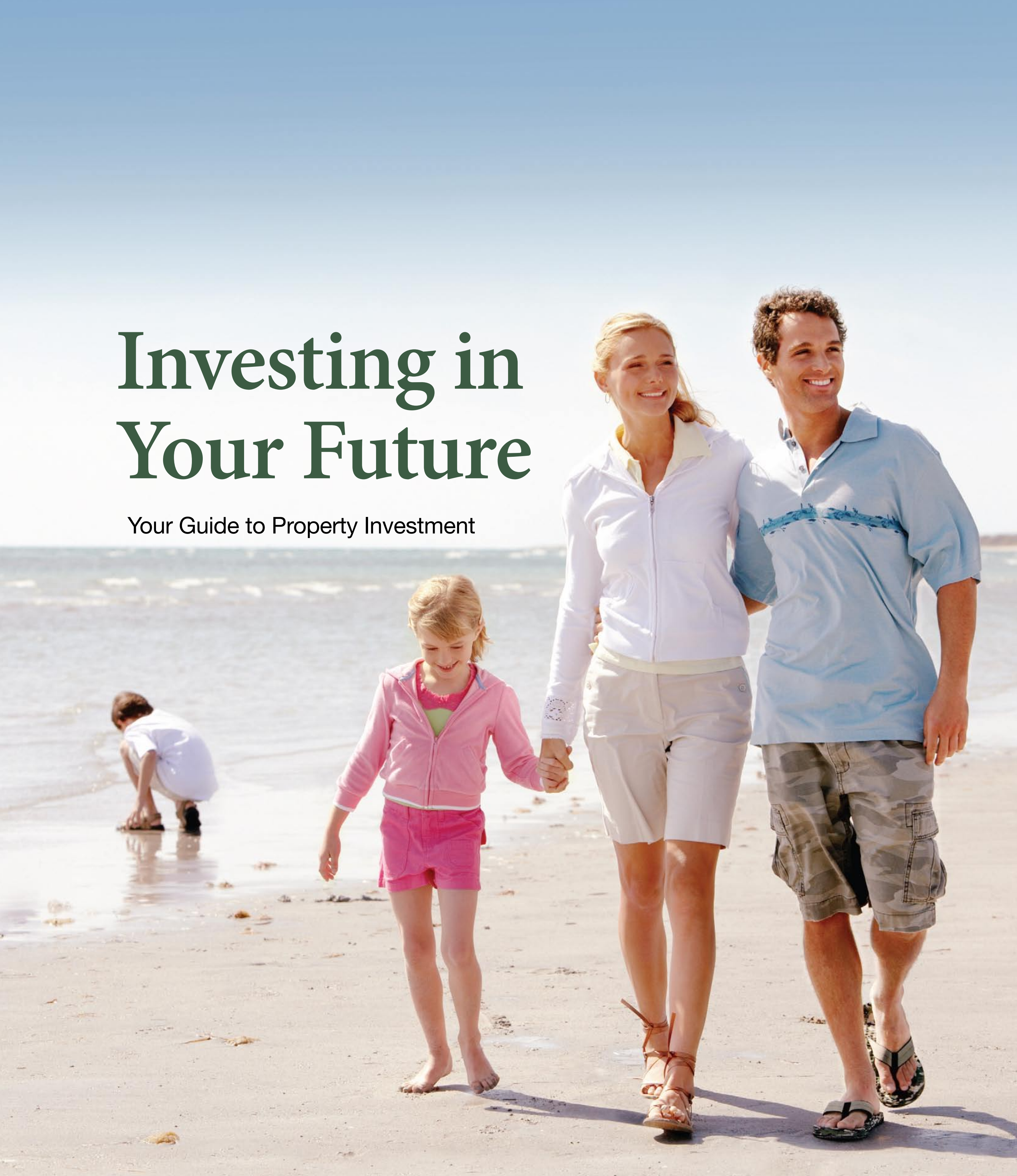
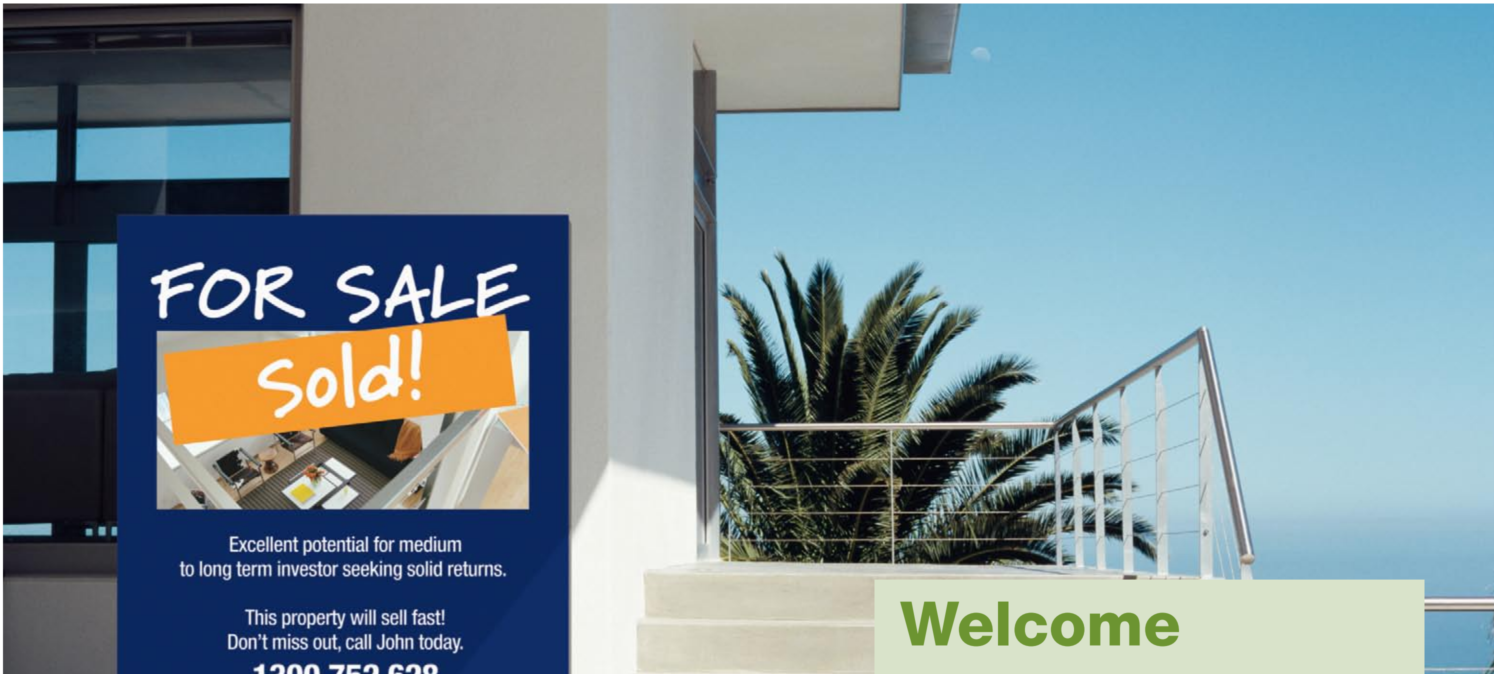
Investing in Your Future

Your Guide to Property Investment





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Welcome

Property has long been an attractive choice for Australian investors – and for very good reason. The property market offers good returns over the long term.

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

But it is not just the potential for capital growth that has made property a sound investment for the long term.

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 returns over the long term.

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

Sincerely,

Phillip Tarrant

Editor

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 wealth for 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 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 ongoing volatility in global share markets, there is significant appeal in property investment.

Residential property in particular has been widely regarded as a solid and reliable asset class and, with the right advice, structure and approach, it 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 80 per cent of the value of an investment property so 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 Australian property has doubled in value every eight to 12 years. This, then, has the potential to create wealth if an investment property was held over the long term (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 rent increases over time, this shortfall may decrease and may eventually become an income stream.

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

Know what you want

One of the fundamentals of success in property investment is to understand your objectives before you make a purchase. And the first golden rule of investment is to be realistic with your expectations.

If you expect to see your investment double in value in just a few years, you are likely to be disappointed. True, some properties can appreciate very quickly but this is the exception rather than the norm. And considering current market conditions in many locations across Australia, it might be unrealistic.

It is also important to remember that property is not a liquid asset – your money is tied up and can't be released quickly. It is therefore prudent to take a longer term view if selling the property for a profit is your goal.

Choose well

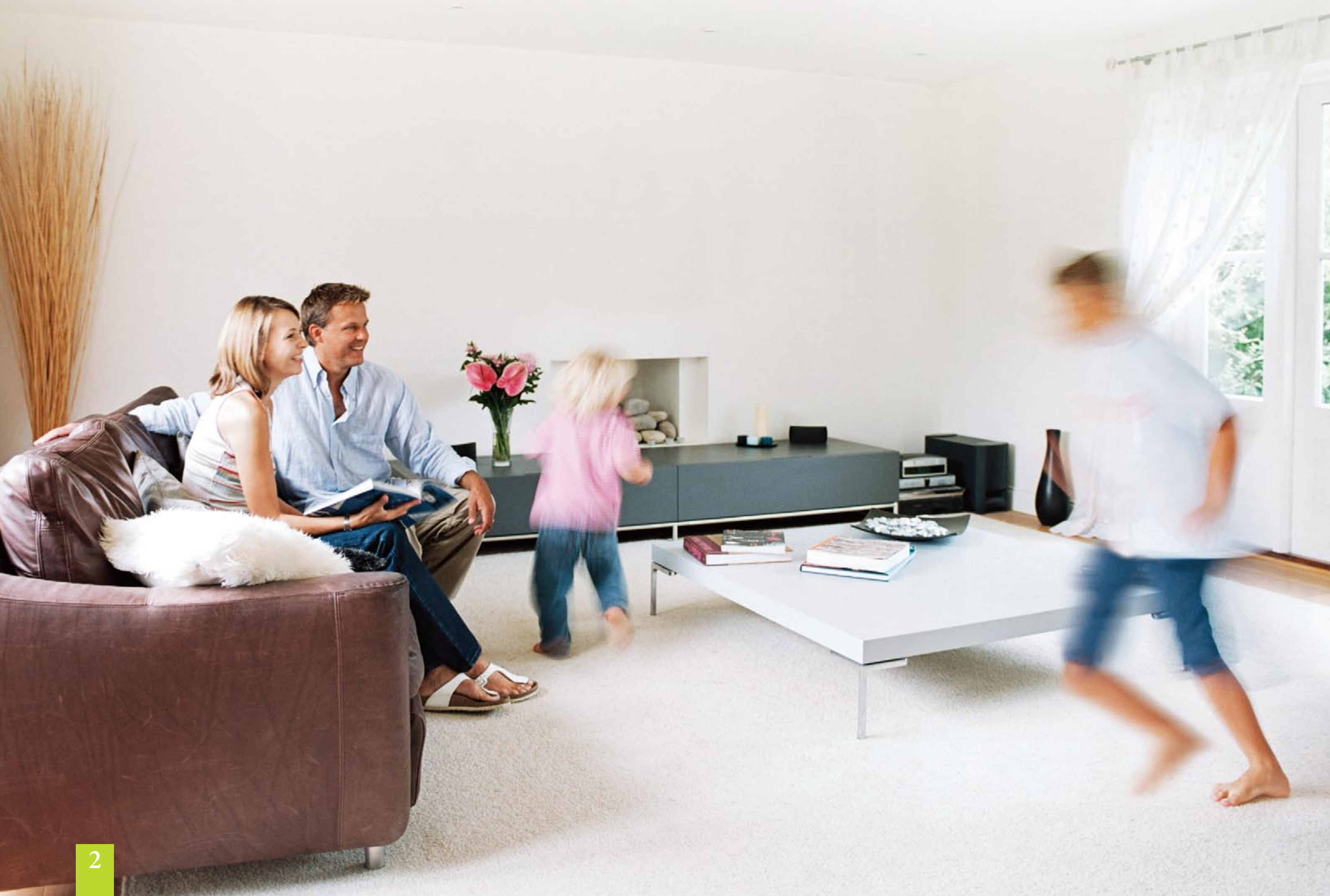
It is also essential to remember that your return will depend on where your property is located – this includes access to transport, infrastructure, schools, hospitals and entertainment.

It is essential to research an area thoroughly before you make a commitment. A property purchased in a good location, at or below market value, is likely to deliver better returns if held for the long term.

You also want to think about selecting a location where demand for property is strong, and likely to remain strong, and where supply is limited. This will help ensure good, lasting rental income as well as strong demand for your property when it comes time to sell.

Whether you're looking for a nest egg for retirement, a boost to your income further down the track or simply improving your financial position, property investment has been a successful option for Australians of all walks of life.

> *"With the right structure and approach, property can deliver very attractive returns over the long term."*



Planning your investment

The key to establishing your investment strategy is deciding whether you're seeking cash flow or capital growth.

Property ownership is close to the hearts of most Australians and so it's easy to understand why so many people consider property 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. In other words, capital growth is top of the agenda.

When it comes to a long term strategy, cash flow is often a significant consideration. Over the years, as the rental increases, the rent can be channelled back in to the property which will eventually drive down the mortgage, leaving the investor with a property that delivers a monthly income.

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.

Ultimately, it can be possible for investors to achieve both capital growth and cash flow however this is by no means assured. Investors who 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.

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

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, so ensuring your finance is in good order will enable you to maximise your investment prospects.

Turn to the experts

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 80 per cent of the purchase price – or in some cases more.

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 engage a mortgage broker. Not only can we help you through the mortgage selection and application process, we are also perfectly positioned to help you assess how much you can – or should – borrow.

One of the key reasons why a broker's support can be so valuable is because there can be a big difference between what you can borrow and what you can actually afford in order to service a loan on an investment property.

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

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 things you can start thinking about prior to that.

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.

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 95 per cent of the value of a property thanks to Lenders Mortgage Insurance (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.

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

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 broker, as we are well positioned to assess your own estimates as well as outlining what different lenders are prepared to offer.

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.

Determining 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 the potential to add value to a property through renovation, but there are also potential pitfalls. If you're not a natural handyperson you may find assessing the degree – and cost – of required renovations a challenge, and this could mean spiralling expenses if you need to hire tradespeople.

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 who 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 you have never met and it's likely you'll have to bring in someone to manage the property for you.

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 who 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 to do your research and look carefully at the location. Property with good rail and road connections that is close to 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 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.

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.

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.

Tools at hand

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

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

If you're looking to rent out your investment property you should have a clear picture of the supply and demand for 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.

But above all, make sure 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. So don't be in too much of a hurry.

Understand your tax position

Property investment may impact or even 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 against other income.

This is often referred to as 'negative gearing' and has been a popular strategy for some investors over the years.

Unlike your own home, investment property that is sold for a profit will incur Capital Gains Tax (CGT) and so this should also 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. Make sure that you talk to your accountant or a qualified tax adviser before buying any investment property.

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.

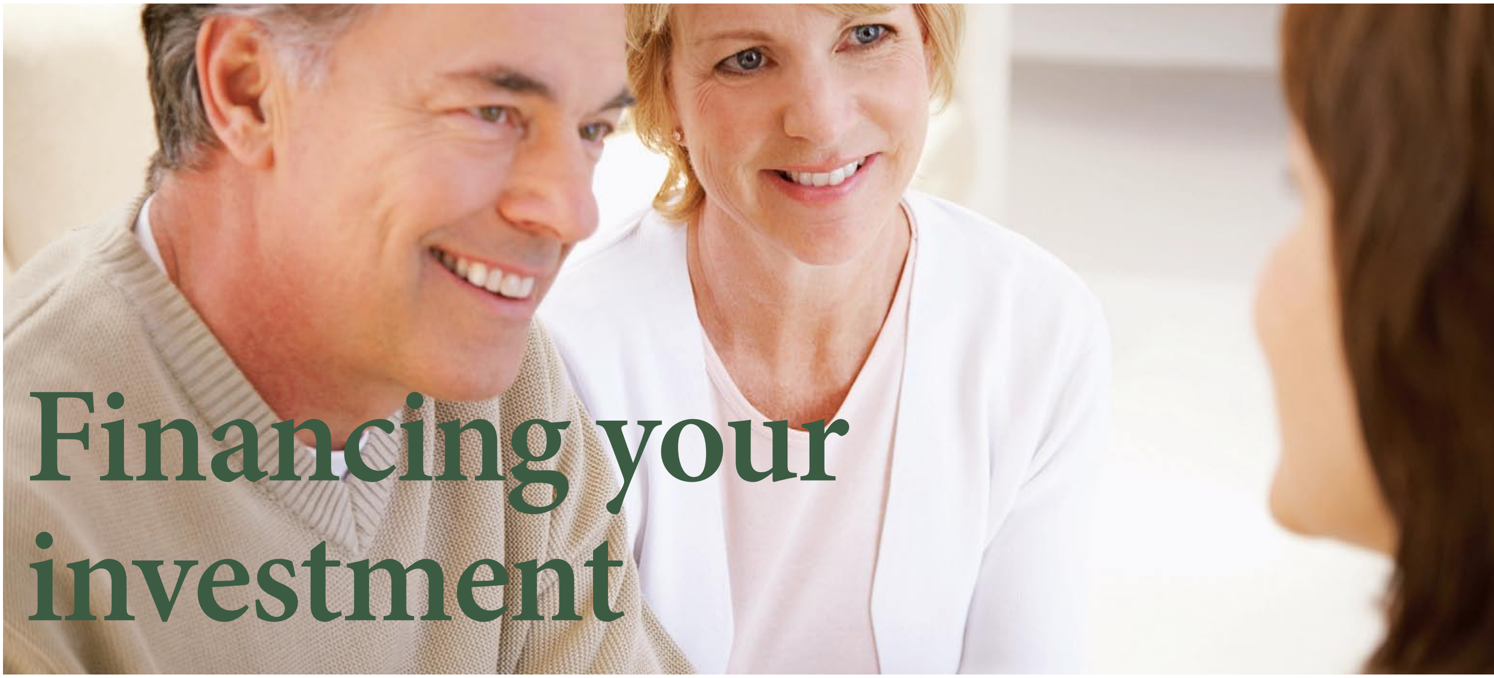
It's important to note that you are effectively borrowing the deposit for your investment property against your own home and this will increase the mortgage repayments on your home mortgage. The interest you'll be paying on the additional loan will be at your home loan mortgage rate – which is likely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

One of the biggest benefits for buyers who take advantage of releasing equity to invest is that you may be able to tap into the investment market earlier than you could if you had to wait to save a deposit.

That means you could move fast to capitalise on market opportunities. 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 essential to ensuring you secure the right financing.

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 the loan can help you meet your investment goals.

With some solid knowledge of the products available, backed with your mortgage broker's support, you can navigate the often complex path to financing your investment property.

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 who plan to live in their properties typically 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 an investor's monthly outlay as you are only paying off the interest component of a loan rather than the principal amount. This may free up cash flow and maximise tax efficiency.

Seek assistance

It can be extremely difficult to keep up to date with all the latest products available on the market, and many investors can feel bewildered by the choice available and the home loan jargon used by lenders.

Banks regularly update offerings, slash rates, and release new products in order to remain competitive. There are literally thousands of mortgage products in the market today and selecting which one best suits your needs can be daunting for even the most seasoned investor.

This is where a mortgage broker, like us, can be such an essential asset. We will take you through the various loans that may suit your needs and help you to understand your borrowing options.

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.

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.

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 between all concerned parties to explore funding opportunities as well as possible constraints.

Interest only or principal and interest?

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 – Investors looking to own their property outright at some point in time may opt for a principal and interest loan. While investors might not choose this loan structure when a property is first purchased, if rental returns increase and the property becomes positively geared they can switch to principal and interest.

Borrowers who 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.

Negotiating with agents

Real estate agents can be the gateway to snapping up a bargain.

In most property transactions you are likely 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 readily available deposit 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 is more symbolic than anything else, but it 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.

Call in the experts

Whether you're new to the market or a property guru, an experienced buyer's agent 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 agent represents the buyer.

Backed with extensive local market knowledge, a buyer's agent 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.

Ask around prior to making a decision as a referral from a friend or family can be better than picking an unknown quantity from the yellow pages.

Finding and keeping good tenants

While most investors understand the importance of finding the right location, price and type of property, they can sometimes overlook the importance of finding the right tenant.

Attracting and retaining the right tenant for your investment property should be one of your most important objectives when investing in property.

While we all hope to see our investment property deliver strong capital gains, the lifeblood of a successful investment is often the cash flow generated by rental income. Good tenants are therefore an essential component in an overall sound property investment strategy, but how do you find the right ones?

Be thorough

Some investors may decide that it is worth forgoing a percentage of their rental to pay for the services of a professional property manager – and this is a proven strategy for investors across the country – but with the right approach you can ensure that you can successfully manage the process yourself.

When looking to find long-term reliable tenants, whether you're seeking to self-manage or use the services of an agent, start by establishing the following:

- How stable is the tenant's financial situation?
- What is the nature of the tenant's occupation?
- What does the tenant's rental history reveal?
- Who are the applicant's referees?
- Does the applicant have dependents?

Make sure that when interviewing tenants you are particular in checking references and financials. Alarm bells should start ringing if tenants haggle over the bond as this may be an indication of trouble brewing for the future when it comes to meeting their rent obligations.

> *"Look carefully at the prospective tenant's situation, can they meet their obligations over the long term?"*

Once you've found good tenants, the trick is to retain them.

The first step is to charge a fair and reasonable rent from the outset. Make sure you are well versed with true rental values in your area because you can be sure that prospective tenants will have a good idea.

A reliable tenant who pays rent on time and looks after your property is an asset to your investment. It's often attractive to landlords to push rents up to increase returns, but be warned: push too far and you may find yourself with a vacant property.

Retaining good tenants is not down to the rental alone.

Get service orientated

If you're going to manage your own investment property it's essential that you react quickly to problems with the property as soon as they arise.

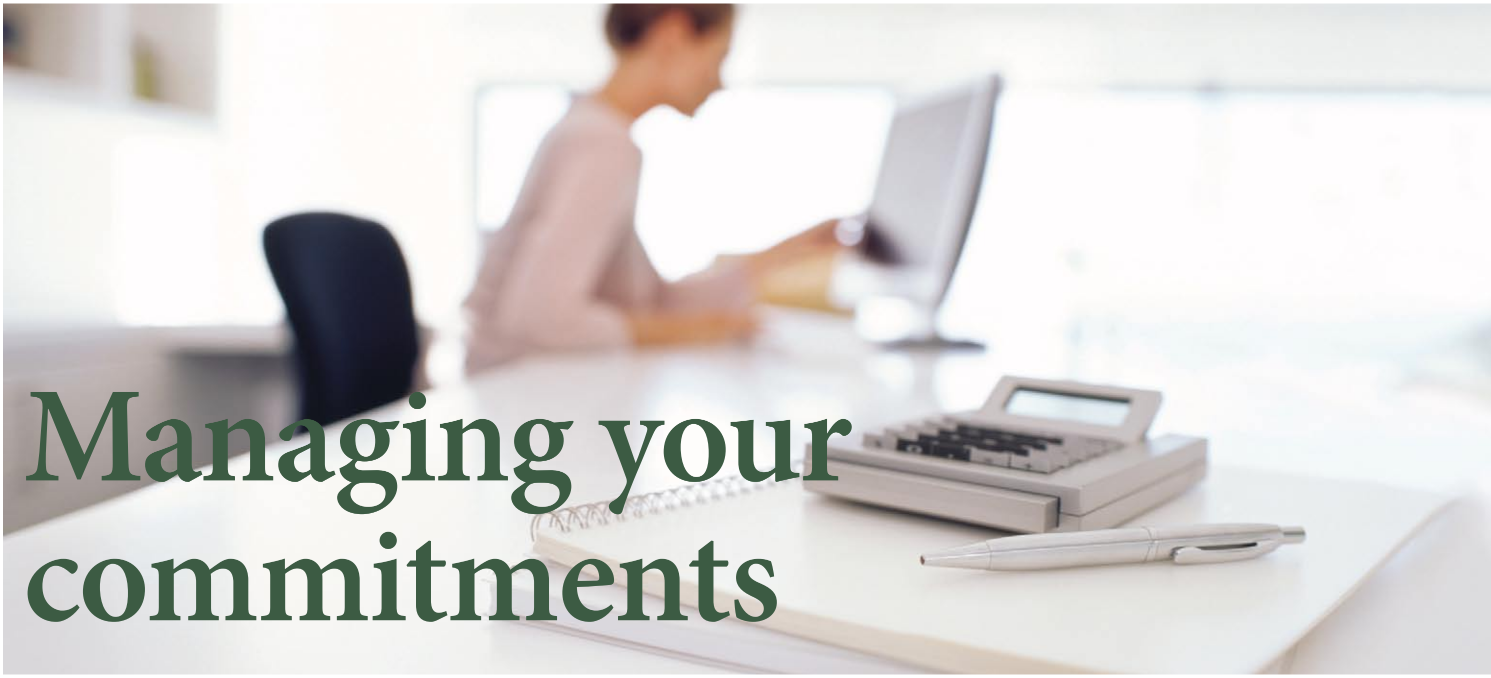
That means turning up yourself armed with your toolkit when doors come off hinges and guttering works loose, otherwise make sure there is a good handyman on your books.

It is also important to respect the tenant's privacy, so make sure that you give good notice when you want to inspect the property. Turning up unannounced can be tempting but you are sure to get a good tenant's back up if you look like you're snooping around.

Don't be afraid to let your tenants know that their rent is appreciated. Sending a Christmas hamper can work wonders in retaining good tenants – and it may well pave the way for edging up their rent when appropriate.

Finally, you'll need to know your obligations as a landlord and those of the tenant. Tenancy laws can be overwhelming – so talk to your solicitor about them. However, a good place to start is the guides produced by the consumer affairs or fair trading departments in your State or Territory.

> *"Keeping the reliable tenant you already have, can be a better strategy than increasing the rent."*



Managing your commitments

Investors that 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 your 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 '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.

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 higher 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 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 – may be reduced. You just need to do the math – and we can help with that.

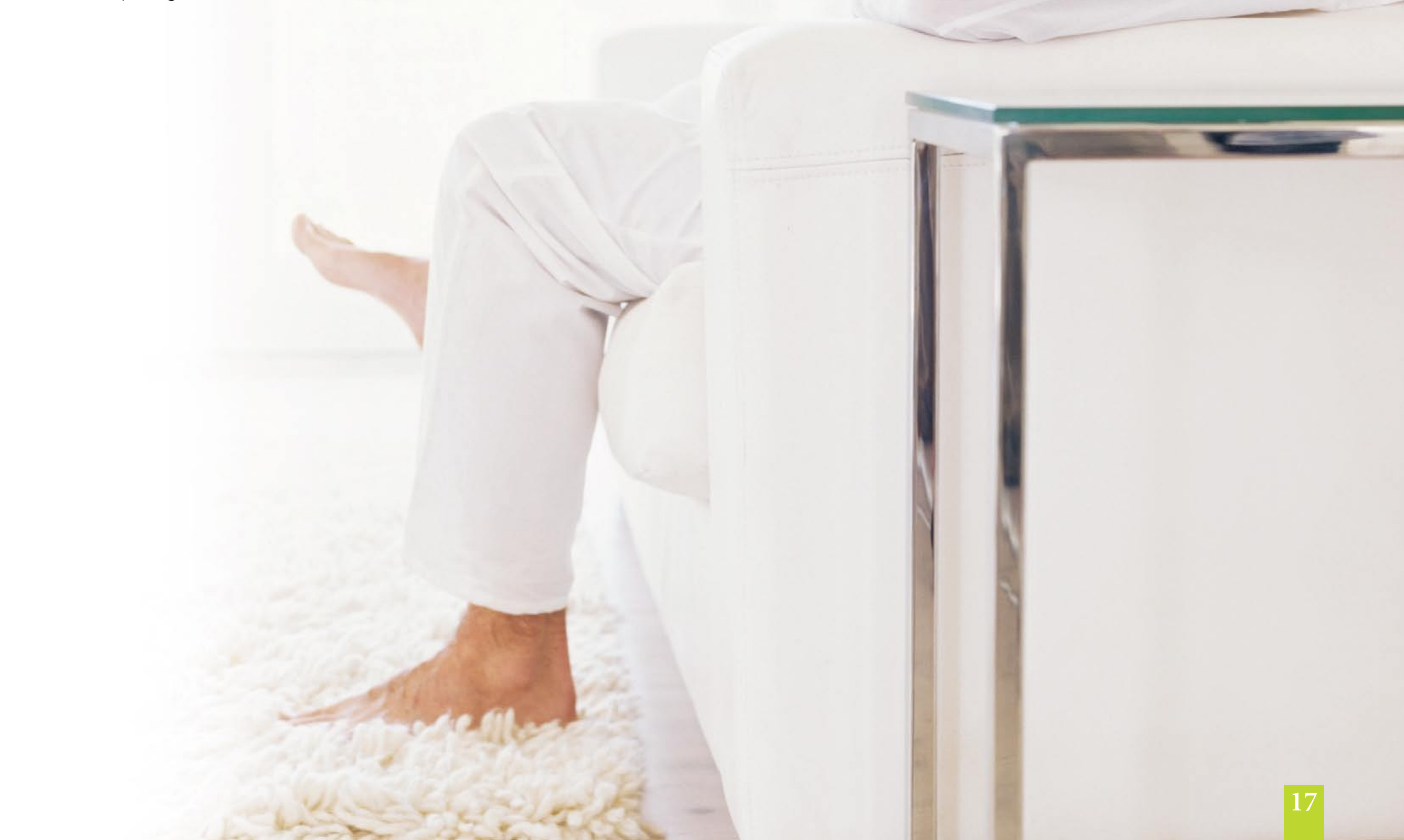
But aside from managing your monthly cash flow there are some practical housekeeping tips that can help ensure that your finances are kept in good order.

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. Remember to also speak to your accountant or a qualified tax adviser before making any investment decisions.



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