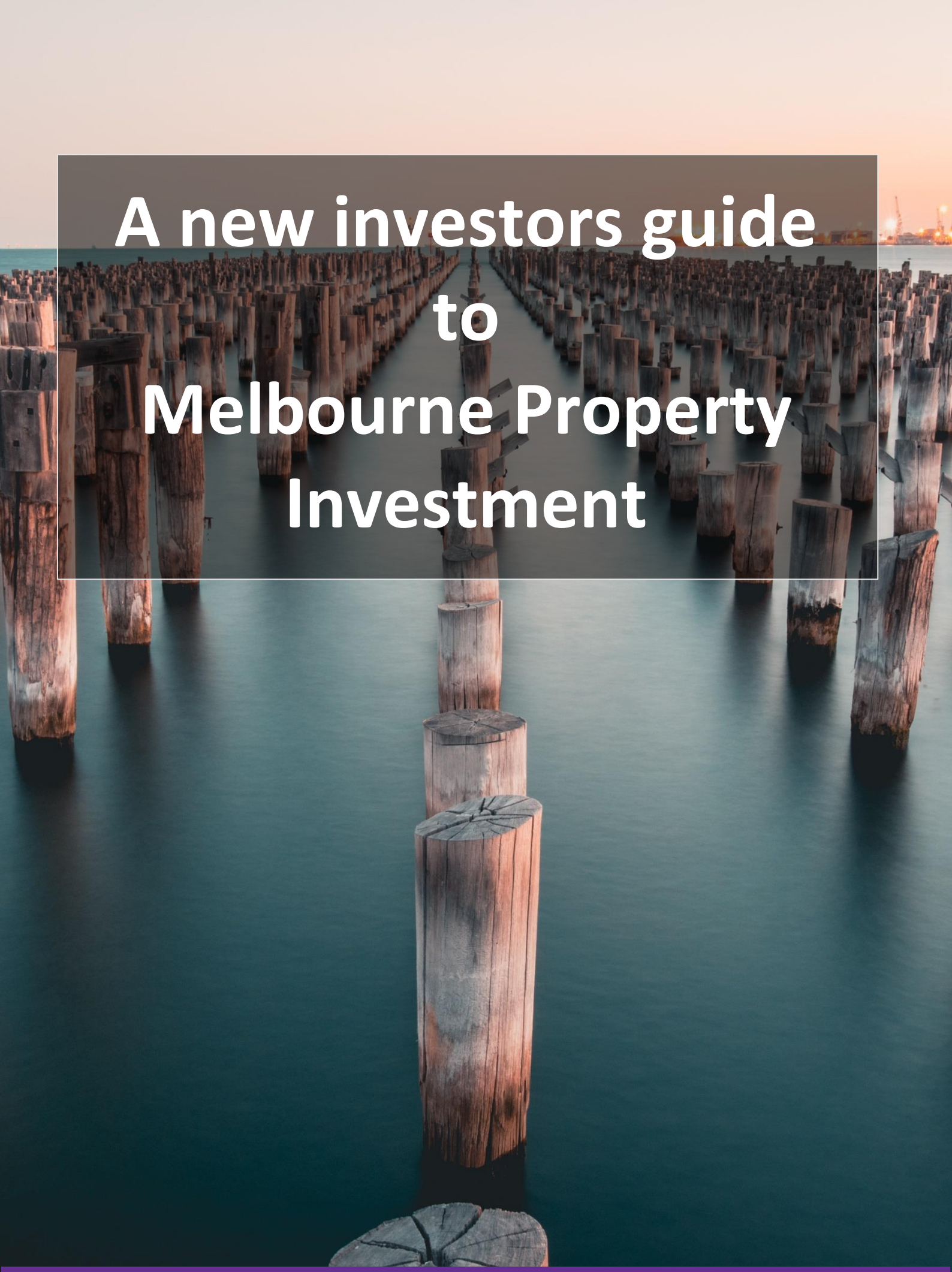
A new investors guide to Melbourne Property Investment



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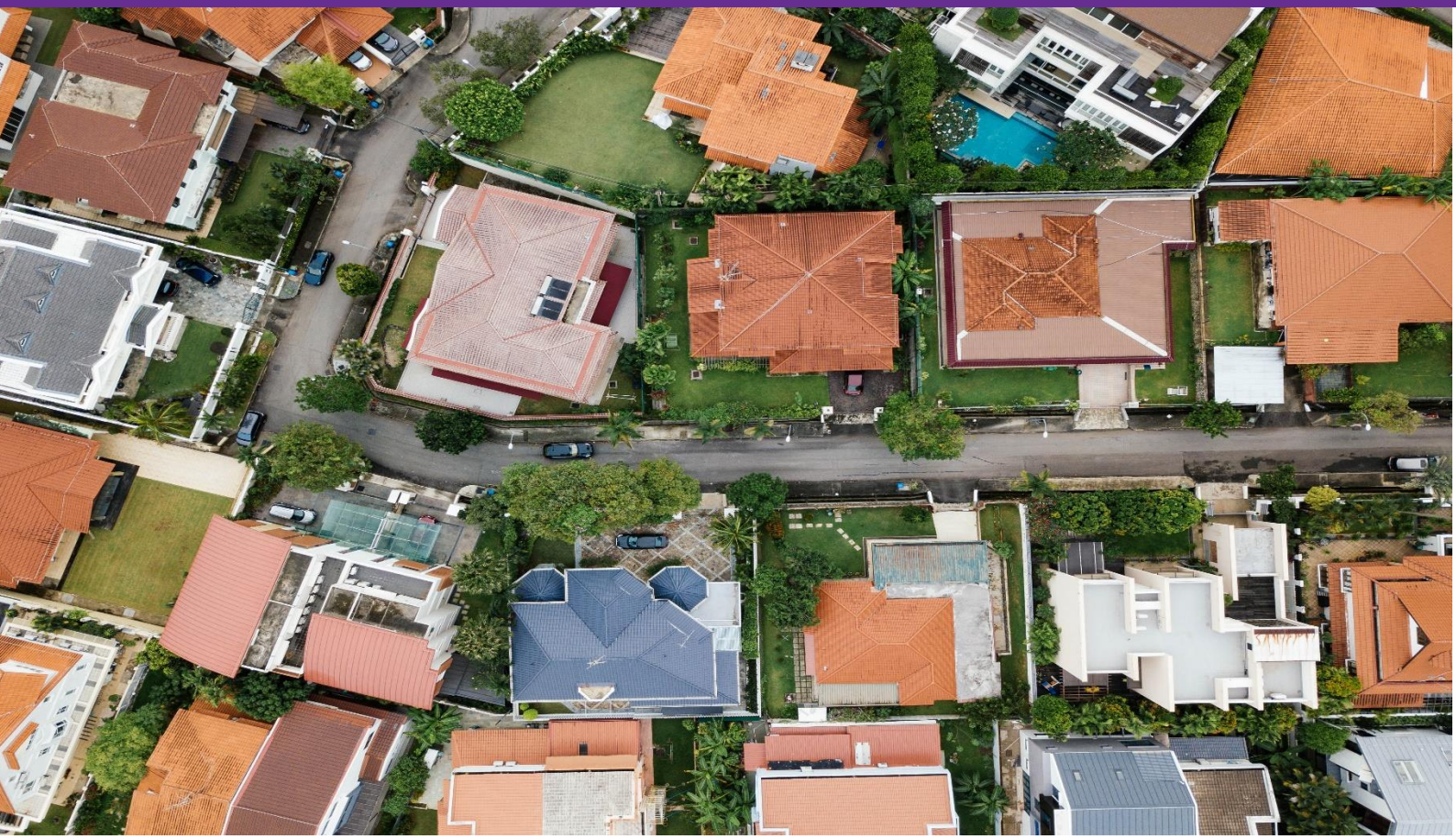

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Welcome to the exciting domain of property investment

Property has been the mainstay of investment and wealth creation for centuries. Real estate remains one of the most popular and accessible means of creating wealth and investment income.

Investors who have made their fortunes through property regularly cite the fact that unlike shares and other investment options, real estate is tangible.

Bricks and mortar investments are investments that you can touch and feel. You can see what you are buying – and the principles of wealth creation are largely predictable and easier to understand than some of the more complex asset classes.

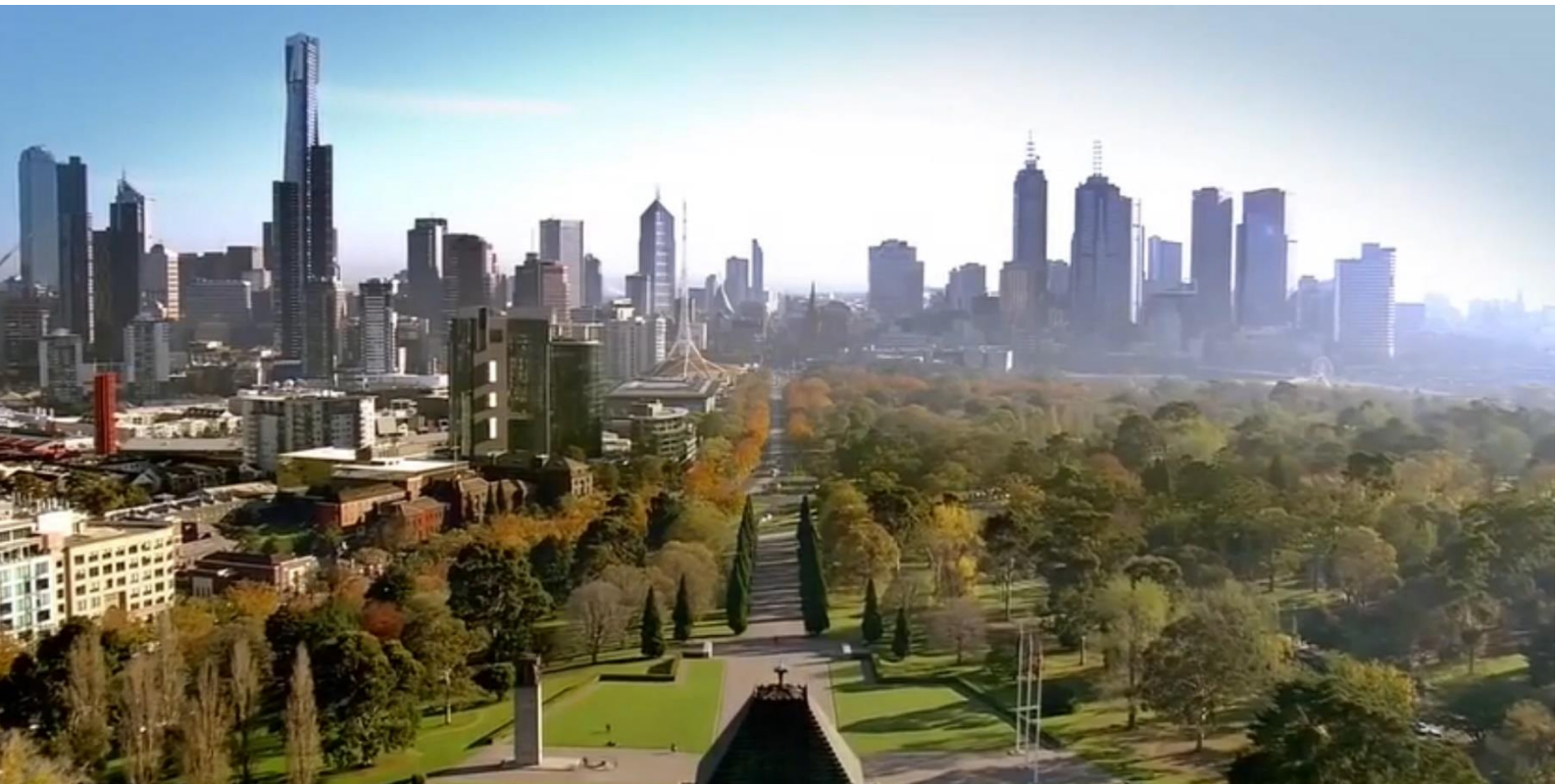
And Australia has a surprisingly high level of investment ownership. According to the ATO, around **2 million Australians**, or **just under 9%** of the population **own one or more investment properties**. Of this investor group, nearly 30% own more than one property.

Low interest rates and levelling in property prices is positive news for investors looking to but in areas with consistent rental demand.

Why don't more people use property for investment?

While the attractions of property investment are evident, many people delay getting started. People often wait for the "perfect time"; with concerns around a constantly rumoured fall in house prices or a potential lift in interest rates topping the list of excuses.

The reality is that property investing, like many other forms of investment, relies on time to do its work. The sooner you start – the sooner time and market demand can start working for you. And demand for housing and rental accommodation in Australia's capital cities (and many larger regional centres) continues to grow.



Why Melbourne and Victoria are stand-out investment choices

Safe and clean, Melbourne is a vibrant, multi-cultural blend of events, festivals, arts and cuisines.

Consistently voted the world's most liveable city - Melbourne has been voted the World's Number 1 most liveable city seven years in a row from 2011 to 2017 and currently holds Number 2 position after being (temporarily) moved from the number 1 place by Vienna.

Melbourne is growing rapidly - Melbourne welcomes more than 127,000 new residents each year and is expected to become Australia's largest city before 2036.

A magnet for students - Melbourne is host to a collection of highly ranked world-class universities. QS Best Student Cities 2019 survey ranked Melbourne, as Australia's best city for students and the *third best student city* in the world. Victoria is home to over 200,000 international students.

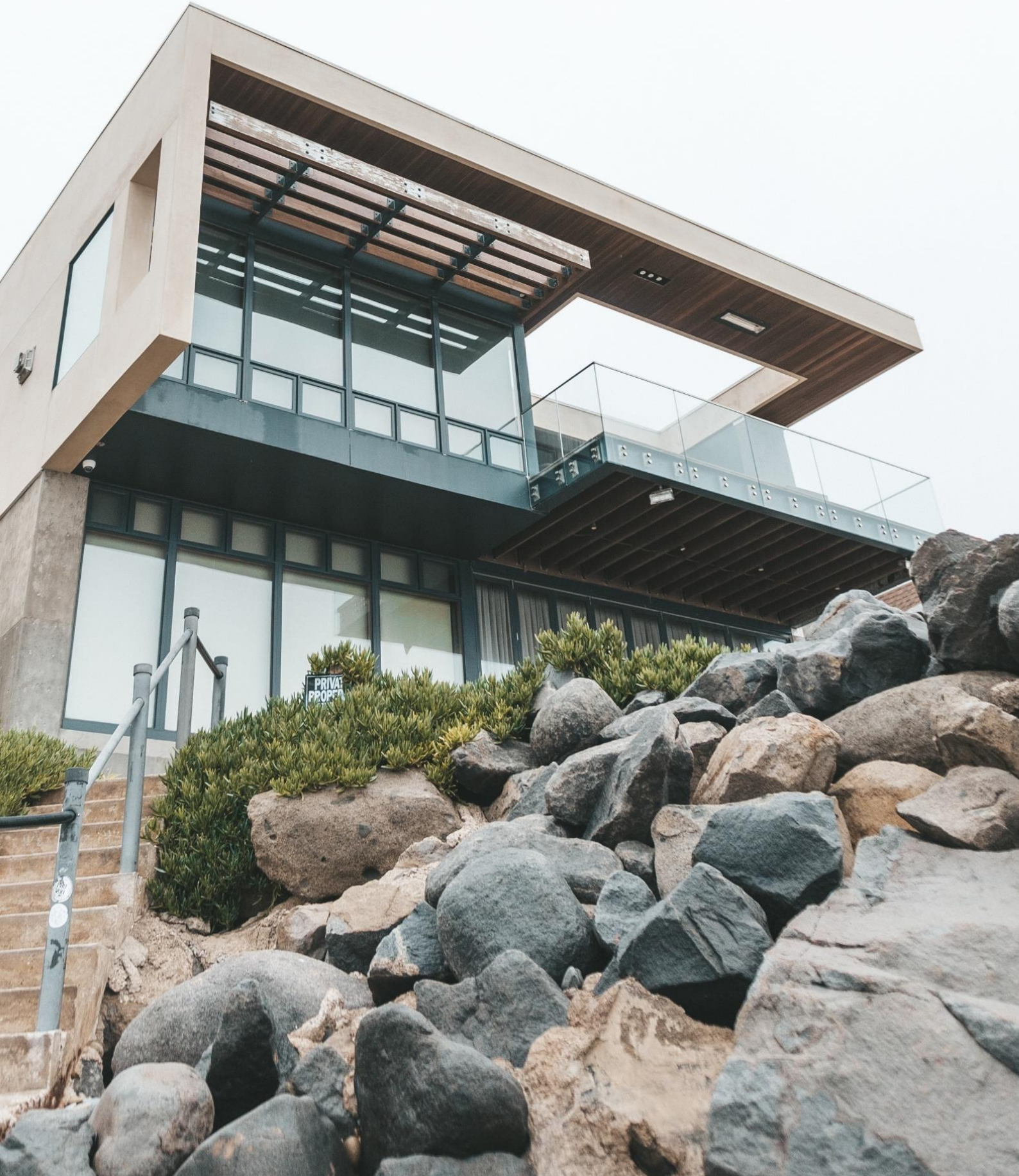
Economic stability and strength - Victoria accounts for only 3% of Australia's land mass but contributes 24% of the country's economic activity. Not only that, the Victorian economy boasts 25 years of continuous economic growth.

Strong property market - Realestate.com.au's April 2019 market report says that "Melbourne house prices may be down, but the decline is half that of Sydney. On other measures, Melbourne is also holding up much better. Melbourne's affordability and jobs growth are holding up the market".

Solid employment performance - According to the Victorian Premier, "Victoria's employment growth is also the strongest in the nation: in the last three years, Victoria's economy has created more than 333,000 new jobs - outstripping by far the rest of the country".

Regional strength - Victoria's solid performance extends beyond Melbourne. Realestate.com.au states that "Regional Victoria continues to do well. The heat is cooling in Geelong, however the recent Federal budget announcement that a fast rail would cut the commute time from Geelong to Melbourne CBD to half an hour should lead to increased buyer demand. Right now, it is the Latrobe-Gippsland region that is really powering ahead".

This is clearly good news for Victorians looking to invest close to home and international investors seeking a safe city and stable, growing environment in which to start or add to their international portfolio.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Common Goals for Property Strategies

People love the tangibility of property – it's easy to see, touch and feel. But it's important to recognise early on that the goals of investment buying are often very different to buying a family home.

Seasoned investors use road-tested processes and techniques that serve to lessen risk and maximise the benefit that their investment properties deliver.

The way you start your portfolio can have a massive impact on the way your investments perform in the long run, so it's worth making sure you understand the rules of engagement and know your goals **before** you step into the investment market.

Simple mistakes can make it much harder to protect your investment from market changes and could ultimately cost you thousands.

Here are some of the common goals that property investors use to refine their strategies.

Capital Growth – this is where your property's value increases over time allowing you to sell and realise a profit or use the increased market equity as the basis for further borrowing and investment. In boom markets, capital growth can be prolific, but investors should consider capital growth as a mid-long term proposition to wealth creation.

Income Generation – this involves using the rental income generated by your property to service the loan you used to purchase the property. The ultimate aim is to pay out the loan and use the property as a low or no-debt generator of ongoing income.

Tax Reduction – Current Australian tax law allows investors to claim selected costs[1] associated with the maintenance and depreciation of an investment property against their taxable income.

Depending on your circumstances and the way your investments are set up, this can mean that the difference between the rental income provided from the property and its overall holding costs (repayments, repairs and maintenance[2]) can be used to a deduction to reduce the income tax you pay.

Combination Strategy – Depending on your current situation, your property strategy might include more than one of the goals listed above. An investment that delivers early capital growth can provide the equity required to buy again, while stable rental income services part or all of the loan. Depending on the structure of your investment portfolio and your tax needs, a shortfall in rental income can provide tax benefits as well.

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[1] Please seek the advice of a qualified finance or tax professional to determine the expenses that can be claimed using negative gearing

[2] As above

The Factors to weigh up when setting your goals and budget

There are a number of factors that can influence an investor's goals. Here are a few things that play a key part in determining the way you approach property investment, the goals that you set for yourself and your budget for each property.

A well-designed property investment plan will generally consider -

- Your investment goals
- Your age and life stage (incl years to retirement
- The current properties you own (such as your family home) and the level of equity you can access
- How much available cash and freehold assets you already hold
- Your employment situation and sources of income

A good property investment plan will take each of these into consideration to ensure that your investment choices reflect the outcomes that you require for your life stage and the future.

The four main types of investment properties

There are four main styles of property in the residential investor's toolkit. Each delivers different benefits and fits into a logical sequence in the development of a stable, risk-tuned portfolio.

New House / House & Land – These can provide a solid base but need to be carefully selected and managed to ensure that all costs are accounted for, fixed and financed. Off the plan purchases can be a great way to enter the market. However, if not approached as an investment (see rule 4) and with the right guidance, this type of investment can end up being more expensive than it started off - often falling victim to unforeseen site costs and display centre upsells.

Apartments – New apartments should be considered cautiously in terms of location as there is an oversupply of apartments in certain areas. Similarly, media scrutiny has demonstrated the potential pitfalls of low-quality builds. However, luxury apartments with genuine high-quality architects, designers and materials remain a great opportunity for urban investors to enter the market closer to the city – and often at a considerably lower entry cost. By comparison with House & Land, luxury apartments also offer additional benefits to investors wanting to cap their level of upkeep.

Dual Occupancy – This is a more sophisticated investment that creates two dwellings - with one often becoming the primary residence of the investor - on the one title. It serves to create an income stream that ultimately replays the build cost without incurring the purchase cost of more land. Dual occupancy can replace an existing dwelling (knock down and rebuild) or be build on vacant land as off-the-plan.

A dual occupancy investment as part of a broader strategy can be a great way to leverage existing property and extract some of the land value of a property when nearing retirement rather than selling the family home to unlock capital gain. This strategy requires significant planning and professional advice as it has significant cost and tax implications.

Capital Improvement – This is the classic property renovation. In a boom market the renovate and flip strategy can yield strong returns. It should be noted though that older dwellings can hold many unexpected and often costly surprises that can quickly drain the planned profit. Similarly, speed of turnaround is a critical factor in this approach as slow renovations can expose investors to changes in economic factors that can erode potential profit. If the plan is to renovate and rent out, investors need to consider the more limited depreciation opportunities that older residences provide.

Nine Key Rules to Remember

With the right guidance, building a property portfolio can be incredibly rewarding and exciting experience. To make the most of that experience it's important to keep some key principles in mind.

1. **Have a plan - know what you are aiming for and why**

   Having an upfront plan and an understanding of your goals is essential if you want to get the most from your investment effort and money. It is common for new investors to jump into the market without a plan. At some stage overzealous investors find that they have done things in the wrong order or have incurred costs that they might have avoided had they developed a plan first.

   Depending on your short and longer term goals, there are sequences that can stretch your investment dollar. If the goal is to create an investment property portfolio, your strategy can make the process logical and shave valuable time and money from the process of getting where you want to go.

2. **Understand the market**

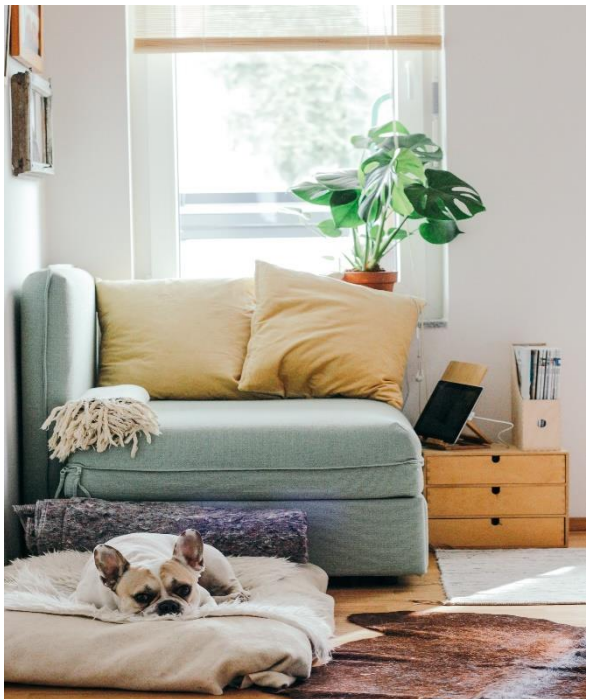
   Each market is different. It is important to know where the hotspot locations are and what the broad economic outlook is in terms of population growth, employment rates and rental demand.

   Outside of the capital cities, it is important to know which regions are in decline and which are due for government infrastructure and economic growth investments such as public transport, new industries, or regional tax benefits. Research the rental returns for areas or opportunities that stand out.

3. **Case the neighbourhood**

   Once you have areas or opportunities in mind, visit the area in person and get a sense of the surroundings and the type of renter that your investment property would most likely attract.

   This is a good way to sanity-check the rental estimates you might have researched using realestate.com or REIV resources.



4. **Investing is different - this is not your home**

   One of the common mistakes that new investors make is to adopt the same approach that they used when buying the family home. Investment property is different and requires a different mindset.

Specifically, investors need to remove as much emotion from the investment selection decision as possible. While it is good to have pride in your investment decision, the unconscious drive to make your investment property the sort of home you would live in is what display homes and retail builders bank on.

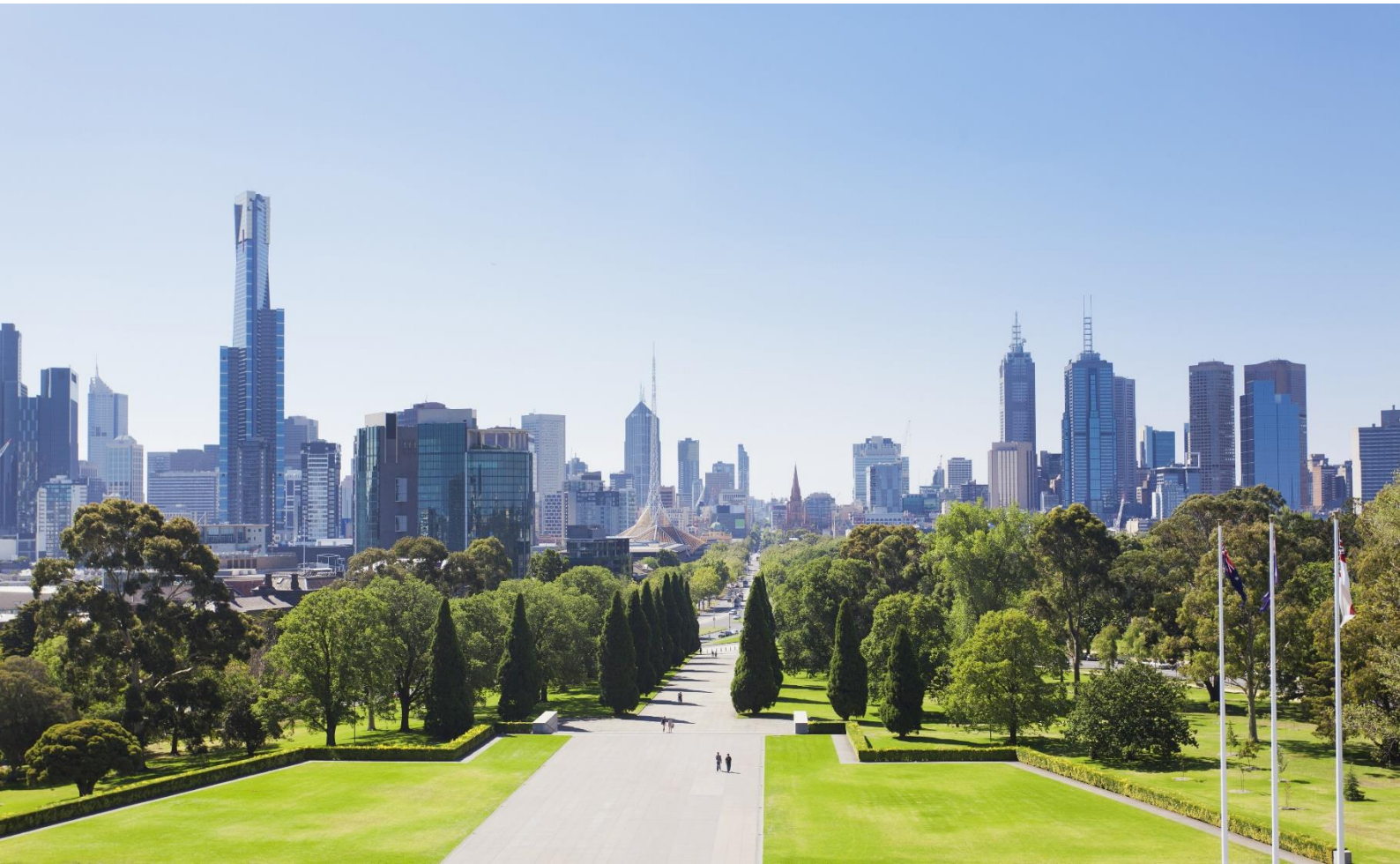
It can cost thousands and deliver in many cases, no real difference in rental return. This is not your dream home – this is an investment. Within the realms of providing a pleasant, liveable property, the less you can spend the more you will make.

5. Know your numbers and stick to them

Your investment strategy should give you a clear idea of your goals and your financial position. Ideally your plan should include a solid review of your current assets, available equity and a good indication of your spending limit.
If you are at the point of considering specific opportunities, a detailed property investment analysis (PIA) will take in all of the costs associated with a specific investment and show you what your position is.

Talk with your finance sources (advisor, bank, broker, etc) early and get pre-approval so you know what you can spend in advance. Having a completed PIA can help you and our finance provider maximise the outcome from the pre-approval process.

Once you know what you can spend – stick to it. Remember, this is not your dream home and every extra cent you spend on it that you don't need to spend moves your investment goals further out of reach.



6. **Make sure you calculate all of the costs**

   It is common for some investors to base their decisions on a simple calculation using gross return-on-investment as the measure. This essentially calculates the annual rent for a property and divides this figure into the purchase price. This can produce an impressive percentage – but this doesn't really reflect the whole picture- especially for rental properties.

   The total cost should include interest on finance, council rates, agent fees, upkeep and body corporate fees. This results in a calculation that gives a lower, and often more realistic view of the return you can expect from your property.

7. **Understand your tax position**

   The way you set up your investment at the beginning can have a profound effect on the amount of tax you pay and save – both along the way and when you sell your investment. The Australian tax system offers substantial benefits to property investors - but the system has some complexities that need to be understood. It is important to make sure you know where you stand in order to derive the greatest legal benefit offered by the tax system.

8. **Be prepared to play a long game**

   Some investors are lured into property investment with the promise of fast capital growth. In a boom market this can be an attractive option but canny investors often tailor their finance so that they aren't compromised if they need to shift to a hold-and-wait strategy. As an asset class, property performs incredibly well over time. Be prepared to be patient – or make sure you have the right risk strategies in place if the market changes.

9. **Take regular stock of your holdings**

   No two properties are the same, and the performance of an investment property can change over time. At the same time, your investment goals often change to keep pace with your changing life circumstances.

   Be sure to review your strategy every 6 to 12 months and compare the performance of your properties to your intended goals. Has your position changed as a result of unexpected capital growth? Is it time to invest again? Do your goals still match your personal circumstances or do you need to re-calibrate your assets? Is one of your properties under-performing or generating ongoing unexpected expenses?

   These are some of the questions that you should ask when you review your property portfolio to ensure that you are gaining the benefits you want and need for the future.

About Finvest

Over the years we have helped hundreds of regular Victorians successfully build solid, reliable property portfolios. We can probably help you too – and we don't charge you fees.

We help find the property and terms that match your goals and then charge the developer a standard fee regardless of the property. It can save you $1000's that could add to your deposit.

Our clients tell us that our helpful, non-salesy approach and reliable advice makes all the difference – and come back to us for their second, third and fourth properties.

Seize the day – book your free, no-obligation investor guidance session now and start building your very own property portfolio today.

Attend one of our non-sales events

Join us for one of our **free, no-selling** investor events. Hear from our panel of industry experts, and chat with fellow investors and those just starting out. No pressure - just good advice and exclusive opportunities.

Book your free one-to-one Kickstarter session

Discover what's possible. Book your free, no-obligation investor guidance session now and find out how easy it can be to get started in real estate investing.

Visit us online at www.finvest.net.au , or in person at suite 2, Level 1, 66 Albert Rd, South Melbourne. VIC 3205

Disclaimer: *The information provided in this guide is general information only and is not financial advice. Individual circumstances and outcomes may differ. Please seek professional advice before undertaking any investment strategy to ensure that it meets your specific circumstances.*