on capital growth some investors may have less of a focus on the cash-flow – or rental value – that their property generates.

When it comes to a long term strategy, cash flow is a much bigger consideration because it is this that will ultimately drive the return for investors if the goal is not to sell the property for a profit.

Long term investors may have a far greater focus on the rental value that their property can generate, with the ultimate goal being a cash positive investment – or a property where the rental covers the mortgage repayments.

Over the years, as the rental increases, the rent can be channeled back in to the property which will eventually drive down the mortgage, leaving the investor with a property that delivers a monthly income.

Ultimately, it is possible for investors to achieve both capital growth and cash flow however this is by no means assured. Investors that know their strategy from the outset and stick to their game plan have the greatest chance of achieving their goals – be them short or long term.

Determining your borrowing capacity

The first step in successful property investment is to understand your financial position and borrowing capacity.

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Generally, however, first home buyers, vacant land holders, and farm buyers may be entitled to some exemption or discount on stamp duty. So it pays to check out whether any apply to you through contacting the revenue office in your state or territory.

Investors need to have a clear understanding of what their goals are before plunging into the property market if they are to maximise their chances of success.

This will include determining if the goal is capital gain or generating cash flow, if it is a long term or short term strategy, and what kind of financing is required.

One of the biggest attractions of investing in property is the ability to borrow sizeable chunks of money to fund your purchase.

Turn to the experts

Even in the most affordable markets, property prices generally run in to hundreds of thousands of dollars – and for that reason purchasing property outright would be out of the question for most of us.

But because property is widely regarded as a stable investment, banks and other lenders are willing to lend up to 80 per cent of the purchase price – or in some cases more.

Making any investment requires diligence but when you're taking on debt, to help maximise your returns it is essential that you understand your true borrowing capabilities – or to be more precise, your true repayment capabilities.

So just what are your financing options when it comes to buying investment property?

The first consideration should be to engage a mortgage broker. Not only can we help you through the mortgage selection and application process, we are also perfectly positioned to help you assess how much you can – or should – borrow.

One of the key reasons why a broker's support can be so valuable is because there can be a big difference between what you can borrow and what you can actually afford to borrow in order to service a loan on an investment property.

> *There can be a big difference between what you can borrow and what you can actually afford.*

Financing your investment

When it comes to financing an investment property, it is essential that you talk to an accountant about the most tax effective way to borrow. However, there are a number of areas you should start thinking about.

If you're an existing home owner you may well have a head start when it comes to cracking the investment market. If your home has appreciated in value since it was first purchased there's a good chance that you'll be able to tap into some of that equity to put down as a deposit on an investment.

Tapping into equity essentially means borrowing against the increased value of your home. This enables you to access the revenue that has built up in your property over time without having to sell.

But what if you're looking to make your first foray in to the market? There's a lot to be said for making your first purchase an investment and it's a step that plenty of Australians take.

One of the biggest hurdles to overcome when planning an investment property as your first purchase is stumping up a deposit. While it's possible to borrow a significant amount of the purchase price, you'll still need some savings or help from a family member or a benefactor.

If you're relying on your hard earned savings to get you that first step on the property ladder the good news is that you may be able to borrow up to 95 per cent of the value of a property thanks to Lenders Mortgage Insurance (or LMI).

LMI is a onetime premium that protects lenders against a loss should a borrower default on their home loan.

If the security property is required to be sold as a result of the default, the net proceeds of the sale may not always cover the full balance outstanding on the loan. Should this be the case, the lender is entitled to make an insurance claim for the reimbursement of any shortfall.

The cost of LMI is dependent on the size and percentage of the loan however it is likely to be thousands rather than hundreds of dollars. The good news for borrowers is that cost of LMI can often be included into the amount borrowed, reducing the upfront costs for the borrower. This is called capitalising your LMI.

First time buyers have other options as well as LMI to consider. It is also possible to use a guarantor to help pave the way to a first purchase. A guarantor essentially shoulders some of the responsibility of making a purchase. This may involve taking out a second mortgage on an existing property to provide a deposit for first time buyers that have sufficient income to service a loan but don't have a deposit.

In many instances a guarantor can mean that the cost of LMI is avoided, but it is essential that both the borrower and the guarantor are aware of their responsibilities before making any commitment.

Time to get realistic

So there are options to both existing home owners and first time buyers when it comes to raising a deposit for an investment property, but how should you assess your borrowing capability?

> *Your budget will determine your buying power and the type of property you should be looking for.*

The good news for investors is that in most instances you'll have rental income from your property to help you meet your mortgage repayments, and this will be taken into consideration by the lender when it comes to taking out a loan.

What will ultimately determine how much you should borrow is what you can afford to repay every month on your mortgage – and this is a key factor when it comes to a lender's assessment of your financial position.

It is essential that you decide what you can afford to repay before you apply for a loan because in many cases a lender will tell you the maximum that they will lend based on the data you provide them. While it is good to know what your maximum borrowing capacity is, this figure may well be higher than an amount that you're comfortable committing to.

The first place to start is to assess how much disposable income you have available each month as there may be a shortfall between the net rent generated by your investment and the amount you need to repay to your mortgage.

You should then discuss your situation with us, your broker, as we are well positioned to assess your own estimates as well as outlining what different lenders are prepared to offer. Based on your lifestyle choices, the sacrifices you are prepared to make, and your overall objectives, we will be able to help you decide how much you can afford to borrow.

Investment property is well within the reach of most Australians. With the right strategy, advice and finance in place, investing in bricks and mortar can be a stable investment.

Determining your buying strategy

Before you jump into any property purchase, you need to have a good grasp of your goals, strategy and the eventual outcome you're seeking.

So you've decided to invest in property and you've got your pre-approval from your lender – but where to from here?

Before ploughing in to the market, it's essential that you have a clear buying strategy in place.

And the reason for this is simple: there are so many different options when it comes to property that without a firm idea of what you're looking for you may well end up buying something that ultimately doesn't suit your unique investment needs.

Establish your goals

The first and foremost consideration to establish is your investment goals as these will ultimately determine what you buy and where.

Much of this will centre on whether you are looking for a long term investment or a short term play in the market to realise a capital gain after a few years; but there are other considerations that could influence your strategy.

First, you'll need to decide if you're looking for a diamond in the rough or a low maintenance investment.

There's a lot to say for a fixer-upper in terms of the potential to add value through renovation, but there are also potential pitfalls. If you're not a born handyperson you may find assessing the degree – and cost – of required renovations a challenge, and this could mean expenses spiral if you have to draft in tradespeople for all the work.

Alternatively, while a property that's brand new or in pristine condition may rent quickly, there may be less scope to snap up a bargain. However on the flip side there is less risk that you could be lumbered with a lemon.

Search near or far?

Aside from the age and state of repair of your prospective investment you need to consider whether you're looking to buy locally or if you're seeking opportunities further afield.

Again there are pros and cons with buying closer to home. While you are likely to have a good feel for property values and the scope for growth in suburbs you're familiar with, you may be limited by the stock that's on the market.

With significant price differences in property in different states and metro locations, some investors look to capitalise on opportunities that are outside of their immediate geographic area. For example, an average Sydney three bedroom house may cost around the $500,000 mark, a similar property may cost half that sum in a regional New South Wales or Victorian town.

For investors that are either limited by their deposit or who want a better bang for their buck, targeting cheaper areas can be an astute strategy. The downside with this approach is that you may need to put greater trust in dealing with agents that you have never met face to face and you are likely to have to bring in someone to manage the property for you when it comes to finding tenants.

Which type of property?

When you've decided on a location you'll also need to consider what type of property you want to invest in. As a rule of thumb, land generally becomes more expensive the closer you get to the city centre. This may mean that investors looking to snap up property close to the CBD may opt for a unit rather than a house on its own block.

There is a general perception that there is greater value in the long run in buying property that has land, but this is increasingly becoming dismissed.

Units are now a popular option for a growing number of Australians that want to live close to the city and this can equal good rental returns as well as scope for capital growth.

If you're considering investing in a unit just be sure to gain a clear picture of the levels of supply in your chosen area because if there's a glut you may find it harder to achieve a good rental return.

The golden rule with property investment – regardless of what type of property you choose – is do your research and look carefully at the location. Remember, property with good rail and road connections plus is close to the shops, schools and other amenities is likely to perform well over the long term – as long as you've done your homework and you've bought at or below current market value.

Researching the market

The level of research conducted prior to buying a property can have a major impact on the returns you see from your investment.

Whether this is a first foray into property investment or you're looking to add to your portfolio, your buying decisions should always be based on sound market research.

There is potential for investors to build wealth through owning property. Bricks and mortar have delivered solid returns to Australians for many years and it is an investment vehicle that is accessible to people from all walks of life.

But as with any investment opportunity, there are good property buys and bad ones. To ensure you achieve the best possible returns from your investment it's essential that you do your homework before you buy.

Tools at hand

The good news is that there are considerable resources at your fingertips, so put them to good use.

One of the most effective research tools is the internet. With the help of a host of online listing sites, investors can conduct extensive research of properties in their area of interest. Not only will this give you a good feel for prices in your segment of the market, it can also help indicate how quickly properties are selling and how close to the asking price they are selling for.

To support online research it's also important to hit the road and visit as many open houses as possible.

While the internet will give a good feel for property prices, it is often hard to determine what a property is really like from an estate agent's promotional material and photos.

It is therefore essential to back up online research with plenty of property inspections to get a true feel for exactly what's on the market in your price bracket.

But understanding property price movements is not the only angle you should take in your research.

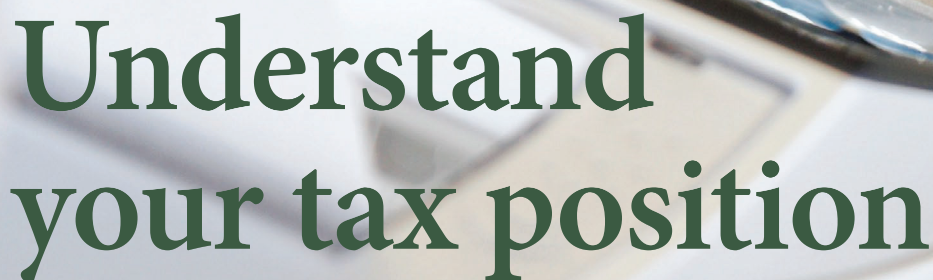
Dig deep

Because you're looking to rent out your investment property you should have a clear picture on the supply and demand of rental properties in your chosen location.

The amount of rental property on the market is critical in determining how quickly you will be able to find tenants as well as the potential for rental returns. An oversupply could mean that your investment property sits vacant and this can have severe financial consequences if you are relying on rental income to cover mortgage repayments.

One of the easiest ways of determining the potential for rental income is to call local agents to find out what properties are renting quickly and which ones are less desirable.

But above all, make sure that you give yourself plenty of time to do your homework. Good investment opportunities arise all the time; if you miss out on one, another is sure to arise sometime soon. So don't be in too much of a hurry.



Understand your tax position

As well as capital growth and cash flow benefits, property investment may help improve your overall tax position.

Property is not just one of the safest investments open to Australians, it can also be tax effective.

The attraction of investment property is the potential for everyday Australians to build long term wealth through a stable investment vehicle. The ability to borrow a significant proportion of the property value not only helps investors get into the market, it also offers excellent potential to maximise returns on their investment.

But the capacity to borrow can also offer investors tax benefits depending on the structure of their property finance, their income and the type of property they invest in.

Owning an investment property can be viewed in a similar light to owning a business.

If the investment property turns a profit – or if the net rental income exceeds the mortgage repayments – the owner will be taxed on the proceeds. However, should the investment property run at a loss over the financial year the owner could offset that loss against other income, reducing the tax you pay.

Investment overheads

An investment property can incur a number of overheads and these can be offset against the income generated by the rent. This can include the interest charged on an investment loan, depreciation, insurance, management fees and a number of other costs associated with property ownership.

Combined, these overheads and expenses can mean that an investment property generates a net loss and you may be able to offset this against other income.

This situation is referred to as 'negative gearing'. Some investors may need to look at a negatively geared property because they are limited by the size of their deposit, while others may choose to run their property at a loss for tax purposes.

While there are some distinct tax benefits associated with investment property would-be buyers should also be aware of their tax liabilities.

Unlike your own home, investment property that is sold for a profit will incur Capital Gains Tax (CGT) and so this should be taken into consideration when assessing the potential net returns from a sale as well as creating your overall property investment strategy.

Understanding your entitlements – and responsibilities – when it comes to tax is essential before you purchase investment property. Make sure that you talk to your accountant or a qualified tax adviser before buying any investment property. I'd be happy to recommend relevant professionals that can assist you in this regards.

Unlocking equity for investment

Existing home owners have a distinct advantage over first time buyers when it comes to breaking into property investment.

One of the biggest hurdles to buying property is raising a deposit, but existing home owners may be able to sidestep this obstacle when it comes to purchasing investment property.

Depending on how long you've owned your own home and how much it has increased in value over the years, there's a good chance that you could have the deposit for your first investment property already locked away in equity in your home.

Equity refers to difference between the value of your property and what you owe. As the value of your property rises over the years – and your loan decreases – the amount of equity will grow.

The good news for home owners is that this equity can be released without having to sell your property.

You may be able to refinance your property at the current higher value, opening up additional funds which could be used as a down payment on an investment property – potentially saving years of saving for a deposit.

It's important to note that you are effectively borrowing the deposit for your investment property against your own home and this will increase your mortgage repayments. The interest you'll be paying on the additional loan will be at your mortgage rate – which is likely to be lower than most other loans.

One of the biggest advantages for buyers who take advantage of releasing equity to invest is that you may be able to tap into the investment market years earlier than you could if you had to wait to save a deposit. That means that you could move quickly to capitalise on current market opportunities and it could also save you money in the long run. If you have to wait several years to raise a deposit there's every chance that property prices could rise further – meaning an even bigger contribution out of your own pocket.

Property investment is a trusted wealth building tool for hundreds of thousands of Australians. Make sure that you talk to us to assess what you can comfortably afford to borrow and the type of loan that suits your needs before considering any property investment.

> *You may be able to realise your investment goals by putting your current property to work for you.*

Financing your investment

Understand your investment strategy to ensure you secure the right financing.

Australians the nation over view property as a safe and secure way to create wealth – and for very good reason.

Over the long term property typically delivers sounds capital growth, and if you do your research and buy well, investors can usually realise good rental yields to offset mortgage repayments and other holding costs.

While location, property type and price are all important factors in successful property investing, securing finance is absolutely essential – and can sometimes be a hurdle for some investors.

Investors often fall into the trap of thinking that the cheapest loan is often the best – but this necessary isn't the case.

With some solid knowledge of the products available backed with our assistance, as your mortgage broker, investors can navigate the often complex path to finance their investment property.

Know your goals

So how do you go about securing finance for your investment property? First and foremost, you need to know your goals.

This will be one of the first questions we will ask you when assessing your borrowing capabilities and overall investment prospects. Before you speak to us, ask yourself:

- What is my overall investment strategy – for example, am I looking to buy and hold or buy, renovate and sell?
- What are my short, medium, and long term investment goals – for example, are you seeking to create long term wealth for retirement or generate cash flow to finance a better standard of living?

Your overall strategy and investment goals will need to be clearly defined as this will have a significant impact on how you fund your investment.

It is important to determine whether your primary objective is to generate cash flow or build capital growth over a prolonged period of time – as this will ultimately narrow down your selection. While both are achievable – and the Holy Grail for property investors – finance should be entered into with a solid strategy in place.

Finding the loan for you

Home buyers that plan to live in their properties typically look to pay off their mortgage as quickly as possible, which means a principal and interest loan. The principal component is the amount borrowed; the lender then charges interest for the duration of the loan. The quicker the principal is paid, the less interest charged over the duration of the loan.

An interest only loan, however, minimises the investor's monthly outlay as they are just paying off the interest component of a loan rather than the principal amount. This may free up cash flow and maximise tax efficiency.

The type of loan you choose to finance your investment will need to suit your personal circumstances and overall goals. In determining the loan most suitable for you your broker will consider your current commitments and earning capacity matched with your long term investing strategy.

Using your home equity for investment

Using the equity in your current home can help finance your property investment.

If you already own your home, you should have witnessed over time the amount owing on your mortgage fall and the value of your property grow.

However you may not be aware that the accumulated value that has built up in your property over the years can be used to help finance an investment property.

Tapping into the equity that's built up in your home can be an effective way to achieve your investment goals sooner.

This involves using the accumulated value of your property as a deposit for your investment property.

An additional investment loan is often used in conjunction with an equity loan depending on the total value of your equity, or how much you are will to withdraw.

However, consultation with a mortgage broker and other professionals is recommended prior to making any investment decisions. Please see page 9 for more information on unlocking equity.

Investing through co-ownership

Hit the property market running in partnership with family and friends.

Property investment has been a wealth building strategy for many Australians, however raising the 20 per cent deposit often required by lenders takes time and can stretch your budget.

That is why an increasing number of investors are joining forces with other would-be investors to double their deposit and break into the property market through co-ownership.

While co-ownership can be an effective investing strategy, there are many issues that you'll need to consider.

Deposit, stamp duty, land taxes, conveyancing costs and maintenance fees can essentially be halved when buying with a partner.

However, it is crucial to pick your partner carefully – ensure they are trustworthy and importantly have the financial capability to meet their mortgage requirements.

Before you enter into a co-ownership agreement you need to establish how long the property will be held for and under what conditions the property is sold, among other concerns. This is usually outlined in a co-ownership agreement.

Finally, be sure you organise a meeting with us between all concerned parties to explore funding opportunities as well as possible constraints.

Seek assistance

It can extremely difficult to keep up to date with all the latest products available on the market, and many investors no doubt feel bewildered by the choice available.

Banks regularly update offerings, slash rates, and release new products in order to remain competitive. There are literally thousands of mortgage products in the market today and selecting which one best suits your needs can be daunting for even the most seasoned investor.

This is where a mortgage broker, like us, can be such an essential element to any property investment.

We will take you through the various loans that may suit your needs. They may use terms like interest only or principal and interest. But what does it all mean?

Line of credit mortgages

A line of credit can be an effective tool for driving down your investment property mortgage.

Line of credit is essentially an interest only loan that gives you cash flow flexibility while also help you to pay down your principal debt.

- Borrowers pay as little or as much toward the principal each month so long as the required interest repayments are made.
- The loan is usually linked with a credit card that has an interest free period, which can allow the borrower to drive down the outstanding balance on the loan by paying their income directly into the loan balance.
- Interest rates are generally variable and tend to be more costly than the standard rate.
- Diligent investors will often use a line of credit in conjunction with an aggressive mortgage reduction strategy.
- Borrowers who combine tight budgeting with effective use of the credit card facility can repay their mortgage years ahead of schedule.

Interest only or P&I

An investor's needs and objectives will determine the right loan structure.

One of the key decisions investors will need to make is whether to choose an interest only or principal and interest loan.

Interest only loan – Most investors looking to maximise their cash flow often opt for an interest only loan, usually for a period of up to five years. An interest only loan requires the borrower to meet the interest repayments on a loan, rather than paying down the principal amount – giving greater cash flow.

Principal and interest loan – Many investors looking to own their property outright at some point in time may opt for a principal and interest loan. While investors might not choose this loan structure when a property is first purchased, as rental returns increase and the property becomes positively geared they can switch to principal and interest.

Borrowers that select a principal and interest loan typically agree to a period of 25 to 30 years, which at the end the loan will be repaid in full. However, prior to entering an agreement with your selected lender, be sure to talk through your financial situation, investment goals, and future plans with your broker to determine what structure is right for you.

Negotiating with agents

Real estate agents can be the gateway to snapping up a bargain.

In most property transactions you are likely to have to deal with a real estate agent, so it's worth taking time to understand what makes them tick.

> *It's important to remember the real estate agent represents the seller, not the buyer.*

First up, it's important to be clear on one important point – a real estate agent represents the seller, not the buyer. Agents are paid a commission on the sale of the property, so it's not just their responsibility to make sure the vendor gets the highest possible price, it's in their interest.

Safe in this knowledge, you'll be far better positioned to negotiate effectively with the agent, and armed with a few tips and strategies you'll maximise your chances of haggling the price down closer to a level that suits you:

- Cash on the hip: A pre-approved loan and a deposit at the ready will elevate you above bidders that still have finance to organise. Experienced agents have an eye for a serious buyer and you'll be in a stronger bargaining position with all your finances in order.
- Shoot low: Make your first offer low but not ridiculous. The first offer is more symbolic than anything else, but it shows the vendor that you are serious about buying the property while allowing yourself some extra room to move in the negotiation process.
- Be critical: Keep a keen eye out for defects and compile a list. From cracked roofing tiles to stains on the carpets, a very little blemish can be used to drive down the price – so don't be afraid to speak out.
- Leverage: Use your financial position to gain leverage over the competition by offering to move quickly. Agents and vendors can get nervy when a property has been on the market a while; a buyer that is ready to act now and settle fast may see an extra five or ten per cent tumble off the price.

Call in the experts

Whether you're new to the market or a property guru, an experienced buyer's agent can boost your purchasing power.

Haggling with a professional estate agent can be a challenge for all but the most seasoned investor. Tens of thousands of dollars or more can be at stake when it comes to negotiating a price, so it's worth considering enlisting a professional.

Just as the real estate agent represents the vendor, a buyer's agent represents the buyer.

Backed with extensive local market knowledge, a buyer's agent is well equipped to help you locate and purchase the right property and at the right price. At your discretion, a buyer's agent can take control of the entire purchasing process or simply just bid on your behalf at auction.

However, much like all services, the professional help of a buyer's agent comes at a cost.

Charges for their service can often vary from a flat fee to a percentage of the property purchase price, depending on the level of assistance provided.

Ask around prior to making a decision as a referral from a friend or family is far better than picking an unknown quantity from the yellow pages.

Finding and keeping good tenants

While most investors understand the importance of finding the right location, price and type of property, they can sometimes overlook the importance of finding the right tenant.

Attracting and retaining the right tenant for your investment property should be one of your most important objectives when investing in property.

While we all hope to see our investment property deliver strong capital gains, the lifeblood of a successful investment is often the cash flow generated by rental income. Good tenants are therefore an essential component in an overall sound property investment strategy, but how do you find the right ones?

Be thorough

Some investors may decide that it is worth forgoing a percentage of their rental to pay for the services of a professional property manager – and this is a proven strategy for investors across the country – but with the right approach you can ensure that you can successfully manage the process yourself.

When looking to find long term reliable tenants, whether you're seeking to self-manage or use the services of an agent, start by establishing the following:

- How stable is the tenant's current financial situation?
- What is the nature of the tenant's lifestyle and occupation?
- What does the tenant's rental history reveal?
- Who are the applicant's referees?
- Does the applicant have dependents?

Make sure that when interviewing tenants you are fastidious in checking references and financials. Alarm bells should start ringing if tenants haggle over the bond as this may be an indication of trouble brewing for the future when it comes to meeting their rent obligations.

Once you've found good tenants, the trick is to retain them for the long haul.

The first step is to charge a fair and reasonable rent from the outset. Make sure you are well versed with true rental values in your area because you can be sure that prospective tenants will have a good idea.

A reliable tenant who pays rent on time and looks after your property is an asset to your investment. It's often attractive to landlords to push rents up to increase returns, but be warned: push too far and you may find yourself with a vacant property.

But retaining good tenants for the long haul is not down to the rental alone.

Get service orientated

If you're going to manage your own investment property it's essential that you react quickly to problems with the property as soon as they arise.

That means turning up yourself armed with your toolkit when doors come off hinges and guttering works loose, otherwise make sure there is a good handyman on your books.

It is also important to respect the tenant's privacy, so make sure that you give good notice when you want to inspect the property. Turning up unannounced can be tempting but you are sure to get a good tenant's back up if you look like you're snooping around.

Finally, don't be afraid to let your tenants know that their rent is appreciated. Sending a Christmas hamper can work wonders in retaining good tenants – and it may well pave the way for edging up their rent when appropriate.

Managing your commitments

Investors that have their finances in order can seek greater investment opportunities and realise more portfolio potential.

The key to successful property investment ultimately lies in your ability to manage your finances and meet your commitments.

Whether you're looking to buy an investment property as part of a broader investment portfolio or you're angling on a multiple property strategy, sound financial management is critical to your success.

However sound financial management is about a great deal more than just getting the cheapest home loan rate; it involves understanding of your commitments, spending habits, and your overall financial position.

With a sound financial structure, investors can achieve outstanding results with a remarkably small initial investment. In short, financial discipline can make the difference between failure and success in property investment.

So which areas of your financial position should you focus on and what impact can this have on your investment position?

A holistic approach

The first step is to take stock of your overall financial commitments. Look particularly at your debt profile: your outstanding credit card balances, store cards, hire purchase commitments and so on.

And there's good reason for focusing on these debts.

Credit cards, personal loans and hire purchase debt tend to attract the highest interest and this can dramatically reduce your cash flow. For example, if your credit card balance is not paid off every month you could be paying an interest rate of 20 per cent or more on every dollar that you owe.

Minimising your interest payments is one very sound reason for keeping credit and store cards in check but there is another, less obvious, but just as compelling reason.

The amount you owe in unsecured debt has an impact on how much you can borrow when it comes to property, and this can often hold investors back when they are looking to grow their portfolio.

All too often investors think that because they have a deposit – or access to equity within their existing property – that they will automatically be able to qualify for a loan but this is not the case.

Every lender will assess the 'serviceability' of each applicant based on what they can afford to repay each month. If a proportion of your monthly income is tied up in costly high interest repayments, this can impair the amount of money that you may be able to access for property.

It is therefore critical that debt levels are reduced wherever possible. This will free up valuable funds to help beef up savings, reduce your home loan – or simply improve your standard of living.

Keeping debt down

The key step to driving down debt is to cut down on your spending where possible so that additional funds can be channelled into paying off debt.

If you have an existing property it may be possible to use the equity that's accumulated over the years to pay off high interest debt in one fell swoop. This can dramatically improve your financial position while cleaning up your serviceability. It's important to remember that this will not clear the debt, you are really just consolidating it – and it will still have to be repaid and over a longer period.

However a home loan is generally charged a far lower interest rate to other kinds of debt and so the overall interest – and ultimately the total amount that you'll have to repay – can be greatly reduced. You just need to do the math – and we can help with that.

But aside from managing your monthly cash flow there are some practical housekeeping tips that can help ensure that your finances are kept in good order.

Look closely at when your mortgage repayments are due in conjunction with when rental income comes in.

Rental payments and mortgage charges rarely line up and this can leave a shortfall when it comes to mortgage repayments. It is therefore essential that you ensure that there is enough money in your account to cover mortgage repayments at the beginning of every month.

Make sure that you also work out the shortfall between your rental income and your mortgage and ensure that this amount is topped up each month. Even if you're just a few dollars short, your mortgage repayment may not go through – and this is bad news.

If you miss a repayment the bank will note that your loan is in 'arrears'. This may result in a higher interest rate and it can also leave a 'black mark' against your credit rating.

If you're struggling to meet your current mortgage commitments, or seeking to determine how you can improve your financial position to capitalise on greater investment opportunities, give us a call.

For more information please contact:

Kathy Rogers - FinancialPlus (Qld) Pty Ltd

Phone: 07 5564 5903

Address: PO Box 6027, GCMC Qld 9726

Email: kathy@financialplus.com.au

Kathleen Margaret Rogers is a Credit Representative (CR No. 396886) of BLSSA Pty Ltd (Australian Credit Licence No. 391237).

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