Property Investment Guide

Your investment property guide

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About the Authour

Graydon Kline is a builder with more than 22 years' experience in home construction and renovation. He is highly active in the Gold Coast market where he has undertaken a broad range of work from entry-level homes for investors and first-home buyers to luxury homes in some of the Gold Coast's most desirable locations. Graydon has tapped into his extensive knowledge of the construction industry to put together The Pitfalls of Building as a tool for owner-builders or those looking to build their home but don't know where to start. He is passionate about the industry but hates seeing homebuyers taken for a ride by the complex array of rules and regulations that now govern the building sector.

Want an investment property that will ensure future capital gains? Want to know you're getting what you've paid for?

"The property investment market is filled with many hands taking advantage of your hard earned money".

How it works, Marketers can earn upwards of $40,000 and this money comes from you the investor, it's worked into the amount you pay for your investment property. There are a large number of builders who specifically cater to this market; they work on low margins and high turnover.

These builders a very price conscious and the quality is not there first priority. Your investment only stacks up because of the creative accounting provided by the Accountant in the form of a depreciation schedule.

I have been a speculative property builder and investor for more than 20 years and I can assure you the best way to make money out of property is to be selective and do your homework. During 2005 I looked at 11 housing estates to build and make a profit, unfortunately there were only 3 estates that could make a profit after purchasing the land and building the dwelling. Today 2015 the people who purchased land and built in those 8 other estates would be lucky if they could breakeven, most would still be facing a loss.

Current investment properties are built street after street in the same estate and these areas become ghettos and are less likely to ever realise a capital gain, the property maintenance you will need to spend upgrading the initial poor quality will give you a tax deduction, although a profit will take decades.

Negative gearing laws are designed to give you a tax deduction from you annual income, if you're not earning an income or combined income of more than $100,000 you're wasting your time and money in long term investing because the tax depreciation schedule that most accountants rely on to get your current investment to stack up is only good for the first five years. Although purchasing a new property will give you great depreciation not found in an existing dwelling.

I build many types of properties whilst some will make a profit instantly, others may have greater capital gains over the longer term. You will be guided on the best properties to suite your investment plan.

Kline Homes deals directly with their clients and we don't pay marketing fees, we selectively select good locations for good future growth and assured capital gains.

Good quality construction and a well thought-out design in a good location make desirable properties. Supply and demand from an owner occupier looking for a home to live in is what makes property values increase. The majority of investment homes are targeted to the high rental market and rental areas do not appreciate in price, unlike the owner occupied estates.

An investor is only crunching the numbers, do you really think, or would you pay top dollar for a small ugly cheap home to live in surrounded by other small ugly cheap homes? Of course not, you pay for quality and the old saying is "quality doesn't cost, it pays" buying good property in a good areas surrounded by owner occupiers will make money.

I was once told ***"what's the difference between a short term investment and a long-term investment?"*** A long term investment is a short term investment gone wrong.

Purchasing in an estate dominated with rental properties is a long term investment. Buy cheap property in a cheap area and be prepared to hang on to it for a long time with little or no return, "have you ever played Monopoly" you expect to pay more at the beginning for good property, it pays in the end.

Why Invest in Property?

There is some good reason why you should consider property as part of your investment portfolio and build wealth to provide you with a better future.

- Property is a solid longer term investment
- History has shown capital growth with property has outpaced inflation
- Over 70% of the wealthy have made their fortune through property
- Property is tangible, you can touch and feel it
- Whilst our population continues to grow so does the need for housing.

There is currently over 400,000 homes required within Australia to house our 1.8% per annum current population growth. Unfortunately there's less than 150,000 who can afford to buy or qualify to buy a home, so the rental market is in high demand and will continue to be in high demand.

Knowledge is power and with over 20 years' experience on how to make money with property we can show you how to do it, if you're willing to learn.

This guide is the first step in the process and is designed to provide an overview of the steps people need to know and consider to get started with property investment.

Remember not to be an emotional investor, investing in property is different to owning your own home although if you like it, so will a future home owner and the home buyer is an emotional buyer who will pay more for something if they want it, the investor is only going to crunch the numbers and pay what the final figures say.

Kline Homes never uses pushy sales people, the choice is always yours. If any of our sales people have either pressured or annoyed you, please contact me directly on 0413 671 303.

Our 7 step process

People purchase property for various reasons, however they normally always relate to wealth creation to obtain financial freedom.

Step 1: Individual strategy meeting

Before looking at any property you need to consider:

A. Set goals by firstly listing your priorities both personal and financial. Its only when you know what you want can you effectively design a strategy to achieve your goals.

B. Understand your current financial position with one of our financial brokers.

C. Find out how much you can afford a week to put towards any investment.

D. Establish how much is required for your retirement income or financial goals.

E. How much do you need to save and how long will it take to achieve those goals.

Investing in property is more likely to give you what you want if you're operating to some sort of plan.

A good plan includes thoughts about your goals and the rewards you expect as well as how you'll go about achieving them. It provides a basis for making decision that is more likely to achieve your goals. With a plan in place you can accurately measure progress. You can also quickly recognise when things are falling behind or exceeding expectations and make adjustments to suit.

Goals

Step 1: Setting your property investment goals.

A good place to start can be to think about "why" you want to invest in property If you're investing in property with a partner remember to include them in this process.

To get to the underlying reasons it can be a good idea to ask yourself "why" several times in a row. For example, if your first answer is "to make money" then ask why you want to make money. If the answer is something like "to retire earlier" or "to buy a plane and fly off around the world", then ask why you want to do that. By asking "why" you'll start seeing the underlying reason for the reward you have in mind, like having time to spend with grandchildren or fulfilling a childhood dream. Keeping sight of the rewards can help you stay motivated.

Step 2: How can property help you achieve your financial goals.

Property can be one of the most powerful investments due to the ROI (return on investment) that it can offer. To understand if property is the right investment for you, it's important to understand the concepts, strategies including the positives and negatives that are involved with this type of investment, the fundamentals are:

Many people are often very reluctant to purchase an investment property "people don't like getting their feet wet, although once there in the water they don't want to get out". The most daunting part about purchasing you first investment property is the affordability, "remember how nervous you were when you purchased your first home?" ***Sometimes it feels impossible to purchase that second property.***

Unlike your own home where you pay all the costs on your own, with an investment property you have other people helping you pay off those costs, at the same time your also receiving a tax deduction that goes towards paying down that investment property.

Leverage is the other power concept that helps people to achieve their financial goals, put simply you make money on the growth of property and a tax deduction from the costs of holding the property.

If the property goes up an average of $7,000 per year and its costing you $1,500 a year you are making a good return.

Purchasing property through a (SMSF) Self-Managed Super Fund has been one of the most popular investment strategies in Australia.

You have the ability to purchase a property for investment through your super fund and use the concepts of leverage and the use of people paying you an income each week (rent). This concept keeps your Super safe and performs better than inflation to secure you a comfortable retirement.

Step 3: Finance and affordability

It's important to find out what you can afford and what you can repay without being financially stretched, there's no point investing in your future if you can't survive today. Many investors make the common mistake of looking at property well before they know what they can afford. It's crucial to understand your borrowing capacity prior to searching for the right investment property.

Getting a deposit

There are two main ways to do this. You either save up a cash deposit or use the equity you have in a property you already own.

With the second option, the lender may agree to take into consideration the value of your existing property and by using your existing property as security for the new loan; it may be possible to borrow the full purchase price of your investment property.

What's involved?

A. A Kline Homes representative will firstly take your initial financial & personal details.

B. These details are then provided to our preferred finance brokers to establish your borrowing capacity.

C. The finance broker will then calculate what lender will provide the best deal based on the criteria your position best suites.

D. The finance broker will then provide Kline Homes with a pre-approval letter outlining your potential borrowing capacity based on the information you have provided. This is only a letter of offer from the lending institution until a full finance application is applied for and a valuation is completed will a loan be approved.

E. You will then have another meeting with the financial broker to determine your borrowing capacity and potential cash flow scenarios to determine the best property investment for you.

F. Once you are comfortable with the affordability of purchasing an investment property, then the property selection process can commence.

G. You will then be provided with all the detailed information required to make a full finance application.

Gearing

It's not unusual to hear about an investment property being "positively" or "negatively" geared. A positively geared property means that the income you receive from your investment property – the rent – is greater than all of the costs of owning it, including interest, rates, insurances, body corporate fees, maintenance and others. With a negatively geared property, the expenses are greater than the income. The easiest way to influence the gearing of a property is by adjusting your expenses. Normally the major expense you can really change is the interest – by either borrowing more or less where possible.

Negative Gearing

Sometimes the rent a property earns can be less than the ongoing ownership costs (such as the interest on the loan) and management costs (such as the agent's fees). In these cases the owner will need to make up the difference from other sources of income.

Some property investors are happy to do this. Part of their plan might be to put their own money into the property investment with the expectation that the property will increase in value to compensate over the long term. This strategy is called negative gearing.

The loss on a rental property investment may reduce the tax payable on the owner's other income but there are no guarantees there will always be a loss. If the property increases in value to compensate, the money will only be available after the property is sold or if you decide to borrow using the equity you now have in that investment property.

Depreciation

If you're investing in property you can also claim a depreciation deduction for items such as furniture and some appliances. This is done by writing off the cost of the item over a set number of years (known as the effective life of the asset).

The ATO has prepared schedules which set out what it considers to be an appropriate effective life for various assets, the cost of an oven, for instance, is generally written off over 12 years, so you can claim one twelfth of its cost as an expense each year (if you use the straight-line method for depreciation). If you're unsure about how to calculate the depreciation of your assets, you should consider professional assistance with creating a depreciating assets schedule.

There are two different types of depreciation:

1. An allowance for assets (such as an oven).
2. An allowance for capital works, such as the cost of building or renovations.

Kline Homes will prepare a depreciation schedule for your benefit so you can make full and correct use of the available depreciation deductions.

Step 4: property selection process.

This is the exciting part, choosing the land and dwelling to best suite your investment strategy. Kline Home's has land available in both new and existing estates. Our property placement and home design is based purely on your current situation and best interests, your profile will be used to filter the selection down to a few investment property options.

The selection process involves:

A. Compiling a list of property options currently available in the clients borrowing capacity and budget.

B. Review and study the overall potential for future capital gain of the property.

C. Conduct an onsite pre-inspection of the intended land, look at rental projections and property management.

D. Once you are happy with the location and land selection we can enter into the design and home inclusion selection process.

The land will be placed on hold with a small holding deposit, normally $1,000 until the house design is complete, the finance lender will require the land to be settled and secured prior to making construction payments for your new investment property.

Step 5: Client design and home inclusion selection process

Maximising rental appeal

Part of the design process is to determine the preferred tenant and the resale to an owner occupier. Once you've figured out who your ideal customers are, it's a good idea to think about what they value in a home.

Families might want a safe well-fenced back lawn and/or a separate rumpus room or may want to keep pets. Putting individual phone lines into each bedroom could add a great deal of value for students or full Internet access and individual phone bills to make life easy.

Outdoor security lighting and internal access garaging might be at the top of the list for singles. Young professionals sharing a house might be looking for plenty of off-street parking and/or bedrooms that are big enough to provide some individual living space.

By making your property more attractive to your target market, you'll find the right tenants more quickly and may even be able to charge a higher rent. The trick is to think about what they want, not what you'd like in a home.

Kline Homes will custom design your new home with your input to suite both the contours of the land and the orientation to create a desirable home for future buyers in mind. "That's how you make extra money out of property"

Once the design and inclusion selection process is completed, Kline homes will complete and confirm the pricing based on the above budget allowed from the finance broker.

What to look for in a property

Some features will be a higher priority for your investment property, so it pays to make a list of these and keep it handy. Remember to keep your investment plan and ideal tenants in mind, here are some examples:

- Hard-wearing carpets and floor coverings.
- Durable tapware and kitchen/laundry/bathroom facilities.
- Low maintenance interior surfaces.
- Easy access for moving furniture in and out.
- Easy-care exterior and grounds.
- Security features and safe outdoor areas.
- Street appeal and some sort of "wow" factor to attract good tenants.

Step 6: Contract Stage

A HIA new home building contract will be entered into between you and Kline Homes, and the building process begins. Depending on the size of your property, an average home will take 12-14 weeks to build, more information on the building process can be found on our website klinehomes.com.au. Your fully completed New home will then be handed over once you conduct a pre-inspection of the property.

The loan on the construction will be progressive, meaning you do not pay all the monies upfront, your new home loan will not be fully drawn until the end, once your home is completed.

The construction contract under law starts with a 5% deposit, followed by 15% base stage, 20% frame stage, 35% enclosed stage, 20% fixing stage and 5% practical completion stage.

Step 7: Property Management

Benefits of having someone manage your property

Having your property managed by an agent provides a number of advantages – you get the maximum return on your investment, the satisfaction of knowing that your investment is being professionally managed.

In addition, an agent is responsible for:

- Having a thorough understanding of the Residential Tenancies Act and ensuring that you're compliant with this Act.
- Finding reliable and responsible tenants.
- Signing a Rental Tenancy Agreement.
- Collecting and lodging the Rental Bond (with funds being held in trust) and arranging for its return once the lease has ended.
- Collecting rent and transferring it into your account,
- Providing you with monthly statements that document all financial transactions relating to the property.
- Providing you with an itemised annual account at the end of each financial year.
- Conducting property inspections.
- Arranging all necessary repairs (with funds being held in trust) to the property
- Dealing with tenants in all matters and acting on your behalf if/when disputes arise.

Many people use a Property Management Agent to manage their property investments. This may be something for you to consider when putting your plan in place.

During the property selection process Kline Homes will provide you with a selection of pre-qualified competent Property Manager to look after your investment. If you choose to manage the property yourself or select your own property manager ensure you ask a few of the following questions:

A. How many properties do you currently manage in the area?

B. How many of those properties are currently being rented?

C. How much per week are they being rented for?

D. How long will it take you to rent my property?

From here, choose the property manager that has the greatest presence in the area and has the lowest vacancy to ensure they can rent your property the quickest.

Insurance

Compared to normal home insurance, there are additional things you might want to cover as a landlord. Here are a few examples:

- Loss of rent if your property is unoccupied due to an insurable loss, such as a fire.
- Loss of rent if the tenant vacates without giving notice or in the event of eviction.
- Theft or loss of your own contents from the property.
- Deliberate damage or vandalism to the property or your contents – standard home insurance generally covers accidental damage only.

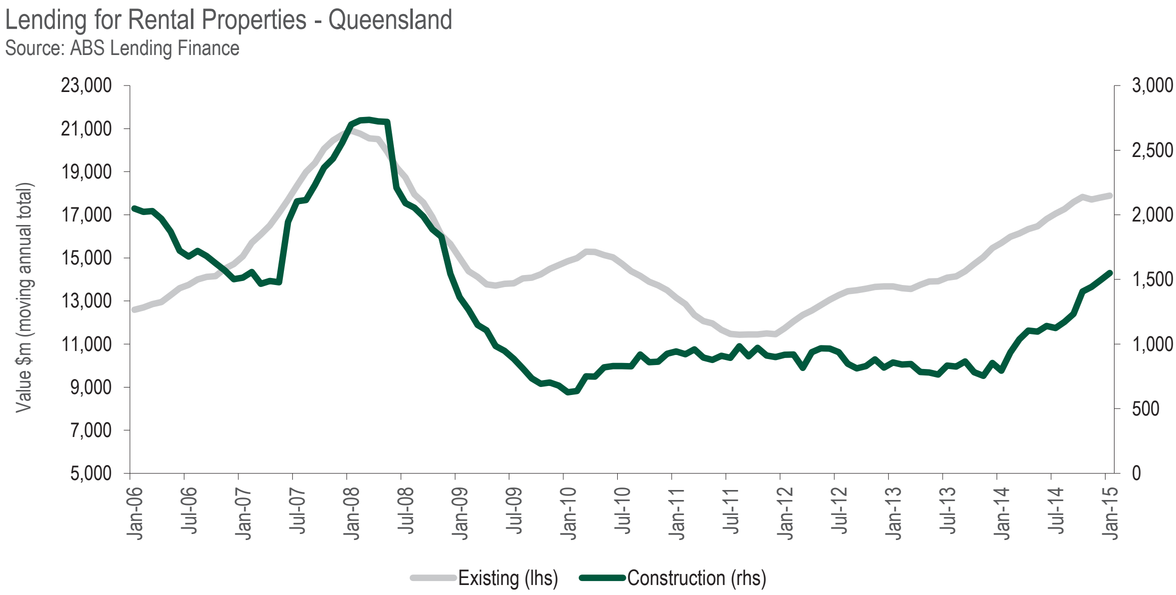
If you're thinking of using the equity in your family home to help buy an investment property, apart from seeking professional legal advice you should also take the time to review your life insurance cover. The family home may need to be sold if something happens to you, and the sale of your investment property is not enough to fully repay the mortgage in full.

Investing in property can secure your financial future and provide you with your dream lifestyle, however at the same time be quite a daunting experience for the first timers taking it on yourself. If you want that concierge experience by being looked after with a completely stress free experience and enjoyable journey tailored to your individual criteria, then you should contact the team directly.

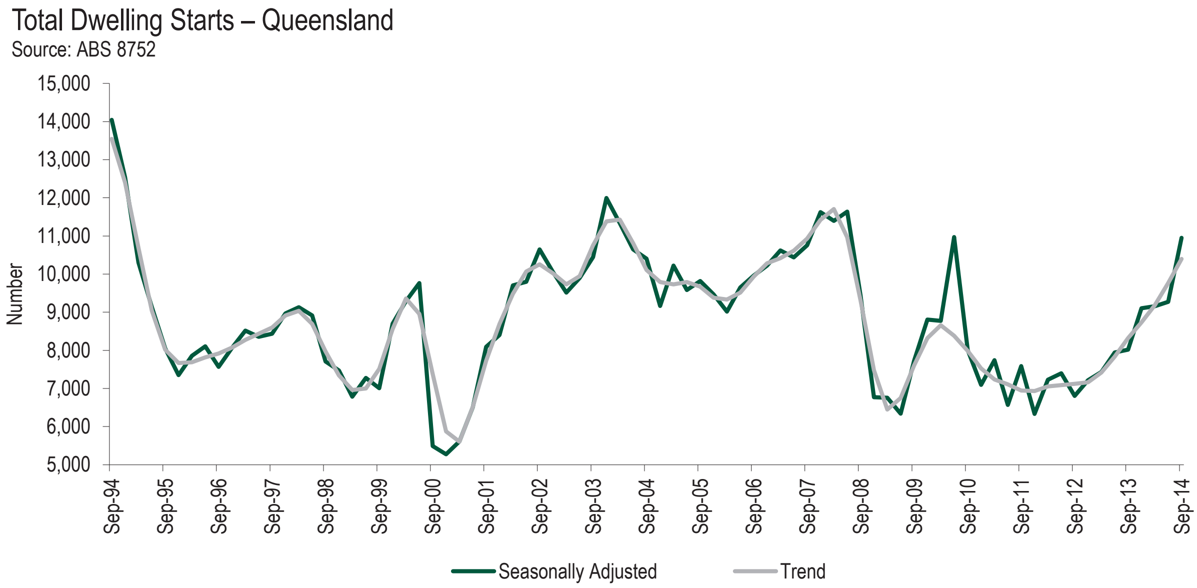
If you have any questions regarding new homes, please contact Kline Homes on sales@klinehomes.com.au

For any information on renovating and extensions, office refurbishment or body corporate rectification works please contact me at Kline Construction and Developments on enquiries@klineconstruction.com.au

Mixed investor activity in Queensland

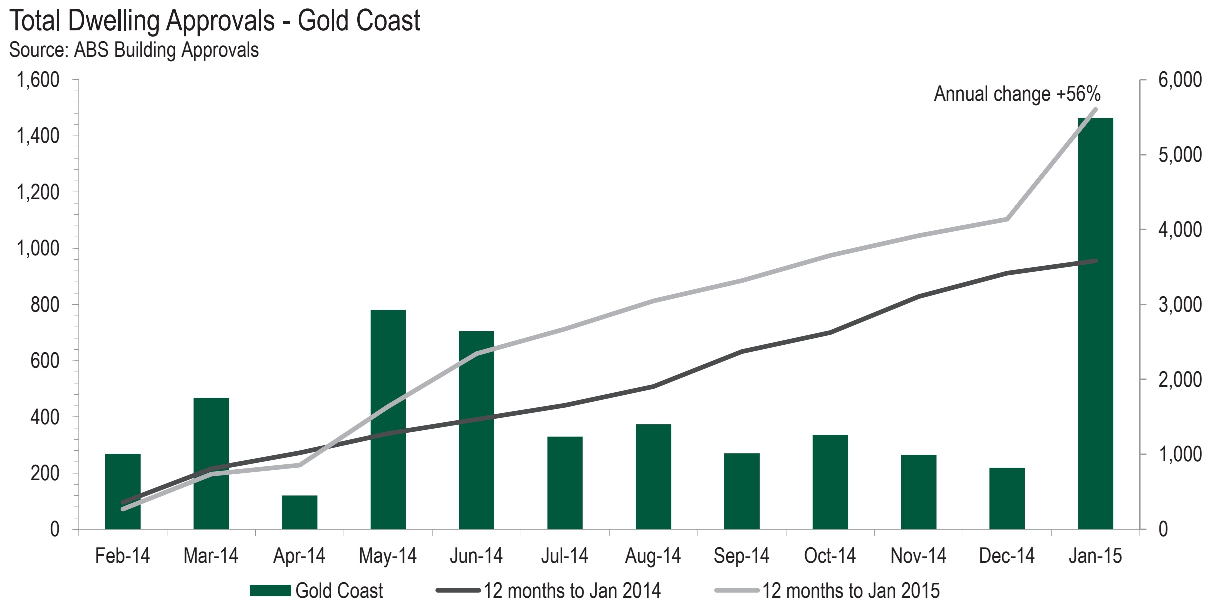


Housing Starts are on the up again



- Over the 12 months to September 2014 total starts increased by 18% to 38,485.

Gold Coast grew during 2015



What is driving the demand for housing?

- Owner occupiers
  - First home buyers – weak, but not at record lows;
  - Trade up buyers – some upward momentum;
  - Renovations – recovering from a very low starting point.

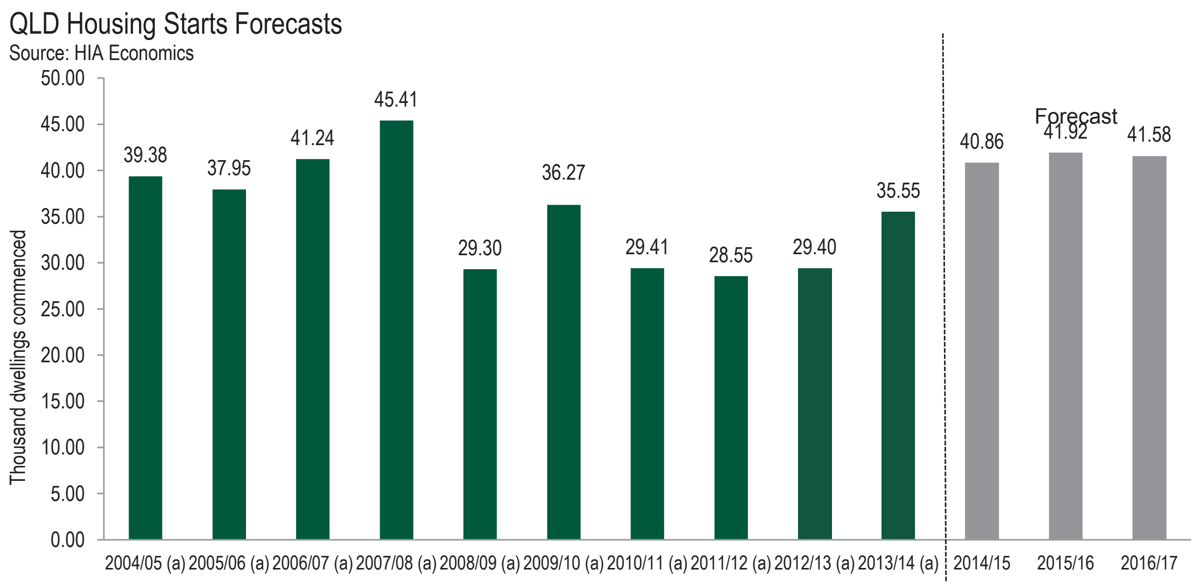
- Investors
  - Private buyers – lapping up the relatively ‘good returns’;
  - SMSFs – gathering momentum;
  - Foreign investors – at a (national) record high and don’t need a short term return.

- Policy settings
  - are changing the new home mix;
  - 20 years ago 74% of new housing approvals in Queensland were detached; in 2014 that figure was 54%.

Building Approvals

	Number of Total Dwellings Approvals		
	3 mnths to Jan 15	3 mnths to Jan 14	*% change*
Greater Brisbane	6,443	6,041	7%
Cairns	214	167	28%
Gladstone - Biloela	34	229	-85%
Rockhampton	112	101	11%
Gold Coast	1,948	958	103%
Mackay	126	269	-53%
Sunshine Coast	727	756	-4%
Toowoomba	284	205	39%
Townsville	340	371	-8%
Bundaberg	89	98	-9%
Hervey Bay	79	124	-36%
Queensland	**10,685**	**9,722**	**10%**

Where to for new housing starts?



How much do we need to build?

	Population Growth Scenario		
	Series A	Series B	Series C
Population in 2012	4,565,529	4,565,529	4,565,529
Population in 2050	9,435,210	8,242,590	7,300,046
Implied annual population growth rate	1.9%	1.6%	1.2%
Additional dwellings required per annum	49,487	37,367	27,789
Required annual build rate			
Low real income growth	52,985	40,866	31,287
Medium real income growth	56,484	44,364	34,786
High real income growth	59,983	47,863	38,285

Source: HIA Economics

- Over the last 5 years new dwelling starts have averaged 31,400, …
- Over the last 10 years and 20 years … 35,600.