MAKE IT HAPPEN™

15 PROPERTY INVESTMENT TIPS FROM ADELAIDE LOCAL EXPERTS

OUWENS CASSERLY
REAL ESTATE

A home can be many things. A new beginning, a place to grow, a reflection of all we've achieved.

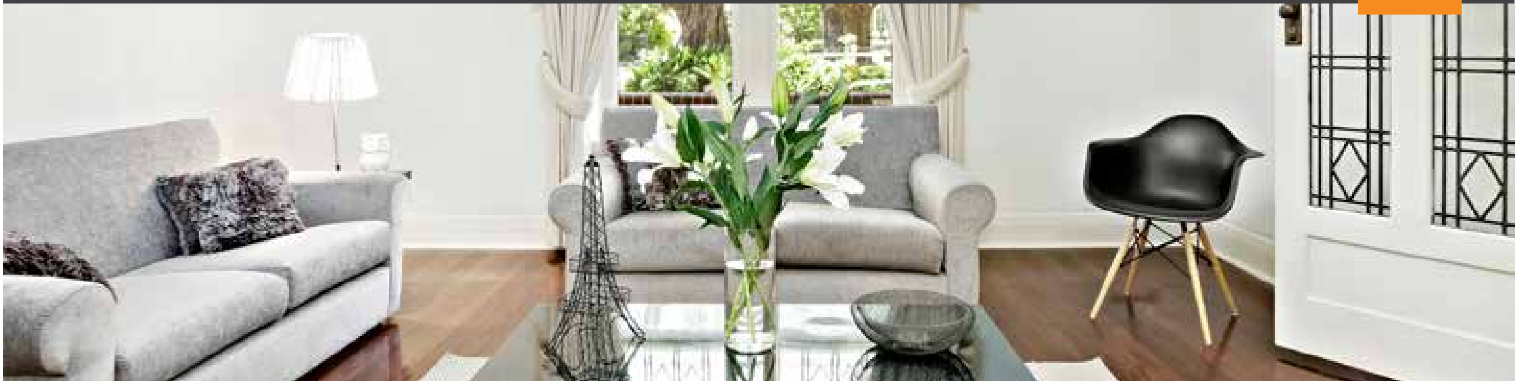
While each home is as distinct as the people living in it, there's one thing we all have in common. When our needs and wants change, it's time to make a move.

Whether you're looking for a lifestyle change, more space or just something new, you don't want to spend your life dreaming about it.

At Ouwens Casserly, we'll work with you to make it happen.

MAKE IT HAPPEN™

INTRODUCTION



INTRODUCTION FROM OCRE EXPERTS - WHY INVEST IN PROPERTY IN ADELAIDE?

1. You don't need $1 million dollars
2. Picking the right mortgage
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4. Think practically, not emotionally
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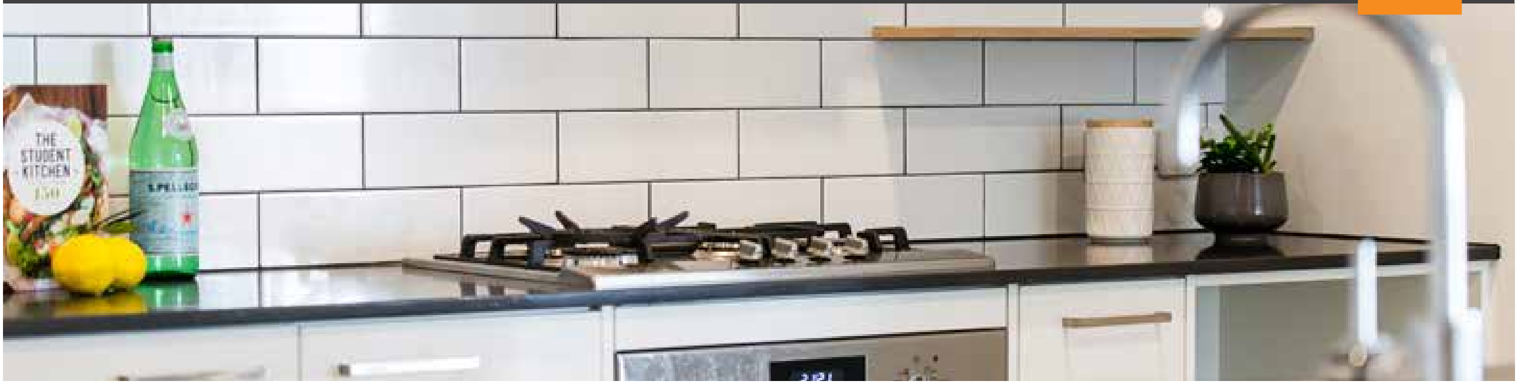
INTRODUCTION



As experts in Adelaide's property market, OCRE are very pleased to share this eBook with you - 15 Expert Property Investment Tips. This guide aims to provide a practical guide for beginning to build a successful strategy from scratch no matter your income, including how to identify good investment opportunities on your own, as well as gaining the best benefits from property investment so you can build towards a consistent passive income and financial security for your future. The first question that we need to address is quite simple - why invest in property in Adelaide?

Well, as one of the most affordable cities in Australia right now, property investors see Adelaide as a city of opportunity where you can find a quality property for roughly half the cost (or even less) than in markets along the East Coast. For a city that borders some of Australia's most beautiful coastline, internationally acclaimed wine regions and offers a laid-back lifestyle with all the infrastructure of larger cities, Adelaide has provided a stable market with great growth potential for almost a decade.

According to SQM Research from July 2017. Adelaide's vacancy rates are a very low 1.8% presently, which bodes well for investors. The capital has seen a 6.6% total gross return (Core Logic, June 2017), and with major regeneration projects and significant State Government investment in the metropolitan area, the city is positioning itself well for future population growth. Consistently ranked as one of the Top 5 Most Liveable Cities in the World since 2012, as well as being named as one of the must-visit global destinations by Lonely Planet for 2017, investors can also take advantage of generous stamp duty concessions and present incentives to drive a concentrated population growth within the CBD.

KPMG also listed Adelaide as one of Australia's most profitable cities for business and investment in 2016, meaning that it is well positioned to benefit from business growth in an increasingly globalised economy, attracting new residents seeking rental opportunities close to the city. With so much going for it, there is a lot of appeal for new and existing investors to take full advantage of the accessible entry prices into the property market without the lingering concern of a market bubble bursting anytime soon. We hope you can take away confidence in your investment decisions and benefit from our expert advice. Please enjoy - 15 Expert Property Investment Tips.

ALEX OUWENS
DIRECTOR

1. YOU DON'T NEED $1 MILLION DOLLARS

Let's dispel this myth right away so you can truly open up your ideas about what it means to invest in property - the idea that you need existing wealth in order to invest is simply not true.

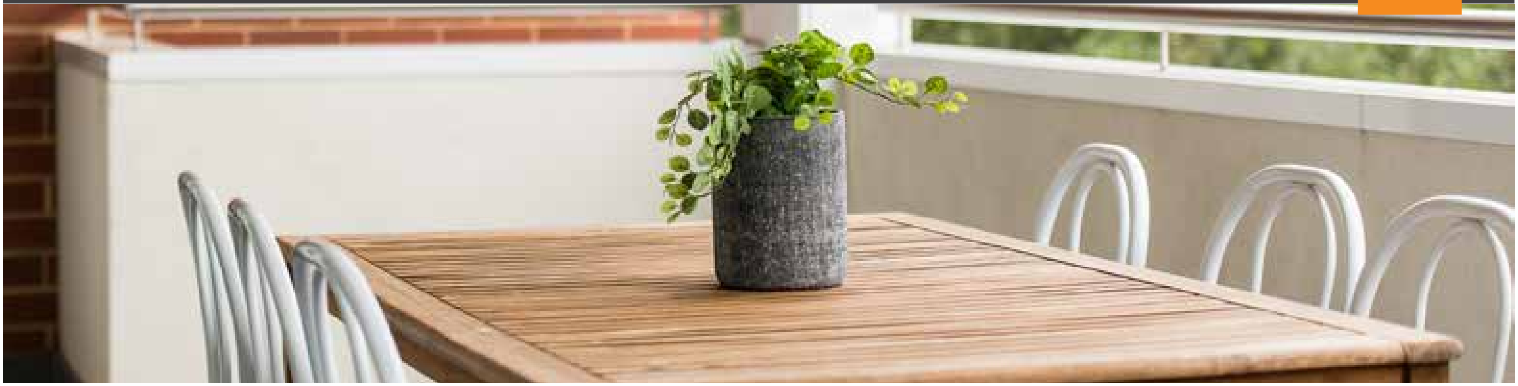
The key to making smart investment decisions in property is to stay within your price range.

Not all homes available on the market will make smart investment choices. This goes for houses priced in the millions to those at the lower end of the market. Look around within the Adelaide market and you can find plenty of properties priced between $150K - $200K. Within that price range there are absolutely some duds, but with a little practice (and the expert advice provided this guide) you can become able to identify the qualities that make any property a long-term asset and can help you establish a portfolio.

You can also have your smashed avocado as well as your investment property - saving doesn't need to necessarily mean sacrificing your lifestyle. Through prudent planning that ensures you avoid overspending, even on a modest income you can achieve almost any property investment goal over time. It's all about setting clear goals and sticking to them.

So, let's have a look at how to get into the market.

2. PICKING THE RIGHT MORTGAGE



Choosing a mortgage may seem like going on Netflix to select a show - there are so many options and most of them have appealing features. Many investors make the mistake of pouring hours of research into their mortgage for the sake of saving a few dollars when in reality the real savings come from buying intelligently in the first place.

Whether you choose a fixed rate loan or a variable rate loan will depend on your circumstances, but both options are worth considering. Over time, variable rates have been shown to be cheaper, but a fixed rate at the right time can also save you money. When you're deciding, remember that rates usually rise alongside property prices, so increasing interest rates is not always bad news for investors, as they'll usually see a win in their capital gains at the same time.

Mortgages that are 'Interest Only' are preferable to 'Principal and Interest', as they tend to improve the tax effectiveness of your investment by improving your negative gearing benefit. Also, consider a loan that provides you the opportunity of paying interest in advance or has an Offset Account.

Remember, there's no point in saving those extra dollars when you've paid $50K over the reserve on your investment property. Your time will be better spent researching the local market.

3. THERE'S NOTHING WRONG WITH STARTING SMALL

Too often when people are introduced to the idea of investing in property, they are given the idea of investing in glamorous buildings, large mansions and holding a portfolio inthe most desirable suburbs in their city.

Just forget all that.

For those looking to break into the property market, you need the right fit to begin your investment journey. Units, townhouses, and villas generally require less capital to purchase, new builds often have government concessions attached that can lower the upfront cost of your purchase.

To identify the best opportunities for investment, there are three key things to keep in mind:

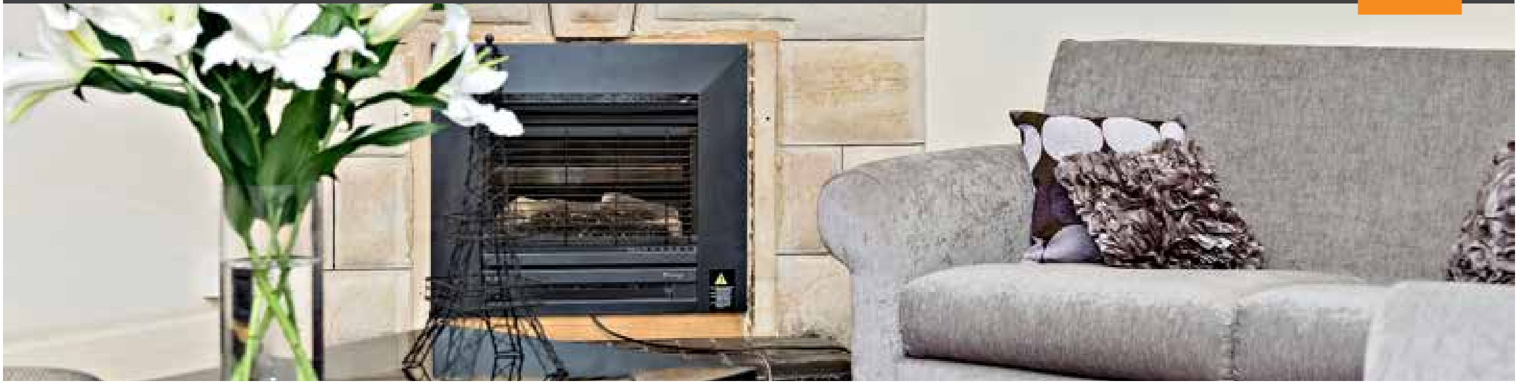
- Look for a building that is in good condition. Speak to existing tenants if you can to find out if there have been any long-term or repeated issues to consider.

- Look for low strata fees and council rates. The less money you're spending on maintaining your property, the more you can put back into paying off your loans.

- Look for locations close to infrastructure that would make it desirable for the sort of tenants you'd like to attract. For example, if the unit is a one bedroom, it's unlikely that a family will be interested so there is no point in being close to a school. But if it'slocated close by a major bus line which goes directly into the CBD, where the majority of Adelaide professionals work, then that isa big plus.

Ultimately, a consistent tenancy is crucial to the success of your investment, so be ready to think like a tenant when it comes to property location.

4. THINK PRACTICALLY, NOT EMOTIONALLY



Successful property investment is a largely pragmatic pursuit, but it's hard when you hear the "buzz" about an up and coming suburb to not be tempted. There will always be spruikers, magazines, newspaper articles or expert columns talking about how to make a quick buck or the 'smart choice'. In reality, the smart choice is to ignore it all and stick to your plans.

Here are three quick checks to make to ensure that you're making a prudent move:

- Avoid buying in hotspots. That may seem counter-intuitive, but if you're buying where everybody tells you to buy, you will always be paying the highest possible price.

- Stay within the middle of the market. Just because you see an expensive property that looks interesting doesn't mean you should pursue it and extend yourself. Keep in mind that when it comes to selling and ultimately reaping the big reward of property investment, a property that is in the middle of the market price range is going to appeal to a lot more buyers.

- Don't just pursue properties that you like. You should be focused on identifying whether the property is desirable for renters, how returns will compare to your outgoings and the capital growth potential of the property. Vanity investing, or only buying what you like, is not a particularly good strategy.

5. AVOID COMMON TRAPS

Get to know all the cliches of property investment - everything that sounds familiar so it must be right - then ignore all of it!

Common traps occur because investors haven't become too conditioned by sales tactics. If you've ever heard the words, "this an obvious gem and plenty of people are looking at it!" then you might know what we're talking about. Here's a rundown of all-too-common terms and phrases you'll hear, and how to look beyond the schmoozy sales speak:

- "Highly desirable location..." - a line used in marketing collateral which may result in a value inflation of the property. Because everyone deep down wants something that others want as well.

- "Close to transport..." - when we say close, does that mean you can hear the main road or a train clanging past?

- "Plenty of off-street parking..." - be more specific. Can you actually fit 2 cars in that driveway or is it simply a wishful sales tactic.

- "A renovators delight..." - or is it just a lot of hard work for not much return?

- "Subject to council approval..." - just because a selling agent has identified the potential for renovations or expansion does not mean that what they're suggesting is a legally viable way to increase the value of the property.

- "Tranquil location..." - a polite way of saying the property is probably further away from the nearest shopping centre than you might realise.

- "Recently renovated..." - look beyond the fresh coat of paint and ask yourself, does this property actually have the qualities I'm looking for? Or is the renovation just a cheap upgrade to help push the sale?

- "The price guide says..." - Too often quoted prices often underestimate value. Get a clearer idea by adding around 10% to the top end of the guide.

6. LEARN HOW TO IDENTIFY THE BEST OPPORTUNITIES

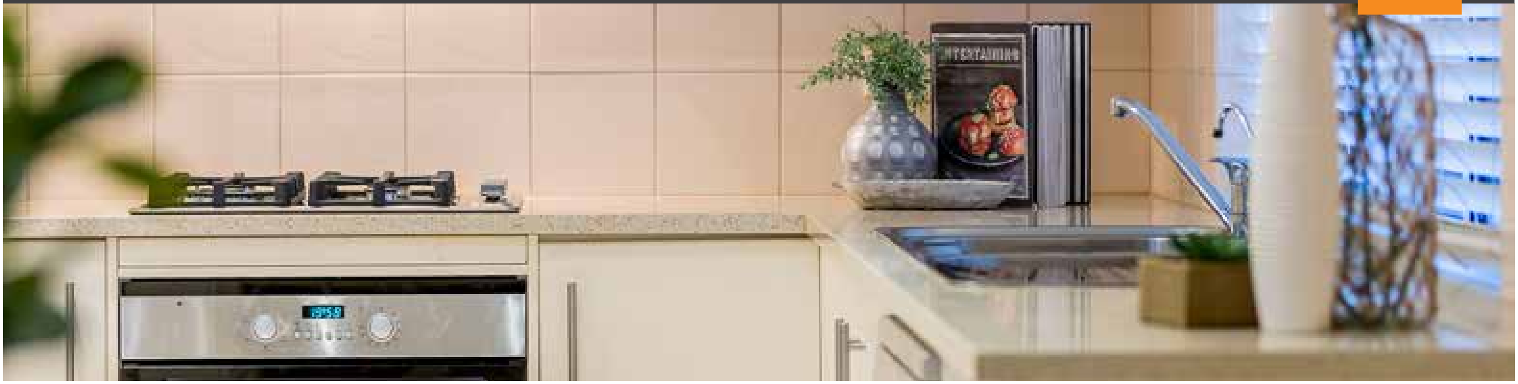
The rules of a good investment property are simple.

All it needs to do is earn you a consistent rental return, while also steadily increasing in value over time. Identifying these opportunities is actually easier than you might think if you follow these 2 simple rules:

- CBD proximity - limit yourself to within one hour's travel distance to the CBD as it's where most buyers will work.

- Compare the new with the old - try to see what new builds are selling for in the area, then look within a kilometre radius of a comparable older property. The cheaper you can get it, the better. The older property will likely have the capacity to generate quite similar returns.

7. DON'T GET SWEPT UP IN THE MARKET HYPE



Just because a musician has a lot of people playing their music, doesn't mean the song is selling. The same can be said of the property market - simple because people are talking about a suburb as a potential investor hotspot does not mean that the properties for sale in the location are actually getting sold. This is important for determining whether to invest or especially sell in a location. To determine the real state of the market, you'll need to do a little bit of research, but it could help make you a lot more money in the long run. Here's what to look for:

- Don't look at the number of overall listings in an area as an indication of how desirable the location is. Instead, look at how long houses in the area have been on the market to better understand whether buyers are interested in the suburb.

- Look at properties that have recently sold and compare the price that was asked for them to the price they were actually sold for. You can do this quite simply using free online apps that track the advertising history of properties.

- You should apply a similar tactic for properties made available via auction. Determine the weekend clearance rates for each area, then reduce that number by 10% to produce a more realistic total.

8. BE WISE WITH YOUR RENOVATIONS

TV shows have made renovating the hot ticket once again. Sure, there's lots of fun to work on a project, but there's nothing worse than investing your money and time on a property that simply won't offer you the return on investment. Renovating an investment property is also very different to renovating a home you'd like to live in. The money you spend must be able to provide you with an increase in returns - not only in capital value but in rental income.

By renovating an investment property, you're trying to create equity. Spending $15K to increase a property's worth from $200K to $230K is a smart decision. But you need to make sure that the money you spend will result in the outcome you're after, and that's only done by looking at what tenants are looking for - there's no point in spending all your money on a wow-factor bathroom if the kitchen is still underdone, for example. Identify where you feel your house needs improvements then set about determining which of those will add the most value for the most cost-effective way.

And don't over-capitalise. If a there's a $50 shower head that will last just as long as a $200 shower head, then why bother with the more expensive? Water comes out of both, and your tenants will be more concerned that the water is always hot, not how the shower head sprays.

9. DON'T JUST HAVE A PLAN TO BUY - PLAN TO MAXIMISE RETURNS

Buying your property is not the end game for an investor. That's just the start of the work. Creating an environment where that property will maximise its potential returns is the ultimate goal.

The starting point should be looking at the property in person before you buy it and identifying exactly what you will be spending your money on in order to do so. Are there structural issues which need addressing? What can we do to improve the appeal to tenants? Start to formulate a plan that can be put into action the second that the property is yours.

Hiring a good property manager is an important part of this. The right manager always has your best interests at the fore, finding you good tenants and completing all the necessary inspections in person. They'll be able to identify for you what improvements can be made.

It's also wise to have a contingency plan in place as part of your long-term investing strategy. This could mean preparing for a flood of maintenance costs at once, or an unplanned rise in interest rates on your repayments. Always have a buffer in your strategy to ensure the overall impact on your investment returns is minimised.

Prudent planning ensures you never lose sight of the big picture - maintaining your tenancy, increasing your rental yield and steadily improving your capital growth.

10. HOW TO USE EQUITY

Leveraging equity in your home, or the equity from another property investment, is a tried and tested way to increase your property portfolio. Equity is the amount of money in your home that you actually own. For example, if your house is worth $350K and you still owe $50K on your loan to repay, you have $300K worth of equity. You can use this equity as a guarantee against which to secure another mortgage in place of a deposit. This sort of loan - formerly known as a line of credit - allows you to use the equity from an existing house (often your own) to purchase another property (an investment) without a deposit.

Discipline is very important for those considering an equity loan to purchase a property. There is always a temptation to use an equity loan like a big credit card, and being to draw on the money for personal debt and expenses. This can get very messy at tax time when it comes to separating the investment debt from personal expenditure. Ultimately, you don't want to waste the money that you had set aside for investing in the first place, so it's best to simply avoid using an equity loan on anything other than investment expenses.

The best setup for an equity loan is a 'set and forget' scenario, which means your financial position should only be assessed once when the loan documentation is processed and your application approved. Be wary of annual of ongoing package fees. A good broker will keep an eye out for lines such as 'fees and charges may vary', which is a red flag when it comes to budgeting for future costs.

If you already have one loan provider for your personal home, it may be a good idea to seek a different lender for your investment property. If you were to settle with one lender for all of your mortgage transactions, they may try to secure their position by cross collateralisation of your assets. Cross collateralisation means that your loan is secured by two or more properties, so your investment loan may be secured against your investment property and your personal residence. This gives the lender a position of power, which they could use to insist you channel profiles from the sale of one of your properties to pay down your existing loan. It also complicates your ability to refinance in the future. So it's something to avoid.

While the costs of refinancing an existing loan to access equity are now quite affordable, be sure to be aware of what they are before you proceed.

11. GET SET FOR LIFE

Financial experts have been talking for some time about how Australians approaching retirement age today seem unprepared. While you may be thinking that an inheritance will secure your financial future, the reality is that in order to properly heed these warnings and the statistics that already support them, the best decision you can make is to take control of your own financial future, rather than rely on the government pension to enjoy their later years.

Property investment can play an important role in working towards a stress-free retirement.

But how do you get there? Debt leverage is one of the most effective tactics to grow your portfolio and start planning towards your retirement goals. Here's an example of how it works, comparing 2 investments, both returning 10% per annum -

Person one invests $50K and they get $5K return that year. Person 2 invests $50K but they buy a property worth $400K by borrowing $350K. They still get 10% return - a $40K gross return in this instance. There are costs involved in the debt borrowed, so if we say the loan of $350K was at 5.5% then that would cost $19,250. So you subtract the costs from your gross return to calculate your cash-on-cash return, which is $20,750. So you'll be earning $15,750 more as a return for the same amount of money invested. (Need something to state that this is an example only, and should seek professional financial advice. Real estate agents not allowed to give financial advice under the law)

As part of a long-term strategy towards retirement, structuring your investments in a way that you seek maximum growth returns early on is the best way to grow your portfolio. Then, as you get towards retirement, you can start to focus upon properties that provide a strong rental yield, including looking at the potential returns of commercial property.

The ultimate goal of this is strategy is to work towards building a passive income to enjoy when you retire rather than simply relying on the sales proceeds of property investment to fund your retirement and be debt free.

12. IS IT TOO LATE TO START?

This is one of the biggest concerns for people without portfolios, especially those approaching retirement age.

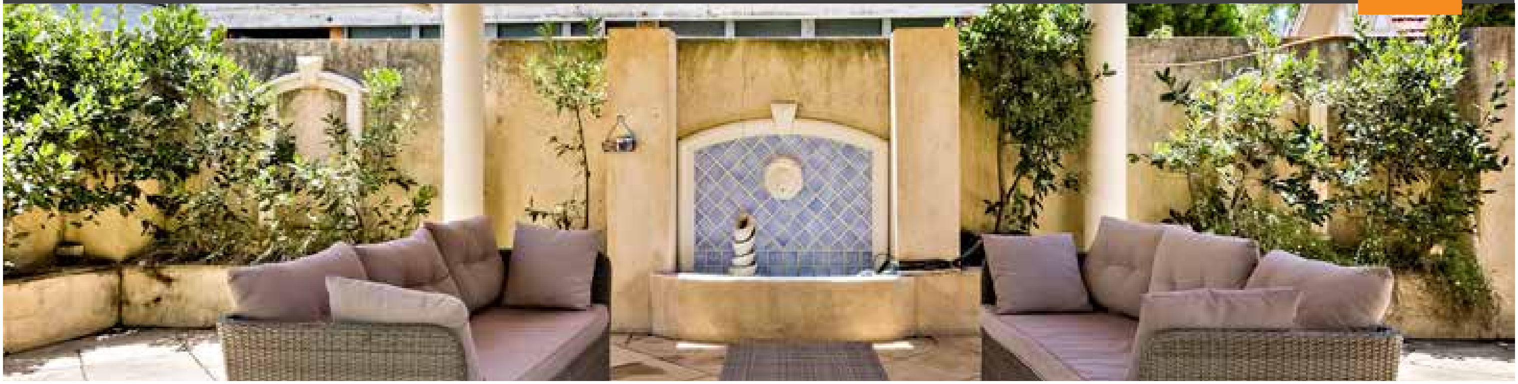
Do I have enough time take control of my financial future?

The last thing you want to do is lose what savings you do have in a desperate bid to create last-minute wealth. Even in your mid-50s, it's absolutely not too late to look at property investment as a way to creating wealth. While doing nothing may seem like the easiest option, but it also won't yield any results.

Irrespective of when you begin to invest in property, with the right advice and astute purchases, you can build a healthy portfolio to lean upon. Of course, if you start later in life you may need to be more cunning in your strategy than those with the time to make mistakes. This is where specialist advice can really help come into play, and remember that you don't need to hold onto your investment properties in retirement if it doesn't hold a benefit for you. Even a ten year build and sell can help create additional wealth for you to enjoy later in life.

We'd go so far as to say that it's never too late to begin.

13. A SUPER OPTION



Investors who are already using property to create wealth for their retirement should consider combining their portfolio with their superannuation.

Money generated by your superannuation, as legislation presently stands, will be tax-free when you retire. This means any passive income from rent that you're earning that is being paid directly into your superannuation is money that will not be taxed. There is no reason why you cannot split the rental income from your portfolio to enjoy some of the income benefits now, while also putting money away from your future.

If nothing else, combining the two is a tax-effective tactic to keep building your portfolio.

14. SO, WHICH ADELAIDE SUBURBS SHOULD I LOOK IN?

With an outstanding lifestyle, heavy State Government investment in infrastructure and transport, as well as the transition to a modern economy well underway Adelaide is presenting a number of great opportunities in the metropolitan area for investors to capitalise on.

Drawing from the tips contained in this guide - starting small, identifying good investment opportunities that won't over-extend you - there are a number of locations which provide the perfect mix of rental yield and capital growth, without the extreme highs and lows of markets like Sydney or Melbourne.

According to CoreLogic Data from May 2017, the best yielding suburbs to invest in, within 10km of the CBD are:

- Holden Hill - 6.4% ($222,500 median sale price, with $275 average weekly rent)

- Windsor Gardens - 6.1% ($216,000 msp, $255 avg rent)

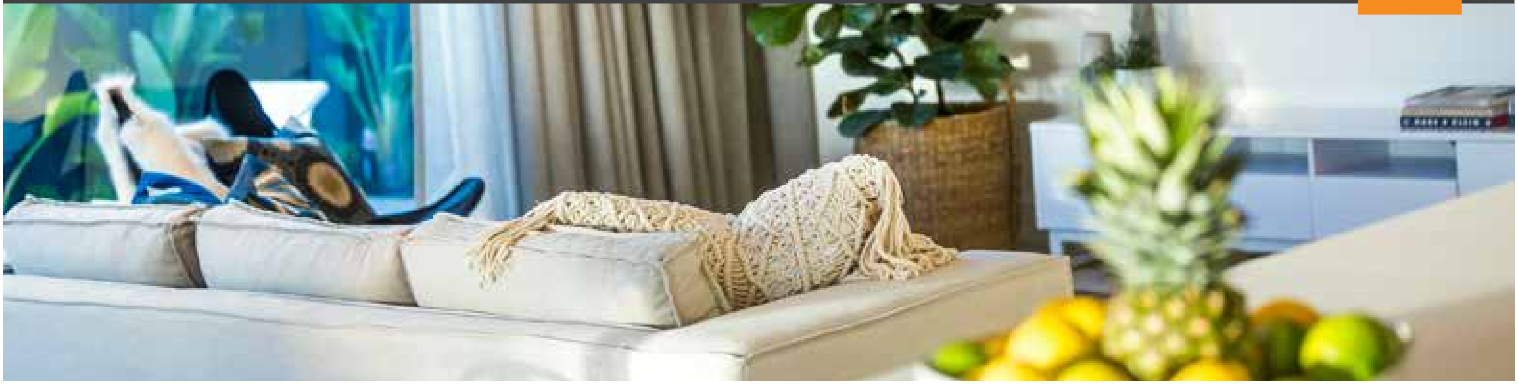
- Everard Park - 5.8% ($247,500 msp, $278 avg rent)

- Brooklyn Park - 5.7% ($250,000 msp, $275 avg rent)

- Ashford - 5.7% ($269,000, $295 avg rent)

But that's not all you should consider. The southern corridor is set to benefit from improvements to South Rd soon and is worth monitoring. New properties in Adelaide's inner-north are being offered at affordable prices, while pockets of affordability exist in the west and east providing excellent rents.

15. GOOD INVESTMENT CHECKLIST



1. Have you calculated how much you can spend on an investment?

2. Have you picked the right mortgage?

3. Have you identified a good property that fits within your price range?

4. Have you checked if the property is sound, and for common traps?

5. Have you identified any work required to be done on the property, and factored it into your long-term planning?

6. Can you see new ways to increase the returns on the property?

7. Can you use the equity in your existing property to assist with the purchase?

8. Do you know where this property fits into your overall portfolio? Will the rental yields provide an immediate return or is there potential for strong capital growth over the long term?

9. Can you use this property to benefit your superannuation?

10. Do you have a good property manager with your interests at heart ready to help manage your portfolio as it grows?

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