


Property ownership made easy



Owning a property is an aspiration shared by many people, whether they're looking to get out of the rental cycle or want to build up their wealth. If property ownership ranks high in your resolutions this year, here's what you need to consider before you dive in

Resolution 1: to buy your first investment property

Like most Australians, you have probably realised by now that you can't rely on your superannuation to support your retirement. Naturally you would like to explore other options to secure your financial future.

If you're going to make a life-altering resolution this year and decide to buy your first investment property, you couldn't have chosen a better year according to Ian Grant, CEO of First Permanent Financial Services.

"We are predicting that 2007 will shape up to be a fabulous year for real estate investors because all the indicators investors look for are starting to come together," he says. Grant points out that the slowdown in new construction and people not investing in property over the last few years has resulted in a shortage in supply for rental properties.

"We now don't have enough properties for people wanting to rent," he says. "When you have an undersupply of real estate for rent, the price you can charge for your property rises."

Across Australia, the rental vacancy rate fell to 2%, a tipping point suggesting the rental market has moved into undersupply. Tony Brasier, President of the Real Estate Institute of Australia says increasing rents are expected to continue in the coming months, an incentive for investors considering a property purchase. "While the quick profits of 2003 and 2004 are no longer available in the eastern states, long-term investors can buy at reduced prices and take advantage of low vacancy rates and increasing rents," he says.

If you think you're ready to become a landlord this year, there are a few things you need to think about.

Property management:

Managing a rental property is hard work. Experts recommend appointing a property manager to overlook and take care of all the required maintenance. Besides the convenience of not having to deal with any building emergencies, the money you pay to the property manager is tax deductible.

Risk tolerance:

Fans of property investing would argue that there's a significantly lower risk in putting your money on property than in other investments. However, as with any investment, you take considerable risk when you bet on property.

It's important you understand the risk involved and whether you can tolerate it. Ensure you have a safety net to fall back on during a bad patch.

Tenants:

Finding them, keeping them and managing them can be a big challenge. In the current tight rental market, finding them might not be a problem, but in situations where you can't get a tenant and your property remains vacant for an extended period, you need to ensure that you have enough

national sales manager with Mortgage House. "If you purchase in an area with a large university or student population, you'll be likely to attract students as tenants. As long as you're aware of the ups and downs of this in the beginning, you'll be able to purchase wisely to attract the best tenants," he says.

It's also important to consider capital growth as much as the rental yields of the property. Check out any future government plans for the area including public transport and infrastructure,

"In the last five years many properties have doubled in price, and they haven't all been near water and inner CBD areas"

Julie-Ann Cronin, director, The Home Straight

money to cover mortgage repayments. It's also important to find a good tenant who will look after your property. You need to check their background, credit history and their ability to pay before you entrust them with your property.

Where to buy:

The type of area in which you purchase may dictate the type of tenant you attract, according to Luke Sheales,

because these could have a massive impact on property prices.

"In the last five years many properties have doubled in price, and they haven't all been near the water and inner CBD," Julie-Ann Cronin, director of buying agency The Home Straight, says. "Look for suburbs going through gentrification and use the cycle of this suburb to increase the value of your property."

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easy ways to save for a deposit

1. Have a plan. Preferably an easy and pain-free one – and stick to it 90% of the time.
2. Create a budget and manage your cash flow so that you know where your money is going each pay. Devise a realistic budget incorporating all expenses – and stick to it.
3. Regardless of what you earn, you should spend less.
4. Save on a regular basis and actively avoid debt.
5. Put any extra pay such as salary increases straight into your savings – this is a good way to reduce your mortgage faster.
6. Place tax refunds in your savings rather than spending it on luxuries.
7. Choose cheaper forms of entertainment that aren't going to cost you each time you do something. Rent a movie (\$5 each) instead of going to the big screen (\$18).
8. If you're getting married, opt for a Wishing Well at your wedding so guests can give you money instead of a gift.
9. Each day put all of your loose change in a container and bank it monthly.
10. Sacrifice! Once you've set your budget, you may need to sacrifice some things in order to stick to it. Perhaps it's only going out one night of the weekend, or giving up that weekly late night shopping spree. It helps to remember your goal each time you need to sacrifice a 'want'.

Source: Luke Sheales, Mortgage House and Julie-Ann Cronin, The Home Straight



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Resolution 2: to buy your own home

If you can't bear the thought of being stuck in a rental rut for another year, then it's time to lay the groundwork for getting your own home. It's a daunting prospect, but with a bit of diligence, you can make your resolution to own a property a successful and rewarding experience.

Here are some pointers if you're hoping to buy your first home in 2007.

- 1 Take the time to look at your current circumstances** and how these might change over the time you will own the property. Include plans about starting a family or any career change you're anticipating in the future.
- 2 Get a credit report and obtain a pre-approval** to find out how much you can borrow. Set yourself a budget and speak to your lending institution or broker to gain pre-approval for that amount. Having your loan pre-approved will put you in a better position to buy the right property when it comes along. Real estate agents will also take you more seriously if you have your finances sorted out. "Whether you're purchasing a home or an investment property, you need to know how much you want to pay for a property. Be realistic and ensure you can afford the repayments," says Luke Sheales, national sales manager with Mortgage House.

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Real life...

Newlyweds make dream come true



- Loan size: \$407,500
- Deposit: 5%
- Got: 3 bedrooms, old Queenslander with a large balcony

Carly Miller and her husband Steve realised that the sooner they could buy a home and start their property portfolio, the better. "We were lucky enough to be able to get our deposit together while the market was still in favour of the buyer rather than the vendor," says Carly.

To help them save up for a deposit, the couple opened a savings account with ING and organised a specific amount to be debited directly from their salaries on a monthly basis.

"This helped us track how much we have to save and what we have on a specific time," she says. The couple also opted for a Wishing Well during their wedding so guests could give money instead of gifts. The additional cash has helped prop up their cash reserves. "We just put down a 5% deposit on our \$407,500 mortgage, but we're planning to tip in as much of our salaries as we can until we have children."

Carly and her husband wanted an old Queenslander with a large balcony as their first home. Aware of the complexities involved in purchasing a home, they enlisted a buying agent, The Home Straight, to help them navigate the process.

"We used them as the principal source of information. They provided us with good advice on what to look at, where to look and how to go about it. I wanted a house in an area where there was going to be capital growth." They eventually found what they were looking for in an area about 6km from the CBD of Brisbane.

Her tip? "Set up a plan and work out how you're going to save for a deposit and meet the repayments, and consider enlisting a buyer's agent to help."

Go east young man!



Cheryl and Steve Brown

Loan size: \$98,000
Property: One-bedroom, self-contained apartment
Got: \$800 per month in rent

Perth-based couple, Steve and Cheryl Brown love spending holidays in Cairns so much that when Cheryl saw a \$98,000 unit for sale, they snapped it up without much deliberation. “We’ve been looking around Perth for an investment property for our retirement but everything was just too dear,” Steve says. “You can’t buy anything for that price in Perth.”

The unit is located in a resort just outside of Cairns. “It’s a one bedroom self-contained apartment with new furnishings,” says Steve. “It doesn’t cost us an arm and a leg in maintenance, just the standard rates and fees. I don’t have to worry about renting it out because it’s already taken by a long-term tenant paying around \$800 per month.”

He believes the area is poised for further growth because of its location and planned development. “It’s just 7km outside Cairns, with a golf course and shopping centres around the place,” he says. There are also new residential developments being considered in the surrounding area.

“As an investor, you definitely need to take one step at a time. You need to look over east or outside boom towns if you want to maximise capital gains. If there’s a cheaper option over east, have a look at it,” he advises. He suggests looking at properties that don’t cost a lot of money to renovate.

“You need to get something that’s not going to devalue. For \$98,000, I don’t see much downside to it. It was a spur of the moment investment and I’m pleased with it.”

- 3 Work out what you want in your new home.** “Decide on what criteria your property must have and be prepared to be a little flexible on the non-essential criteria,” says Julie-Ann Cronin, director with The Home Straight. Generally, you’ll have to compromise on some of these wishes, so split the list into ‘must haves’ and ‘would likes’.
- 4 Decide whether to buy a house or a unit.** If your budget permits, buying a house and land package is the best investment according to Cronin. “Well-located land appreciates in value over time whereas buildings depreciate. However, a unit may be the most affordable way of getting a foothold in the property market. A unit offering strong capital growth can act as a launching pad into a house in the future,” she says.
- 5 Confine your search to two or three suburbs.** “You need to thoroughly research the area that you intend to purchase in, inspecting about 100 houses to ensure you have a good understanding of the market value of the property,” advises Cronin. Create a list of properties you want to visit and make appointments with real estate agencies to inspect them.
- 6 Spend some time in the suburb** you’re looking to purchase in. Visit shopping centres, schools, medical facilities and any other facilities that you’ll regularly use – make sure they’re sufficient for your needs. Check out public transport in the area and future plans for provision of public transport – this could impact on the future property value.

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Real life...

Making budgeting work



Bevan and Cath Jones

Like many single income families, Bevan and Cath Jones knew they had to be diligent with their finances to stay afloat. In an effort to manage their expenses, the couple tried to adopt a rudimentary budget, writing down their expenses and the balance. Cath made an effort to cut out all possible

non-essentials and Bevan worked even harder to make ends meet. However, with three small children and monthly mortgage and credit card repayments, the Joneses found themselves always in the negative each month.

"We were living month-to-month, just getting by. After doing this for a while, hoping things would get better, we realised that we had to do something to improve the situation," admits Bevan.

The turning point came when a friend gave them the budgeting software 5 Minute Manager and were encouraged to try the program.

"We both sat down and worked through the program, entering honestly our incomings and outgoings and what our goals are. We prioritised what we wanted to do, what we could afford to pay and what we couldn't. We made some pretty tough decisions on what to cut out, like suspending our health cover," says Bevan.

Having all the figures and plans laid out before them, the couple felt empowered to set an aggressive target of eliminating their \$9,500 credit card debt. "We've stuck to it for eight months and it actually worked. We knew which months were going to be hard, so we've saved money towards those months instead of panicking when they came around," says Bevan.

The most challenging part of the process is actually sitting down and really confronting what you're spending, according to Bevan. "The good thing is that once you know what you're spending, say \$50 per week on entertainment, you can bring that down, even if just by \$10, and the program shows you how that affects the bottom line for the whole year.

"It was hard going sticking to the budget. But when we started to see things were actually working, it was very encouraging," he says.

With their credit card bills paid off, the couple has set another goal of having two months' salary set aside to use in an emergency and to save for a holiday in the coming year.

"The software forced us to be honest and tough with ourselves, but we now feel we have control over our own future, not just constantly being tossed around by circumstances out of our control."

- 7 Location, location, location.** Whether you're choosing a property to live in or as an investment, the location and proximity to amenities is important when considering the potential for capital growth and strong rental demand, says Sheales. "Buy close to infrastructure like schools, transport, shops, parks and cafe strips, but not on main roads, near railway lines or industrial estates."
- 8 Don't let interest rate jitters** and 'analysis paralysis' hold you back. Consider buying a unit to reduce your exposure to rising interest rates by committing to a lower level of borrowing. "Many people get 'analysis paralysis' – thinking that they haven't done enough research or don't know what price they should pay for a property," says Cronin. "The best time to buy is *today*. Savvy investors snap up properties before prices start heading upwards again."
- 9 Use a checklist** when inspecting properties and record information so that you can make comparisons. If the owner doesn't mind, take a photo to help you remember later. "Check things like water pressure, leaks, inclusions

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Luke Sheales, national sales manager with Mortgage House

and exclusions, as it's easier to negotiate when armed with all the facts about the property," advises Sheales.

- 10 Contain your enthusiasm.** Buying a home is exhilarating, but showing too much enthusiasm will undermine your ability to negotiate a better price.
- 11 Don't rush into signing a contract.** Real estate agents may pressure novice buyers into signing a contract quickly. Get your solicitor to check all the documents before you sign anything.
- 12 Be prepared to walk away.** "Be mindful that the selling agent is acting for the vendor and is looking to get the highest possible price," says Cronin. If the price isn't right, be prepared to walk away and continue your search. "There'll be another one like it just round the corner." 🏠

Getting technical: choosing software

Accounting packages

While all have budgeting features, full accounting packages focus more on accounting issues.

- MYOB
- Quicken
- Microsoft Money

Budgeting packages

Unlike accounting packages, these specialised applications lead you through the creation

of your budget and track your progress. Be aware that not all budgeting solutions take into account Australian financial issues.

- 5 Minute Manager
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