



# Property Investor Handbook



# Welcome to Raine & Horne

## Property Management Division

### A Little About Us:

Our family owned and operated business have been Property Management specialists on the Peninsula for over 25 years and are now the largest property management company on the Peninsula with over 1,000 properties under management.

At Raine & Horne Peninsula Properties, we firmly believe that no other Peninsula agency can provide you with the quality and consistency of service that has built our reputation for excellence.

Our long standing team of nine experienced and highly knowledgeable property managers whose goal is to maximise your return and protecting your asset.

Our team will assess and provide you with an analysis of the highest potential market rental return, select the best quality tenants and ensure that your new investment property is maintained in excellent condition.

We conduct thorough, regular property inspections, detailing the condition of your home and guide you on how to maintain the property in a manner that will maximise your rental return and the long term value of your asset.

Our business philosophy is simple; to look after your property as if it were our own and provide you with prompt, personalised service at all times.

**If you've just opened this publication, the chances are you're thinking about investing in property.**

Perhaps you're a first-time investor, or one of the 1.7 million Australians who already own an investment property and you've decided to buy another one.

Whatever the situation, this short information booklet based on our experience in both real estate sales and property management, should help. It outlines some six simple steps to follow – from initial research to in-depth research to closing the deal.

Of course, there is a lot of other information out there and the Property Investor Handbook is by no means exhaustive. But it should help you buy your next property investment whether you're a client of ours or not.

(Of course, if you do become a client and we certainly hope you do, then there's a whole host of reports and help we can give you along the way – right down to negotiating the price on your behalf if you'd like.)

But right now, let's begin at step one.

## 4 Offices 1 Team



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## Step 1 Get Your Finances In Order

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Getting a loan pre-approved means you will know exactly how much you can afford to spend and if you're planning to buy at auction, you'll need a written loan approval before the hammer falls.

Be aware too that lenders have different requirements for investment properties than for owner-occupied homes and different loan ratios specifically for company title and warehouse conversions.

According to Mortgage Choice Senior Corporate Affairs Manager, Kristy Sheppard, 'Prospective buyers must be aware that lenders have tightened loan assessment criteria for investors as well as owner occupiers.'

'Many have limited their loan to value ratios to 90% of the purchase price for both buyer groups, with some going even lower.'

'Also, genuine savings are essential, whether in the form of a cash deposit or existing property equity,' she says. 'Both buyer groups need to plan ahead to satisfy their chosen lender's requirements.'

Using the equity in your own home or equity from another investment property is a great launching platform for buying an investment property. For example, if your home is worth \$700,000 and you owe \$350,000 on your mortgage and you want to invest 10% of the equity (\$35,000) into another property, you should be able to do so as long as you can comfortably afford the repayments.

Pooling resources with family friends or colleagues can also help you enter the market, although you should have a solicitor draw up a contract outlining each party's responsibilities and percentage of profits before taking the plunge.

There are also many different types of loans on the market, including line of credit, interest only and principal plus interest. Rates can also be fixed, variable or a combination of the two. A lender or mortgage broker can help decide which is right for your circumstances.



## Step 2 Work Out Your Objective

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Doing well from investing in property has a lot to do with location, but there are other considerations as well, like having clear objectives.

When setting the objective, the key question to ask yourself is whether you want cash flow or capital growth. One constraint on choosing the latter if you're looking at building a portfolio of properties is access to cash flow.

On the other hand, if you only choose properties that are cash flow positive, then you can buy more as long as you have the equity – and the property will need some capital growth for its equity to grow.

### Think long term

'Longer term, about 70% of returns from residential property are derived from capital gains rather than rents, so that should be your focus,' says Michael Matusik, Head of property advisory firm Matusik Property Insights.

If you're looking for capital growth, then buying with a seven to ten year horizon will accommodate most major market fluctuations, but you'll need to be prepared to hold the property at least that long.

### Portfolio diversity

Experts also tend to agree that portfolio diversity is the key. For a strong property portfolio, that means a mix of locations and a mix of capital growth and high yield properties.

A general rule of thumb is that regional centres and many secondary locations produce higher rental returns but achieve poor long-term capital growth. In contrast, the major capital cities produce strong capital growth, which usually goes hand in hand with a lower rental yield.

Geoff Doyle, CEO of real estate advisory firm Go Gecko, recommends that investors start building a property portfolio with one or two properties yielding good cash flow, then go for third and subsequent properties that offer good capital growth. 'If the first two properties have positive cash flow, the rent covers most of the mortgage costs and other expenses,' he says.

# & House or Unit

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Managing Director of property research firm Residex, John Edwards believes that most investors looking for steady rental returns are better off with units that are mature – not old – in suburbs where apartment complex development is complete and the supply of new apartments is tight.

Eureka Report Property Editor, Monique Wakelin agrees. She says that ‘well-positioned, established apartments in low-rise, inner-urban complexes of less than 25 apartments are increasingly in demand and yet their supply is highly constrained. It’s this equation that sits underneath their performance and makes them as strong an investment proposition as any other in the Australian property market.’

Analysis done by RP Data Research Analyst, Cameron Kusher supports this. ‘Historically, houses did experience a much more rapid appreciation in value than the growth recorded by units,’ Kusher says. ‘But over the past five years units have recorded average annual value growth of 7.4% compared to 7.1% for houses. These results suggest that the superior performance of units is a relatively new phenomenon.’

Andrew Tregent, Principal of Raine & Horne Ettalong Beach has his own view. Locally on The Peninsula, well positioned, older style houses have performed particularly well in recent years.

Andrew has also noted that the emergence of the ‘Granny Flat Policy’ has seen a massive surge in the interest for houses with dual access on blocks of 450m<sup>2</sup>+





## Step 3 Work Out Where to Look

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When you can invest anywhere in Australia, how on earth do you begin to zero in on specific areas? While some of the decisions you've made in step two will help narrow the field, here are a few other factors to consider.

### **Check infrastructure announcements**

Find out what's being planned and when it's due for completion by logging onto [www.infrastructureaustralia.gov.au](http://www.infrastructureaustralia.gov.au). This has links to all state infrastructure-planning departments. You can also check local papers and contact the council to find out if the area has any large developments planned that might affect capital growth or rental returns in the future.

### **Check the competition**

A market saturated with investors could mean there's rental and selling competition if the market gets tough. Be cautious about buying into big apartment blocks and check that the market isn't an overused rental area.

### **Understand the target market**

You need to make sure that the property that matches your objectives also matches the target market, so research infrastructure, transport links and local amenities. For example, if you're looking at a property in a university area, you should be looking at multiple occupancy homes near transport and amenities.

### **Get a feel for values**

Consider purchasing property reports, from companies like Residex or Australian Property Monitors, that give both historical area growth figures, selling prices of houses sold for the last 12 months and projections of capital growth.

### **Coastal Growth Zones - Central Coast NSW**

Being an easy 1 hour commute to Sydney and Newcastle, the Central Coast has proven over the past decade to be a very popular option for those living in Sydney as a city escape. With beautiful beaches, good schools, shopping and health care, the Central Coast is popular for young families and retirees alike.



## Step 4 Create a Shortlist

Once you've narrowed the field to a key location it's time to look for some specific properties. There are many ways you can search for properties, from reading the real estate insert in the local paper to performing an internet search on one of the many property websites available (such as [www.realestate.com.au](http://www.realestate.com.au) or [www.domain.com.au](http://www.domain.com.au)).

Contacting agents in your target area with a list of your specifications might save time.

Please visit our website: [www.peninsulaproperties.com.au](http://www.peninsulaproperties.com.au) for reviews, updates and our expansive property list.



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## Step 5

# Access the Shortlisted Properties

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Now that you've created a hit list of properties to look at, here are some ways to assess each one.

- Walk around the area to get a feel for the local environment, availability of public transport & location of shops, schools, parks & other services. Talk to locals; they are always a great source of information about an area.
- Go to as many auctions & open houses in the area as possible to get a feel for what's selling, at what price, & why.
- Ask the agent about the potential rental income of the house or apartment & if it's been rented before; check the tenant record to work out vacancy rates. You can also check rental vacancy rates for the postcode at [www.sqmresearch.com.au](http://www.sqmresearch.com.au).
- If you're investing in an apartment, ask the managing agent for the rental history of both the apartment & the whole block. Look at the rental yields of other units & the capital growth history of the block.
- If you're considering a property on a strata plan, then ask to see the body corporate disclosure (it's your legal right), which outlines exactly what's been spent & what works are planned. Properties on strata plans incur a monthly maintenance charge, which is deposited into a sinking fund & used to pay for the lifts, grounds & carpets, so check to see how much is in the sinking fund & whether it covers proposed work. Also, look at the minutes of strata meetings because these will tell you whether there are any structural problems such as concrete cancer or broken lifts.
- You can also ask for a community management statement that tells you the allotment of the car parks & storage.

If you're really interested:

- Inspect the property more than once, at various times of the day & week to help gauge noise & traffic levels.
- Investigate whether there are any internal or external cracks in the property.
- Take the opportunity of a rainy day to check for leaks, and if the carpet is lifting, check the floorboards for any signs of mould, white ants, borers or other pests.
- Look at the walls and floors outside the bathroom & laundry for signs of rotting wood or water damage & if there is a musty smell, it may indicate hidden water damage or rising damp.
- Order a pest & building report. This will give you an expert opinion on all the obvious & hidden features & services of the property, as well as any problems particularly with water ingress, rising damp & white ants. The report should also comment on the general condition of plumbing, wiring & building work & whether it complies with relevant building codes. It may also give you approximate costs to rectify any defects.
- Ask to see the depreciation schedule.
- Have your solicitor or conveyancer look at the contract to make sure you're happy with the penalty interest rates, settlement dates, inclusions (curtains, light fittings, clothes lines etc.) & terms. You can also change a contract on an auction property, provided the vendor's solicitors have agreed to new terms in advance of auction day. Changing deposit amounts and settlement dates is common.





## Step 6 Negotiate the Price

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Once you're happy that the property is what you're looking for, it's time to review the contracts and make an offer.

### Get the facts

The first critical piece of information you'll need is a Comparative Market Appraisal report. This tells you the prices homes at a certain square metre size have sold for within a set radius, say 500 metres and helps you verify the price guide that the agent has set.

The next thing you could consider is getting a property valuation to assess the property's true worth and then use that to negotiate on the price.

'Appointing an independent and certified valuer to assess the value of a property before buying or selling can help investors negotiate the best price, reduce risk and save money,' says WBP Property Group CEO, Greville Pabst.

### Find out about the vendor

Armed with this information, it's time to find out more about the vendor. This will be important when negotiating, because at the end of the day vendors are people, selling has an emotional component and you want the chance to appeal to that. You also want to find out if there are things you can offer that can be traded off for price, like short settlement terms, for example.

Here are some questions to ask:

- Why is the vendor selling?
- Have they purchased another property?
- Which settlement terms are preferred?
- How long have they owned it?
- Is it an investment or owner occupied?
- Is it tenanted?
- Have you had any offers?
- How long has it been on the market?
- Is the vendor testing the market?



## Tips for Negotiating

### Tips for negotiating

After the research you've done beforehand, it's time to negotiate. While many experts advise going in with a low price to start, it really depends on the state of the current market place. If a market is running hot, sometimes it's wise to go in with a strong best offer to start with.

Some experts advise that if a home is exactly what you want, then declare your maximum price in writing in the beginning. 'State your walk-away price and be prepared to walk away.'

There are a couple of questions to ask the agent that may help achieve an idea on price.

1. 'Why are they asking this price?'
2. 'How much will they take?' Many agents will also suggest a price to offer.

Raine & Horne Ettalong Beach principal, Andrew Tregent says there are many ways to look at price, but that as an agent he evaluates price objectively.

'At the point of transaction, buyers can be emotional and no two buyers will have the same opinion of value, no matter what the emotional drivers are,' he says. 'I always recommend that buyers first try to work out a price based on objective evidence, like the comparative market appraisal and then work out what it's worth to them. Sometimes what it's worth to them is a little higher than the CMA.'

### Now what?

Now that you've read all of this you may feel comfortable enough to be out in the market tomorrow. (And if you need our help on this, just call us.)

On the other hand, you may have some questions, particularly about our property management services. Our property management kit outlines the details. In it we cover how we manage tenants, money and maintenance; how we help with tax and how we help grow your equity and your property portfolio. You can download the property management kit from our website [www.peninsulaproperties.com.au](http://www.peninsulaproperties.com.au).

Of course, we're also happy to speak with you on the phone or via email.

Just give us a call at any of our offices or email Licensee Andrew Tregent at [andrew.tregent@rh.com.au](mailto:andrew.tregent@rh.com.au).

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