

Step-by-step guide to investing in 2015: A 12-MONTH PLAN

Getting started in property investing can be a daunting prospect for a beginner investor, so *Cate Bakos* has put together a comprehensive and fully tested guide to starting a profitable property portfolio with minimum pain and maximum gain

Let's face it. If property investing was easy, everyone would be doing it. But don't let that thought put you off starting your portfolio. Sure it's not easy, but investing in property is also pretty simple.

If you have a carefully designed process to follow, your first foray into the world of investing will be a lot happier and more rewarding.

This starts with planning. Planning enables you to understand what's involved in rolling out your investment strategy within the designated timeframe. This will help you avoid as much risk as possible and enable you to achieve the optimum cash flow scenario to support your strategy.

To get started, ideally you would have your own home (principal place of residence) but not yet an actual investment property.

Ready to take the plunge? Here's your month-to-month plan of action.

MONTH 1

Actions to take

- ✓ Conduct a thorough and honest budget analysis. Work out every expense that flows through your household, from necessary expenditure to discretionary spending.
 - This should include mortgage/rent, clothing, education, pets, presents, dinners, gifts, subscriptions, etc.
 - An absolute understanding of surplus income is required before you can tailor your own investment strategy.

This step is crucial. Without this analysis, you could potentially overcommit, or undercommit, and miss out on the possible returns you could have achieved.

Timeframe

This exercise should take the entire month.

Shortcut option

If spending is consistent, you can simply conduct a two-week

analysis and then multiply the surplus by 26, then divide by 12 for a monthly surplus figure.

If you're organised and well planned, you may already have a robust budget and understanding of your current surplus.

Word of caution

You must factor in any possible changes to the current environment, ie reduced household income or planned spends (holidays, new cars, education expenses).

MONTH 2

Actions to take

- ✓ Speak to a finance expert or broker about loan structuring, loan products, and getting a pre-approval. Make sure they discuss with you the importance of investment loan structuring, and that you cover the following topics:
 - Offset vs redraw
 - Interest only vs principal and interest
 - Fixed rate vs variable
 - Buffers – how much do you need to set aside
 - Stand-alone loans vs cross-collateralisation
 - Professional packages
- ✓ Get a pre-approval. Having finance pre-approved means you can bid/negotiate with confidence. This position of confidence can mean the difference between purchasing swiftly and competitively, and losing out to another buyer in the heat of the negotiation.

Shortcut option

If you have an existing relationship with a broker or banker, you may already have a line of credit with funds available and a generous pre-approved limit in place. If not, then get one.

Timeframe

This can take from two days to one month, depending on how organised you are. A broker or banker is going to ask for the following documents:

- Payslips
- Group certificates and/or tax returns
- Credit card statements
- Any existing property mortgage statements and rates
- Possibly employer/accountant letters, among other items

The quicker the supporting documentation can be gathered, the faster the approval process can be.

Word of caution

You must be confident that the lender has conducted a genuine credit assessment, and you must make sure your circumstances haven't changed since the pre-approval was issued.

MONTH 3 – FIRST HALF

Actions to take

- ✓ Consider the overall agreed surplus monthly figure with the pre-approved/designated spend limit.
- ✓ Don't apportion *all* of your approved limit or *all* of your surplus to one purchase unless you are planning to buy just one investment.
- ✓ Talk to your broker/banker about your planned spend and cash flow shortfall, and ensure you have left room for the next purchase.

This exercise should take no more than a week. This step will also shape the first property metrics. From the maximum spend limit to the maximum out-of-pocket cash flow shortfall, you will be able to model the purchase price and gross rental yield required. This could be a \$2,000 shortfall per month, or a \$0 per month shortfall.

Note: Cash flow shortfalls do not include tax benefits. When you take into account monthly shortfall limits, tax-related benefits may require Variation Forms, and this can be quite technical, costly and time-consuming.

Top tip!

If the maximum shortfall per month is less than \$400 before tax, the investor would be well advised to consider regional options.

MONTH 3 – SECOND HALF

Actions to take

- ✓ Coordinate your deposit funds and hold them in an account where they are readily available.
- ✓ Conduct research within geographic locations.
- ✓ Establish your spend limit and benchmark areas that offer properties within your buying limit and also match the desired rental, eg \$400,000 apartments that deliver an out-of-pocket cash flow shortfall of \$700 per month.

Top tip!

Use a simple Excel spreadsheet to model the shortfall. Include items such as:

- Expected rent
- Vacancy rate (suggested 5% vacancy as a minimum)
- Rates (water and council)
- Owners corp/body corp (if applicable)
- Property management fees typical in the area
- Maintenance (0.5% per annum of total property value)
- Insurance (building and landlord policies)

- ✓ Eliminate the areas that *don't* deliver these types of cash flow within your designated spend limit.
- ✓ Avoid high-vacancy areas. If in doubt, speak to a local property manager about the vacancy rates.


MONTHS 4–8

Actions to take

- ✓ Fine-tune the locations/suburbs that will offer viable options for your metrics.
- ✓ Be clear about the growth drivers. Are you basing your selection on growth due to high-income-earner appeal? Or schools? Or family demand? Or retiree appeal?
- ✓ Make sure your shortlisted areas appeal to your target tenants. For example:
 - If you want to appeal to cashed-up young professionals, you'll need to target areas within an easy walk from transport to the city, lifestyle hotspots such as pubs, cafes and bars, and lifestyle areas such as parks, beaches, etc.
 - If you are focusing on good school areas, an understanding of zoning boundaries, bus routes and types of discipline on offer at each school is fundamental.
- ✓ Understand which types of properties will match the brief, eg flats, apartments, villa units, conjoined/subdivided houses, free-standing houses.
- ✓ Speak to local agents or property managers about current demand in the area and which attributes are most sought after by homebuyers in your designated segment.
- ✓ Set up online searches to identify each new listing that suits your brief.
- ✓ Set aside inspection times each weekend.
- ✓ Carry a checklist to each inspection.
- ✓ Be nice to three agents and share with them what you are looking for.
- ✓ Be prepared to move quickly to negotiate for a property.
- ✓ When you identify a potential shortlisted property, request

a contract and send it through to a legal representative to review before you consider signing it.

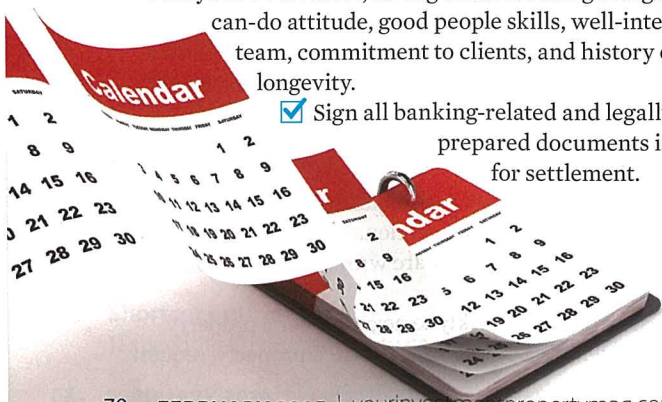
- ✓ Ask the agent many questions about the sale, the vendor's desired terms, the other competing buyers, and the other local comparable sales. Don't give them excess details about your budget or position; just pay attention and listen.
- ✓ Conduct due diligence quickly. This should include:
 - Building inspection
 - Strata reports
 - Contract review
 - Rental appraisal
- ✓ Speak to your banker/broker and legal representative about the most appropriate settlement period and best terms before signing.
- ✓ Negotiate/bid in accordance with your spend limit and metrics. Take into account the following:
 - Most suitable settlement period
 - Best deposit solution for you
 - Special conditions that will assist you in getting a good tenant as close to settlement day as possible. Some ideas include negotiation of a pre-settlement access period to install items/upgrade/renovate/fix
- ✓ Be clear on the local values for recent comparable sales *before* negotiating. If in doubt, portals such as RealEstate.com.au, RPData.com, RealEstateInvestar.com.au and OnTheHouse.com.au can help.


 **Top tip!** Don't take family or friends if there is a chance they won't relate to or support your strategy. The most well-meaning friends and/or relatives can be quite negative and can adversely affect your chances of securing the right asset.

MONTHS 6-9 (THE MONTHS IMMEDIATELY AFTER THE ACQUISITION)

Actions to take

- ✓ Provide your banker/broker with the appropriate documentation (fully signed contract and signed appraisal letter on letterhead).
- ✓ Meet with and interview local property managers.
- ✓ Assign a good property manager before settlement and try to facilitate their engagement in the process before settlement.
- ✓ Look for attributes such as experience, passion, alignment with your own values, strong understanding of legislation, can-do attitude, good people skills, well-integrated team, commitment to clients, and history of longevity.
- ✓ Sign all banking-related and legally prepared documents in time for settlement.




 **Top tip!** Prepare a checklist to highlight the attributes you are looking for, the terms you have identified as important, and the commercial terms you are keen to agree upon.

MONTH 10

Actions to take

Prepare for settlement and use a checklist to ensure all items are checked off.

 **Top tip!** Don't leave this until a day or two before settlement. Try to inspect at least a week prior so that the vendor has a chance to fix any issues in the event that there is damage or other problems to rectify.

MONTH 11


Actions to take

- ✓ Chat to your broker about your borrowing capacity and cash flow position.
- ✓ Apply for pre-approval for property number two.
- ✓ Calculate new surplus amounts based on your post-settlement position.

MONTH 12

Actions to take

- ✓ Formulate your next strategy for the acquisition of property number two.
- ✓ Focus on diversifying your areas (eg north/west of a capital city vs southeast).
- ✓ Only consider those areas with consistently low vacancy rates.
- ✓ Embark on road trips/day trips to your next destination.
- ✓ Speak to local agents or property managers about current demand in the area and which attributes are most sought after by homebuyers in your designated segment.

 **Top tip!** Be involved in your first three-month inspection of property number one – go along with your property manager and observe how your tenant is looking after their home (and your asset). 🏠

Cate Bakos is a licensed buyer's advocate and a Qualified Property Investment Advisor.

Disclaimer: This article is for general information only and should not be taken as financial advice. Before making any investment decisions, be sure to get advice from a qualified professional person.