FinancePath

Your step-by-step guide to investing in Australia.

It’s no secret that buying an investment property is a popular strategy for growing wealth and improving financial security in Australia.

Even in today’s uncertain economy, property values on average double every eight to 12 years.

But, property investment is not just about rental income and tax deductions – although, sure, they are important factors covered in this eBook. It’s also about giving consideration to your long term financial goals.

Firstly, you need to decide whether you’re seeking cash flow or capital growth. Because the decisions you make now will shape your lifestyle and financial future for years to come.

Then it’s important to understand your end-to-end financial position and your borrowing capacity.

The level of research you conduct prior to buying your investment property can also have a major impact on your returns.

And finally, when financing your investment property, you need a lending strategy that is tailored for you. Because everyone’s finance path is different.

So, to make a smart money management decision – helping to ensure your property investment delivers positive returns – follow this step-by-step guide on how to the buy an investment property.

Here’s more of what this eBook covers:

- Planning your investment
- Determining your buying strategy
- Researching the market
- Understanding your tax position
- Unlocking equity for investment
- Financing your investment with a Mortgage Manager
- Negotiating with agents
- Finding and keeping good tenants

Contents

Introduction

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

While markets will fluctuate depending on geographic location, historically well performing property in Australia on average has doubled every 8 to 12 years.

Investors who do their research, have a good understanding of their goals and take a long term approach can therefore realise good results investing in property.

But capital growth is just one part of the equation. Investors also need to focus on rental return, property costs and potential tax benefits aswell. We call this understanding an investments total return. It is 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 fantastic returns over the long term.

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

The team at FinancePath

Good reasons to invest in property

Investing in property is a sound part of any 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, you can minimise your risks.

Choose your investment

In a time of increasing volatility in global share markets, there is significant appeal in property investment.

Residential property has been widely regarded as a solid and reliable asset class. With the right advice, structure and approach, property can deliver attractive returns to investors over the long term.

So why exactly can a good, well researched property investment deliver a good return?

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.

Typically, investors can borrow up to 90 per cent of the value of an investment property and this can create the potential to generate returns on the 20 per cent that you contribute to a property purchase.

Research essential for good returns

While it is impossible to guarantee that property will go up in value year on year, historically on average well selected 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.

Letting out your investment property means your tenants can help to pay off your mortgage. There may be a shortfall between your rental income and your outgoing mortgage repayments. However, if the rental value increases over time, this shortfall may decrease and may eventually become an income stream.

Rental values have also increased historically and so it is possible that your investment property will deliver increasing income over the years.

If the rental returns outweigh the mortgage repayments, the extra funds can be channelled 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.

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

Planning your investment

The key to establishing your investment strategy is deciding whether you're seeking cash flow or capital growth. We believe you should focus on both.

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 in a tight time frame, which they will realise when they sell, or refinance the property to release some of the increased equity value.

Long term investors are usually happy to hold the property for a longer time and wait through different property market cycles before realising their returns.

It is important to obtain the right financial, legal and lending advice to be sure about what your investment goals are and that any purchase and finance decision is right for you.

Ultimately, it can be 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 – whether short or long term.

"Your investment goals will determine your finance and management strategies, as well as the type of property."

Determining your borrowing capacity

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

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

This will include determining if the goal is capital gains 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 money to fund your purchase.

Know Your Numbers

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, it is generally possible to borrow up to 90 per cent of the purchase price – or in some cases more. For those with equity in their home or another investment property you can effectively borrow the full purchase price plus costs.

Making any investment requires diligence but when you're taking on debt, to help maximise your returns it is fundamental that you understand your true borrowing and repayment capabilities.

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

The first consideration should be to speak to us. As a Mortgage Manager we can discuss your objectives and financial circumstances to help you select your loan.

We are well placed to help you through the loan selection and application process.

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 entering the investment market. If your home has appreciated in value since it was first purchased there's a chance that you'll be able to tap into some of that equity to put down as a deposit on an investment.

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

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

Tapping into equity essentially means borrowing against the increased value of your home. This enables you to access the equity 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 many Australians take.

One of the biggest hurdles to overcome when planning an investment property as your first purchase is funding the deposit.

If you're relying on your savings to get you that first step on the property ladder, the good news is that you may be able to borrow up to 90 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 loan.

If the security property is required to be sold as a result of a default, the net proceeds of the sale may not always cover the full balance outstanding on the loan. Should this be the case, LMI enables the lender 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 cost of LMI can sometimes be included into the amount borrowed, reducing the upfront costs for the borrower.

This is called capitalising the LMI premium. 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 borrowing money – if you can't make your loan repayments the guarantor agrees to meet your obligations.

This may require the guarantor to provide a mortgage on their own property as security for the loan obligations that they guarantee.

A guarantee may be accepted to support a loan for first time buyers that have sufficient income to service a loan but don't have a deposit.

In some instances the existence of 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?

As an investor, in most instances you'll have rental income from your property to help you meet your mortgage repayments – and this may be taken into consideration when it comes to determining your borrowing capacity.

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 the assessment of your financial position.

In addition to finding out how much you qualify to borrow, think about what you would personally be happy to spend on a mortgage every month. 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 Mortgage Manager, and we can take this into account when determining your borrowing plans.

Based on your lifestyle choices and expenses, the sacrifices you are prepared to make, plus your overall objectives, we will be able to help you decide how much you can afford to borrow.

With the right strategy, sound advice, a solid lending financial partner and finance in place, investing in bricks and mortar can be achievable.

Establishing your buying strategy

Before you commit to 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 us – but where to from here? Before ploughing in to the market, it's essential that you have a clear buying strategy in place.

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 particular investment needs.

Establish your goals

The first 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 but there are other considerations that could influence your strategy. It all comes down to what suits you.

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 handy person you may find assessing the degree – and cost – of required renovations a challenge, and this could mean expenses spiral if you need 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.

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 investors that are either limited by their deposit or who have a different risk tolerance, targeting cheaper areas might be suitable. The downside with this approach is that you may need to deal 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 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 view is changing in some commentators' eyes.

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 it is a good idea to gain a clear picture of the levels of supply in your chosen area because if there's an oversupply 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. Property with good rail and road connections that is close to the shops, schools and other amenities can be likely to perform well over the long term – as long as you've done your homework and haven't overpaid. Obtaining a valuation, doing your due diligence, and talking to agents and advisors in the area can help you get an idea of what a particular property might be worth.

Researching the market

The level of research you conduct 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 smart, well informed investors to build wealth through owning property. Bricks and mortar have historically delivered good returns to Australians for many years and it is an investment that is accessible to many people.

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 you need to do your homework before you buy.

Tools at hand

Fortunately there are considerable resources at your fingertips, so put them to good use.

At Financepath we offer our clients access to a range of Property Investment reports that take the guesswork out of selecting a property. These reports include information on sales history, projected growth and rental returns and the best suburbs to buy in. 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.

Extend your research

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 which properties are renting quickly and which ones are less desirable.

Research however does take up time so ensure 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 come up. Just make sure you are ready when it does.

Understanding your tax position

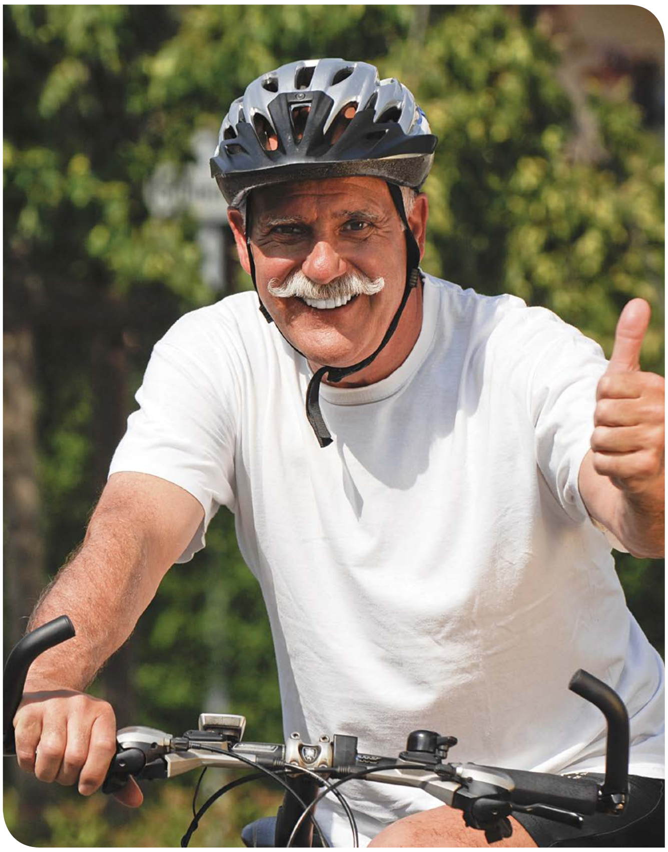
As well as capital growth and cash flow benefits, property investment may help improve your overall tax position.

Property is not just an accessible investment for some Australians, it can also be tax effective.

The attraction of investment property is the potential for everyday Australians to potentially build long term wealth. The ability to borrow a portion of the property value not only helps investors get into the market, it also offers opportunities to maximise returns through 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.

If the investment property turns a profit – or if the net rental income exceeds the mortgage repayments – the owner can be taxed on the income. However, should the investment property run at a loss over the financial year, that loss may be offset against other income.



Investment overheads

An investment property can incur a number of overheads and these can generally 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 which may be able to be offset this against other income. This is often referred to as 'negative gearing'.

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 an overall property investment strategy.

Understanding tax considerations is essential before you purchase investment property. At Financepath we offer Property Investment Analysis reports which take all of these tax matters into consideration so that our clients can sit down with their tax advisors and accurately weigh up the returns of a potential investment.

"Combined overheads and expenses that generate a net loss could be offset against other income."

Unlocking equity for investment

Existing home owners have an 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.

Depending on how long you've owned your own home and whether 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 the difference between the value of your property and what you owe. If the value of your property increases over the years – and your loan decreases – the amount of equity will grow.

The good news for home owners is that this equity can generally 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 deposit on an investment property.

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

It is important to understand that if you are looking to utilise equity within your own home that these borrowings be set up as a seperate loan facility. Understand just because the debt may be secured by your home it is the purpose of the borrowings that is important and if you are using the funds for investment it can be claimed as an expense on your tax. Having a separate facility makes it easier for your accountant or tax advisor to calculate the relevant interest.

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 fast to capitalise on current market opportunities, potentially saving you money in the long run. If you have to wait several years to raise a deposit it is possible that property prices could rise further – meaning an even bigger contribution out of your own pocket.

Property investment has been 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

Understanding your investment strategy is key to ensuring you secure the right financing.

Many Australians 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 investors.

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

What's also important is the loan's features and how it will help you meet your investment goals.

Know your goals

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 plans 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, am I 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 ideal outcome 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 traditionally look to pay off their mortgage as quickly as possible, which means a principal and interest loan.

The principal component is the amount borrowed; you are charged 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.

It is important to understand the difference between paying off a loan and reducing interest. Many people think they are the same thing and can only be achieved by paying down the principle balance. However there is more than one way to "skin a cat".

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 we will consider your current commitments and earning capacity matched with your long term investment strategy.

Financing your investment with a Mortgage Manager

Mortgage Managers are a key source of finance services for Australian investors.

They provide mortgage finance services, with some specialising in servicing particular types of borrowers such as self employed, first time investors or those with a tarnished credit history.

Mortgage Managers offer a range of products to meet borrower needs. However, because they are smaller and have access to different debt solutions they can provide you with a stronger, more intimate service that is personal and more specialised – a service to suit your needs.

Mortgage Managers can arrange loans for diverse types of investment properties: residential, commercial, industrial, retail, from a variety of funding sources.

They are responsible for recommending a loan and assisting with the application process, then arranging the funds for your loan and the ongoing, prudent management of customer service through each phase of your loan's life.

This can include credit assessment, the monitoring of loan repayments, receiving insurance renewals, interest rate adjustments and loan variations.

Whatever happens through the life of the loan, a Mortgage Manager is there to help.

Are Mortgage Managers safe?

Yes. Mortgage Managers do not lend their own money for investment loans – they source their funds from elsewhere, and this can have significant benefits.

Importantly, Mortgage Managers do not accept deposits or loan repayments – they are not banks.

Mortgage Managers arrange and service investment loans using funds from the wholesale division of leading Australian Banks aswell as traditional non-bank funders. Non banks utilise sources such as unit trusts, superannuation funds, securitised funds and even the banking sector itself.

Some leading banks use Mortgage Managers to provide loans. This reduces their need to support costly branch networks and they can allow Mortgage Managers to pass on competitive rates to investors.

Financepath have carefully selected wholesale funders who have a proven track record in the Australian and overseas markets.

Who is responsible for the mortgage?

The Mortgage Manager is not the lender; Mortgage Managers provide loans from professional lenders which may be from banks, investment trusts and some of Australia's biggest non-bank lenders.

These may be provided by a professional trustee or custodian company, which gives you peace of mind that your mortgage provider is secure and that your loan is properly and professionally managed.

If your Mortgage Manager ceases trading, the Mortgage Manager or lender could simply appoint another Mortgage Manager and your loan would carry on as before, but under new management.

Alternatively the lender may decide to manage the loan "in house" using their own dedicated Customer Service Team.

How does a Mortgage Manager get paid?

Mortgage Managers receive payments from two main sources: application fees, which help offset the cost of establishing your loan, and management fees paid by the providers of the funds for the ongoing management of the loan.

These costs are reflected in the interest rate that you pay on your loan.

What is the difference between a mortgage/finance broker and a Mortgage Manager?

A mortgage/finance broker introduces a borrower to a lender but has no ongoing involvement with the loan. All ongoing customer service is left to the bank or lender who provides the loan.

The Mortgage Manager is responsible for managing the loan and servicing all your customer needs from the time it is provided, until the borrower's payment of the final repayment of the loan, ensuring that your needs are understood and providing customer service for the life of your loan.

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 willing to withdraw.

For more details on unlocking equity, please see page 9.

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 required deposit can take 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 to be sold, among other concerns. This is usually outlined in a co-ownership agreement.

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

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 – Investors looking to maximise their cash flow can 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 personal cash flow.

Principal and interest loan – If investors have an outstanding home loan and an investment loan it makes sense on focusing on reducing the interest payable on the home first as the interest expense is not able to be deducted from your taxable income unlike investment loan interest. However if an investor has no home loan debt they may decide to look at reducing interest on their investment loan and a principle and interest loan is one way to do this.

Borrowers that select a principal and interest loan typically agree to a period of 25 to 30 years, after which the loan will be repaid in full.

Speak to us about your own financial situation and individual goals and plans. We can help you determine which finance structure might be best 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.

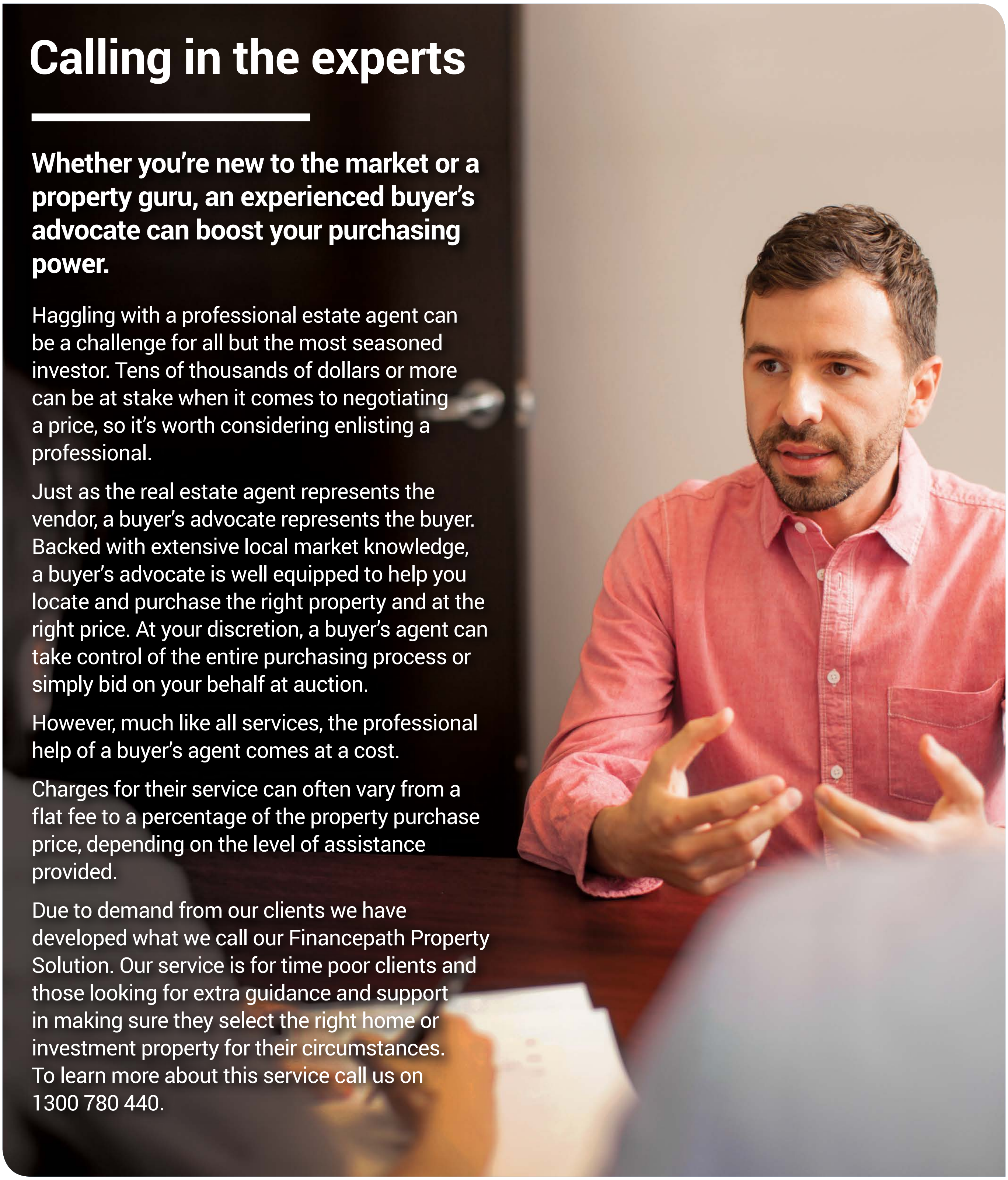
First up, it's important to be clear on one important point – a real estate agent represents the seller, not the buyer.

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 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.

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



Calling in the experts

Whether you're new to the market or a property guru, an experienced buyer's advocate 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 advocate represents the buyer. Backed with extensive local market knowledge, a buyer's advocate 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 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.

Due to demand from our clients we have developed what we call our Financepath Property Solution. Our service is for time poor clients and those looking for extra guidance and support in making sure they select the right home or investment property for their circumstances. To learn more about this service call us on 1300 780 440.

Smarter Money Management

Investors who have their finances in order can seek greater investment opportunities and realise the potential of their portfolio.

The key to successful property investment ultimately lies in managing finances and meeting commitments.

Whether buying an investment property as part of a broader investment portfolio or pursuing a multiple property strategy, sound financial management is critical to success.

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

With a sound financial structure, investors can achieve outstanding results with a relatively 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 always the case.

Your loan‘s serviceability will be assessed, based on what you 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.

A Smarter Way

To help better understand your money and ultimately achieve your financial goals, we have developed Your Smart Money Tool. Visit our website to find out more: www.financepath.com.au/money-management.html

Keeping debt down

The key step to driving down debt is to cut 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 any equity that's accumulated over the years to pay off high interest debt. This can improve your financial position while improving serviceability. It's important to remember that this will not clear the debt, you are just consolidating it – and it will still have to be repaid as part of your mortgage over a longer period.

However a home loan is generally charged at a 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 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 essential that you ensure 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 be processed.

If you're seeking to determine how you can improve your financial position to capitalise on greater investment opportunities, give us a call. Just remember to talk to your accountant or a qualified tax adviser before making any investment decisions.

Contact

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