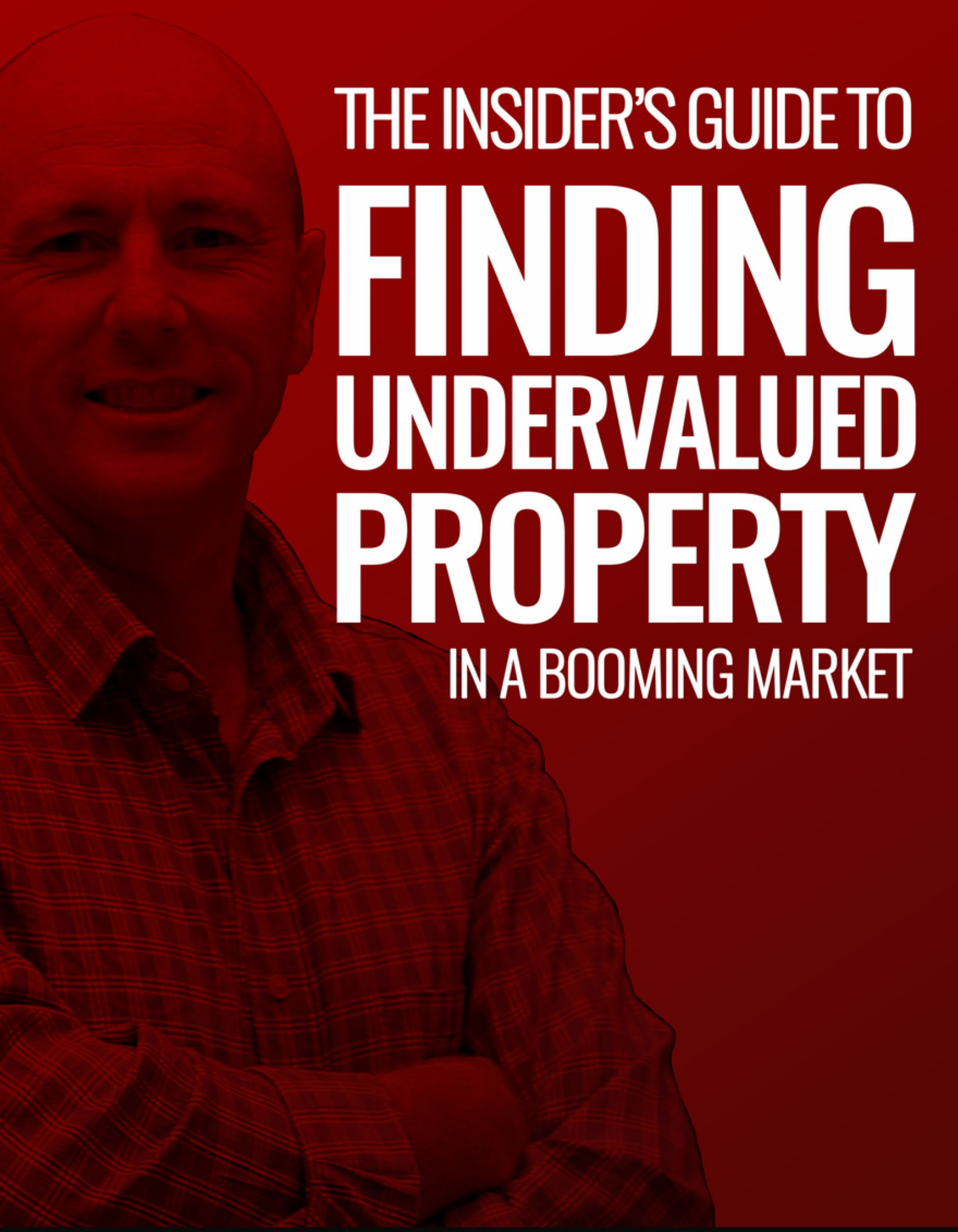

THE INSIDER'S GUIDE TO FINDING UNDERVALUED PROPERTY IN A BOOMING MARKET

MATTHEW WARD

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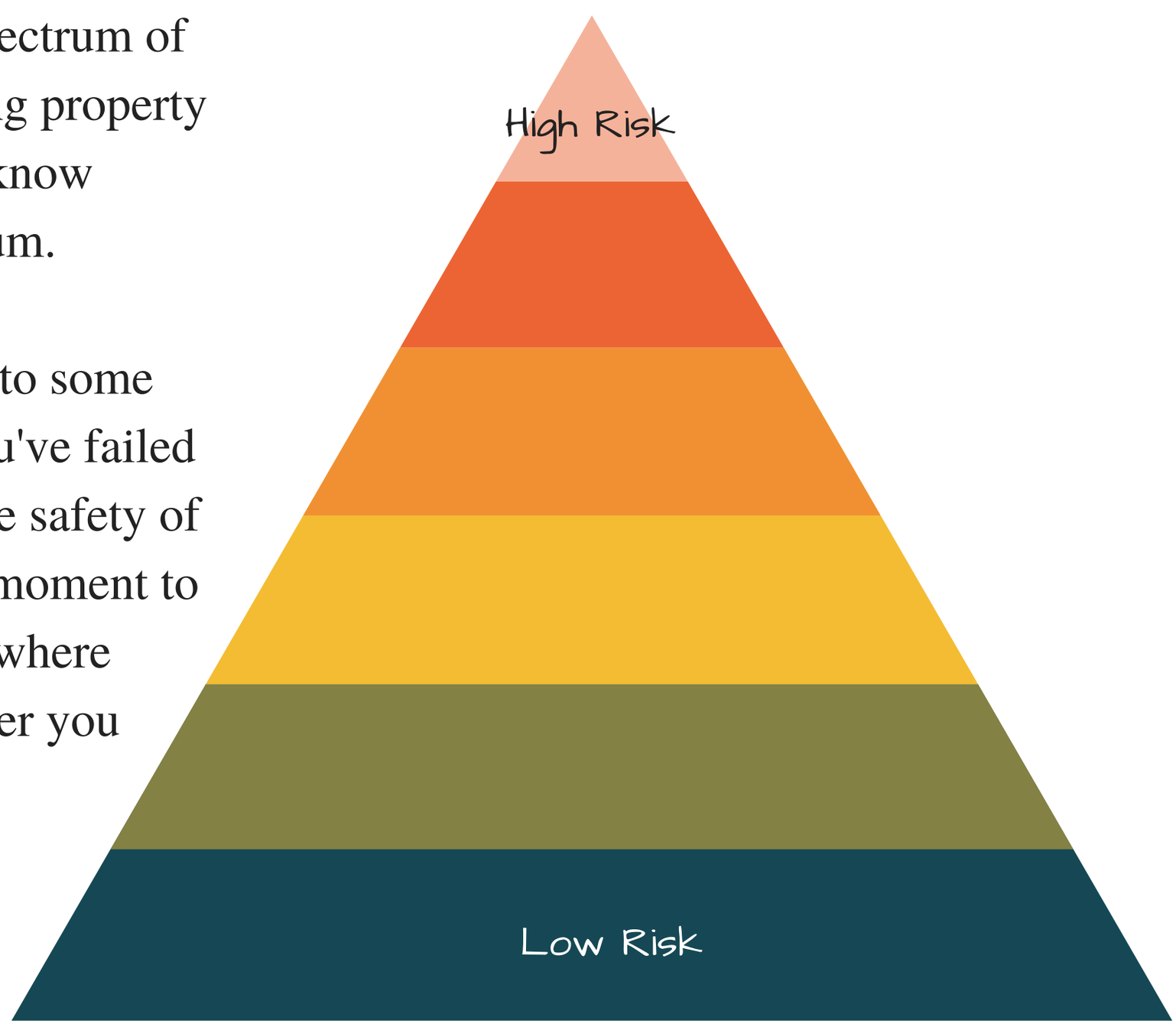
FOREWORD

PEOPLE WHO DO AND PEOPLE WHO DON'T.

In life there are two types of people. People who do and people who don't. Those who do are found taking risks that those who don't wouldn't dream of. The level of risk varies, and what might seem like a walk in the park to one person could be considered a death defying act for another.

Investing and in particular property investing is really no different. There are those who long for their own home, but don't believe it to ever be obtainable. Those who own their own home, and think that investing in property is a good idea if you can afford it, but they're 'happy' with just having a home of their own. Then you find those who believe owning a second property is a good long-term investment, and so cautiously dip their toe in the investing pool. The wild and wacky ones are hard to find, but they're the ones who have a property portfolio and are constantly on the look out to add to it.

As you can see, there is a spectrum of risk, and if you're considering property investment at all, it pays to know where you sit on this spectrum.



Most people are risk-averse to some degree. So don't feel like you've failed in some way for enjoying the safety of not taking risks. Just take a moment to make an honest assessment where you're positioned and whether you want to change this or not.

Once you're completely honest with yourself about this, you can work on building your confidence, mastering the knowledge you need to succeed, and easily correct a mistake before it gets out of hand.

Most importantly, you can take calculated risks that you once might have deemed too far outside of your comfort zone.

How do you comfortably take a risk that scares the life out of you? Consider approaching anything new or different in the same way you would approach a sharp corner in a car. First you see the corner you want to take, you assess the risks and slow to what feels a safe speed. As you take the corner, you remain alert to potential dangers and you're mindful of how the car feels beneath you. You're prepared to brake, stop or even speed up if required. Once you're through the corner, you can safely speed up and relax your grip on the steering a little. Property investment is the same. Slow down and assess the risks and invest at level of risk that you are comfortable with. Once you feel confident speed up to the level you can mentally and financially handle.

INTRODUCTION

TIMES ARE A'CHANGING

The society in which we live has changed, the government is no longer there to look after you in retirement and peoples expectations of how they want to live, is no longer as simple as it once was.

Buying a home, raising a family, education, health insurance, income protection, holidays, investment properties and share portfolios add additional pressure to the household budgets or are just so far out of reach they are not even considered. There are millions of Australians who want a bit more financial freedom. Not necessarily to be excessively wealthy, but just to breathe a little easier financially, to take the stress out of life, open up their horizons to doing more of the things they like to do because they can afford to do it.

There are some great stories of people buying multiple investment properties, 10-20 a year, or even stories of people having housing investment portfolios of 100-200 properties.

These stories do kind of make you feel like property investment is completely unobtainable, but the reality is over 90% of property investors have less then two properties.

So don't feel like you've missed the boat. This book will share with you four very basic fundamentals for property investing. You will gain confidence and you will see that there is actually a method behind the property investment madness.

AUTHOR'S NOTE

MEET MATTHEW WARD

I am a Buyer's Agent, Registered Valuer, Property Consultant and Developer.

My love affair with property began when I was just 8 years old and I saw my beloved family farm transformed into a housing estate. I didn't know it at the time, but this was a defining moment, setting me on a life journey that is more than just a career.

I've spent just short of 15 years working as a valuer in a number of major firms in Sydney, London and and regional NSW. While valuing and advising on literally thousands of properties in this time, I became increasingly aware of the need for some truly independent advice and guidance for investors, home owners, developers and farmers when they were purchasing or dealing with property.

In 2014, I switched from only providing my services as a valuer to banks and governments to providing property advice to those who could really benefit from it - the general public.

I don't believe in get rich quick schemes, and I haven't written this handbook with the intent of providing a magic pill for early retirement. I simply aim to equip the average investor or would-be investor with practical guidance that will move you from a person who doesn't, to a person who does. Whatever that looks like for you. If it moves you from being a person who dreams of owning an investment property to being a person who owns just one, than it will have served its purpose. If you feel confident to turn your single investment property into a portfolio, then your future will be all the more financially free as a result.

Enjoy reading and make sure you refer to this handbook regularly. It is the difference between those who do and those who don't.

Matthew Ward

STEP 1

WHY INVESTING & WHY PROPERTY?

Investing is a well-proven economic method of creating financial wealth. How successful you are at creating wealth determines if your investment strategy is a good one or a bad one. The more income or return you generate from any particular investment the more successful you will be.

Usually people invest in order to make money. Sometimes, people also invest to make tax losses to reduce their tax obligations. Once you have decided that you want to start investing the next thing is to determine what to invest in. Not everyone likes to invest in property, or shares or oil paintings. It's what people are comfortable with and whether the investments align with their budgets, beliefs and ability to handle risk, debit and exposure to markets they cannot control.

Once you know why you want to start investing, you need to set realistic goals. **Let's focus on property investment**. Property is generally a long-term strategy, and while sometimes there is the opportunity to make a quick buck, we're going to look at sustainable options.

The main model for acquiring property is obtaining a deposit, securing a loan and buying a property that is negatively-geared, which currently will give you some tax saving offsets, and which should typically grow in capital value over time to increase your wealth.

There are many other options now available for potential investors to get in the game, such as shares in a property fund or being part of crowdfunded property development. These solutions create the opportunity for investors to be involved in property in some cases for as little as the cash in your wallet.

Property investment has many benefits - the bricks and mortar is comforting; the asset isn't liquid, so prices don't tend to fluctuate too much; a dwelling is an essential item for society, thus will always be considered valuable.

There are also a number of taxation advantages to property investing, such as negative-gearing and depreciation allowances on the physical asset, which are designed to help encourage people to invest in more property, particularly new or modern property.

As you can gather, the benefits of property investing are innumerable. They certainly outweigh the option of not investing.

Before you read on, I implore you to take a moment to consider property investment for you. There are many financial benefits, but as we've discovered, taking the leap of faith often requires a shift in mindset. So ask yourself now, what's stopping you? Jot down all the things you tell yourself why you can't invest in property, and then counteract them with reasons that you can.

WHY I CAN'T	WHY I CAN

STEP 2

PURCHASE IN THE CORRECT STRUCTURE

Before you obtain finance or find the right property, you need to assess your goals and put in place the framework which will help you reach your goals.

This framework, or structure, will depend on your goals and objectives. At all times it is prudent to shield yourself as much as possible from the investment portfolio going bad and sending you bankrupt.

Many business professionals and those who may be liable for direct legal action for the services they provide in the course of their work; such as accountants, lawyers, doctors, property valuers, and trades people; often don't hold key family or business assets in their private names. This helps protect them in the event that they get sued.

Holding assets in other family member's names, family trusts or an SMSF, are a couple of ways of protecting themselves and their assets. This is the reason that people declare bankruptcy don't necessarily go broke.

Creating investment or holding companies, is another way. Owning multiple companies is seen by some as way of limiting potential to pay land tax, as is acquiring property in different states and territories.

This also applies for individuals who own assets. Before you even open the paper to look at investment opportunities, start with looking at structures available to you and how you best protect yourself while also leveraging your assets. Your legal or financial advisor can provide you with details of available methods and what may work well in your specific situation.

The correct structure will allow you to borrow money, keep yourself and key personal assets like the family home shielded from risk, allow you to personally take advantage of tax minimisation benefits, as well as grow your investment portfolio.

STEP 3

CORRECT FINANCING STRUCTURE

Whatever structure you choose, you must be able to efficiently obtain suitable funding.

SMSF

SMSFs have limited ability to borrow funds, although there are procedures and structures available to help ease the flow of finance, and allow equity to effectively transfer from one property to the next in the form of offset accounts. Not all lenders will offer this so finding the right lender with the best structure is critical. Otherwise the down side will be that you will have to come up with a new deposit in cash, every time you want to buy another property, rather then being able to tap into the equity that has been created in the first property or the SMSF overall.

LOAN OPTIONS

There are literally hundreds of different loan options being offered under different structures across all the financial lending companies in Australia. Finding the right loan conditions, interest rate, repayment schedule, understanding the pros and cons of interest only versus principle and interest is critical if you are going to successfully develop an investment portfolio.

If you are starting out you may choose a more aggressive approach in order to accumulate more properties quickly and limit how much cash is being tied up in repayments which is why interest only loans can be attractive.

There will always be a conflict against risk verse growth. Over extending yourself and exposing your portfolio to negative movements in the markets may create a house of cards, where one missed loan or rental payment or extended vacancy period will bring the whole thing in on top of you.

Having a clear understanding of the terms of your mortgage can save you thousands over the course of your loan, as the market moves up and down, interest rates fluctuate, and tenants come and go.

It's essential to know important factors like when to lock in interest rates and for how long, what will happen if you payout a loan early and what are the consequences for switching from a fixed rate to a variable?

All these actions may come with penalties, and depending on your position and how big your mortgages are, will dictate the bank fees, if any.

CASE STUDY

In 2007, prior to the GFC, I had a client who was over committed in his investments. Interest rates were rising, so without seeking advice, he locked in to a fixed interest rate so his repayments wouldn't increase. He thought he was protecting himself.

When the GFC hit, he was in the process of finalising renovations with the intention to sell. At this point, interest rates dropped quickly, leaving the variable interest rate lower then his fixed rate. He found a buyer for the property relatively quickly, but as the sale enabled him to pay out the loan early, he was actually charged a fee for breaking the fixed interest rate period. The fee for doing this was $40,000. That was $40,000 straight off the bottom line of the development.

The bank naturally advised him afterward that had he broken the fixed rate period before the interest rates fell below his fixed rate level, he would not have been hit with a fee.

If the borrower in this story had a clear understanding of his position, and not been so over committed on his finances, he would have been able to look at options, or at least ride the wave of interest rate changes. Admittedly the GFC, was an unexpected event that caused a very unique set of economic circumstances, but the point is these things can easily be prevented just by reading the fine print on your financial documents. Don't sign anything until you have a clear understanding of what you're signing. Luckily in this case, it was only $40,000. It could have been his whole property portfolio, which was an estimated worth of a couple of million dollars.

An independent advisor would have also helped him (he came to me after the fact). Don't ever rely on the bank to advise on what’s best for you, when that would be cutting the bank out of profits.

Having a financial buffer to help off set normal economic ebbs and flows like the GFC is what allows you to still have a property portfolio or even grow your property portfolio during the hard economic times.

STEP 4

CHOOSING THE PROPERTY & WHEN TO BUY

If you are looking to purchase your first property or your next property, the time to buy is NOW. There will always be a market or a sector of the market that is growing or affordable, or the next hotspot. Just as there are other sectors that are over priced, falling, and low yielding. This is why research and having a fundamental understanding of what is driving the local economy is critical.

Assuming by now you have decided why you want to invest and that real estate will form part of your investment strategy, you have set up the correct structure to give you the best access to finance, tax benefits and security of personal assets, the next thing to do is to find the correct asset.

Many people think residential when you mention an investment property; this is because this is type of property that everyone has some experience with, as most people live in a dwelling. As a result the popularity of this asset class means that many people are willing to acquire the properties at a loss (negative gearing), in hope of achieving long term capital growth which will help offset the losses incurred in the immediate future. There is a debate raging at the moment about the long term benefits of negative gearing, and whether the current structure is still sustainable. Some countries operate a scaled back form of negative gearing like the USA, Germany, Sweden and France, other countries don't allow it all, such the UK and the Netherlands. Australia still supports negative gearing. Whatever the outcome, the correct structure will allow you to ride out the changes in policy without undermining your whole portfolio.

The rough rule of thumb is that properties that are showing high yields offer a higher level of risk. They are typically in a low capital growth location (mining region), have regular exposure to vacancies or consistent tenancy issues.

Low yields tend to represent desirable markets or those with expected short term capital growth, and a plentiful supply of medium-high income earning tenants.

There will always be exceptions to the rule, and not all properties showing low yields are good, and vice-versa, not all high yielding properties are in under-performing areas.

The most important fundamental of any asset is its location. You've heard it said, "location, location, location!" It is the only thing about a property that will not change. Proximity to services, either existing or proposed, will help secure tenants and minimise vacancies, and will increase the demand for the property. As demand drives prices, in both capital value and rental values, it's easy to see that location is pretty vital. This applies for all types of properties.

The physical features of a property, the quality and size of the space that is provided, its style and design is also important. A building that is structurally sound but needs a coat of paint and some new carpets, is much more manageable then a property that needs a new roof or restumping.

Meeting your investment goals is all about managing or minimising your costs and obligations in holding and paying off the property, as well as capitalising on the equity or the potential for equity you accrue through capital gain.

The ideal situation is a positive geared property that is gaining significant capital growth each year, that you can draw down on fund the next purchase. These properties are very difficult to find, and if you do find one you have to be able to recognise the opportunity to seize it when it presents itself.

The key is education, research, experience, and more education, more research and more experience. It's important to understand that property investment is a never ending journey of learning and discovery. There isn't a one size fits all approach to property investing, and even if a strategy works well on one property you buy, it doesn't mean the same will apply when you purchase property two, five or ten.

IF YOU CAN'T AFFORD 10 PROPERTIES, DON'T BUY ONE.

Your property investment strategy should be based on the premise that if you can’t afford to buy 10 properties, you should not buy one. There is a lesson behind this statement and it’s fundamental to having a portfolio as opposed to having an investment property.

The theory is that the structure of your financial arrangements and ability to service the debit should be arranged in such a way that you are not financially burdened to such an extent with your first property that you can't afford to acquire a second or third one.

This means purchasing property that is positive geared, or with such a large deposit that the rents easily cover the repayments, leaving cash to build equity. Another way is to purchase a property that is adequately under valued for whatever reason - distressed vendor, mortgagee in possession, or a perceived problem that you can overcome or are willing to take the risk on.

All these methods are driven to one thing, finding a property that looks after itself financially.

Naturally if you get a vacancy you will have to be able to cover the mortgage for a couple of weeks, but generally when tenanted, the property will not require addition funds to maintain the outgoings and repayments.

POSITIVE GEARED

How do you find a positive geared property and what do they look like? Basically a positively geared property is an investment where the rental return will cover 100% of the outgoings and holding costs including finance (principle and interest). It also has to cover entry costs of legals and stamp duty. Depending on who is doing the calculations, what gets included and excluded can be quiet significant, so always do your own calculations based on your actual numbers. These will vary depending on price, and the interest rate on your loan.

To find one of these properties you really need to know the market so well that you know it when you see it, or knowing your financial position and negotiating hard to get the price down to create a positive geared property. If you aren't sure of this, a buyer's agent can help you.

When building a portfolio, start with a property that you can afford. Meaning don't buy a million dollar property when you can buy a $300,000 property. The banks offered me $550,000 to purchase my first property. Instead, I bought a house for $236,000 with a 20% deposit. This allowed me to pay down my loan quickly and utilise the equity I had built up for my first investment property. It meant that I was able to shift a majority of my mortgage debt to the investment property which is a tax deduction rather than have a large mortgage on my primary place of residence which you can't offset against your taxable income.

NOW WHAT?

WHAT DO YOU DO WITH THIS INFORMATION?

Right now you're at a crossroads. Do you take the first step to investing in property, or do you file the knowledge you've just gained away in the back of your mind?

If you're serious about seeking your own financial freedom, I truly hope you don't take the safe option of heading back to your comfort zone, instead opting for the path of property investing. Be warned, though. The path is not well trodden. Only eight percent of Australians own investment properties, with the majority owning only one or two. So don't expect to meet too many people along the way who understand the path your on, and can actually help you get to where you want to go.

While you can navigate the four steps outlined in this handbook on your own, the journey is easier with someone who knows the way.

Aspect Buyer's Agency is that someone. We provide motivation and accountability, guiding you through the tasks that you need to do, and then we tackle the more complex functions. Or we simply take the pressure off by taking care of matters when your mind is focused elsewhere.

We take care of obstacles that come in your path so you can keep moving forward. We can do this, because we've been on the path countless times. With expertise in property, and an extensive knowledge of property markets, we're able to provide proactive advice and make your path to financial freedom fairly smooth. We don’t just look at residential, but the whole range of options that will be best suited to achieving your outcomes and operating within your means.

Most people don't realise that they are already in a position to start investing now.

Contact Aspect Buyers Agency today to take that first step towards being that person in Australia’s top 8% of property investors, and from there we can take you into the top 1%, with an affordable and sustainable portfolio.

ASPECT
POINTING YOU IN THE RIGHT DIRECTION

WE MAKE PROPERTY INVESTMENT CHILD'S PLAY

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