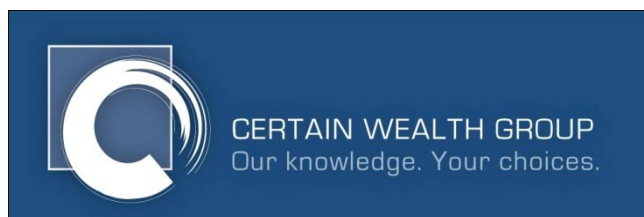


The top 10 questions for all residential property investors.

& the 10 you should ask!

Certain Wealth Group & The Garis Group
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The information presented is **General Advice** about residential property investment. It does not take into consideration your personal or financial circumstances, needs and objectives and does not constitute a specific recommendation. You should seek independent advice from your accountant and/or financial planner in considering whether residential property investment is appropriate to your circumstances, needs and objectives. You must undertake your own enquiries in determining if your investment strategy meets your individual requirements.

The Top 10 questions asked by residential property investors.

N.B. All responses assume an investor is using the research and resources provided freely by **Certain Wealth Group**.

1. What if I don't get a tenant?

This is a natural fear and a question every investor asks. Given that property is a medium to long term investment you must have access to demographic research for the prospective investment area. You will be holding this portfolio for 10-20 years or more so the long term population growth and consequently the demand for rental accommodation in the area is important. The area must also be within an affordable price range for the majority of tenants seeking accommodation.

If the right selection criteria are used and the research examines the long range demographics for an area, you should feel secure that investing in the growth corridor will reap long term rewards, a steady cash flow providing a suitable yield and therefore the likelihood of attracting tenants. You should always assume occupancy of 50 weeks a year to allow for tenants changing and marketing by your property manager to take place. We recommend excellent property managers and we provide a timeline for property managers to be appointed prior to completed construction. In this way we aim to achieve a seamless transition from the property from construction to tenancing. The investor has a responsibility in choosing a suitable property manager and asking clear questions of the manager & keeping their investment director informed. Keeping communication channels open between the investor and the property manager are very important throughout the process. All issues should be dealt with quickly and as long as communication channels are open between all parties, major problems are often averted.

By following our educational principles you will minimise any risk of not gaining a tenant.

2. What income/equity/cash do I need to get started?

Clearly everyone will have a different requirement depending on income, other investments, current debt, age etc. As a rule of thumb, an individual or a couple on a gross income of \$80,000pa and with good equity in their home would be able to begin investing. It is often surprising what your broker or accountant will be able to advise how you might restructure your current debt position to put you in a starting position. We pride ourselves on discussing strategies with clients to get them to the position of being able to invest at some point in the future and providing regular updates to them.

For young professionals there is the opportunity to commence an investment portfolio before the need to purchase a home to raise a family. The ability to leverage off your investment portfolio when you get married, or wish to buy a home in which to live, is an important one. Many investors make the decision to rent their own accommodation so that they may build their wealth portfolio more quickly. A wide variety of options that provide flexibility can be examined.

The current lending environment means that you need to have more cash or assets to commence investing than you required pre GFC. LVRs are slightly lower these days. Understanding the current lending market is a key to making an informed choice about whether you are ready to commence investing or whether you should wait. The importance of having advisers who you trust & who are very knowledgeable about the national property market is very important.

3. What is negative gearing?

Gearing is another word for borrowing, and the proportion of borrowing to the purchase price will determine whether you are positively geared or negatively geared. The greater the borrowing, the more likely that you are negatively geared. In other words, where the interest on the borrowing exceeds the rental income, then you will be negatively geared. The loss created from being negatively geared plus all other costs relating to the property will create a deduction against all other taxable income.

It should be stressed that negative gearing is not a reason to invest in property. Your focus should be on investing in residential property with high growth potential.

4. What is it going to cost me per week to invest?

The serviceability of your investment is very important. We always calculate for clients their weekly cost to hold a property and we always use extremely conservative figures to give a realistic benchmark. As investing is a long term strategy you must feel comfortable with putting some of your income towards your property portfolio for 10-12 years or more. If it is too expensive and difficult to do this, you will not maintain your commitment to grow your portfolio. Remember that the cost per week is predominantly repaid by the tenant, the ATO via your NAT 2036 which amends the tax taken from your fortnightly pay packet(rather than receiving your tax benefit at the end of the financial year, you receive it each pay period and the extra dollars can then be paid towards your investment loan) and the smallest portion is paid by you, the investor. An average investor is probably paying about \$100 per week for a \$380,000 home. Remember that you may be in a position of growing your income from your employment significantly over the coming years and can adjust you level of investment accordingly.

5. Is my home going to be secure?

For many investors the first investment property is secured against equity already achieved in the family home. Often this is a line of credit established by your broker. Any subsequent investments should be secured against the growing equity in your investment portfolio. Should you have cash this should be used to pay off part of your home mortgage and then reborrowed as it then becomes tax effective debt. No investor should proceed unless they feel comfortable that they can manage the debt created to invest. Job Security, starting a family, are all factors that should be considered in the analysis. Discuss these matters with

your accountant prior to making your investment decision. You should not be paying any additional fees to access a quality investment product.

6. What type of residential property should I invest in?

We recommend housing over units or town houses etc, as the proportion of land to the dwelling is a larger. A higher land component in your investment will result in stronger capital growth achieved. You should always aim to buy the largest piece of land available within the area, ensuring that at least 35% of the total purchase price comes from the land cost. More land = More capital growth.

New property over old property is preferred as you can then maximise your depreciation allowances to create a more favourable tax position.

7. What is leveraging and why is it important?

Financial institutions recognise the safety and security of residential property and thus the proportion of borrowings relative to the value of the property (i.e. Loan to Value ratio or LVR) is much higher with this asset class than any other asset class. What this means for investors is that the opportunity to duplicate and continue their investment journey is so much better with residential property.

Leveraging is critical to property investing. It is interesting to note that when a risk assessment is included, residential property outperforms all other asset classes in terms of the amount a bank will lend to acquire that asset. Normally the maximum lend will be 90% of the purchase price or 90% of the valuation, whichever is the lower. We provide considerable research data to your lending institution to assist an accurate valuation.

8. What performs best: shares or property?

While both asset classes will have their highs and lows, for a long term investment residential property, when well selected using excellent research data, will outperform all other asset classes. The risk profile a client selects is important. Our investment model is based on long term consistent growth with minimal risks. It should be noted that all investments have an element of risk and no one should believe there are any guarantees in investing. Anyone considering investing needs to first educate themselves about how to approach investing, they should have their financial situation reviewed and then look at the research data to select the property. Always undertake your own due diligence prior to investing.

9. Why is it important to use a good mortgage broker?

Many investors are unaware of the knowledge, experience and advice a good broker can bring to your investment structure. The wide variety of financial products on the market, means that you should get specialised advice to find the product that is right for your current circumstances. We provide clients with a professional panel of quality brokers from which to choose who can assist them to structure their finances in the best possible way & stay with them as they build their portfolio. A good broker can mean the difference of being able to

commence investing, or not. This is just as true for a first time investor as for an experienced investor.

10. What is the maximum I can borrow?

Prior to committing to any sale a client must know their maximum borrowing capacity, and not exceed it! Many investors already have preapproval in place prior to selecting their property. We provide a full financial report to all prospective investors that is tailored to their individual circumstance. This is reviewed every time an investor wishes to add additional property to their portfolio. Affordability of our property is therefore a key to our clients' success.

Your borrowing capacity should always be assessed by an independent financial professional.

The top 10 questions you should ask!

1. How do we make our money?

Our money comes from the developer or builder via commission or as a portion of their advertising budget. This money is never added on to the purchase price. Always have an independent valuation undertaken if you have any concerns. None of the support or research we undertake is charged to the client...ever. It is given freely to assist clients to create wealth via property in a safe and secure manner. We want to assist you over the long term and it is important to us that we provide you with excellent ongoing service and support.

2. What selection criteria do you use?

When you attend our free workshops the 6 cardinal rules of investing are explained in detail. We educated investors to be land based capital growth focussed investors investing in the emerging growth corridors of our capital cities. We teach investors to recognise that both capital growth and cash flow must both occur for a portfolio to successfully grow. These criteria now form the basis of our investment matrix: features of potentially suitable estates are assessed against our criteria and scored. These scores are shared with our clients when they are considering their investment decision. For new investors the importance of undertaking an inspection to suitable areas within a city is vital. It allows you to see the selection criteria "on the ground" and makes for a more confident investment decision.

3. Are you independent of builders and developers?

Yes, and this means effectively lower costs to the investor. Any company offering in-house broking, insurance, building, developing etc means you will be paying a premium for your purchase.

4. Is your accountant /financial adviser a property specialist and do they invest in property?

If your advisers are not property investors they may have difficulty explaining all the steps and understanding the processes and outcomes of your investment decision & may have limited experience in this area – meaning you may be missing out on key information. Always use a specialist with experience in the area of investment you are considering.

5. Does my financial planner discuss residential property as an option?

A financial planner is licensed to offer specific investment products & has probably only been able to offer a limited suite of options to investors. Direct property has not been one of those areas and hence they will try and encourage your investment into asset classes from which they earn a commission. The law is changing in regard to this, but be aware of the history there.

6. What's the difference between good debt & bad debt?

*The critical thing to remember is that not all debt is bad, despite what your parents may have told you growing up! **Good debt** refers to funds used to acquire income producing assets. **Bad debt** is money used to fund and acquire lifestyle assets. E.g. cars, boats, holidays etc. Yes you can reward yourself with nice things, but prioritise how you need to use your funds to reach your goals first. There are a number of good products we can recommend to clients who have difficulty in managing their cash flow that can get them to the point of being financially able to commence investing. Regular review of your portfolio and ongoing facilitation & support from our research, also takes the guess work out of your building wealth.*

7. How important are interest rates in making an investment decision?

As long as the underlying investment is a good one, interest rates should not be the main focus. Yes interest rates can determine your serviceability & therefore your ability to commence investing. However, where this is not the case, the other long term opportunities presented by the investment are far more important. Most of our investors use interest only options to preserve their cash flow and where a client has large funds available, multiple purchases in multiple asset classes might be a prudent strategy to discuss with their accountant rather than paying down the principal too soon.

8. What could go wrong and how can I minimise the risks?

Our model is based on minimising risk and maximising returns, Ensuring adequate insurances are in place and using a team of professionals to assist who have your best interests at heart are key considerations to ensure ever thing progresses smoothly. With a quality team

supporting you, as issues arise they can be dealt with quickly and efficiently. Most investors are most worried about finding a tenant, so applying our investment criteria maximises the likelihood of this being addressed. Our processes and procedures will operate efficiently so that timelines are met and progress through the investment process is seamless.

9. What are the benefits provided by a quantity surveyor?

Certain Wealth Group would exclusively recommend investing in new residential property as opposed to old because of the additional non cash tax benefits provided by the depreciation and Section 43 Special Building Write off of a new property.

A report prepared by a registered Quantity Surveyor will outline the tax deductions available and it should be noted that the ATO will only recognise a Quantity Surveyor's report for such deductions.

We can recommend to investors quantity surveyors who form part of our professional panels.

10. How much gross income P.A. do I need for retirement & what is my strategy for getting there?

Many of our investors want to reach financial independence much earlier than the retirement age & have a plan beyond that as well. All investors need to work through plans for retirement as we all hope to live many healthy decades beyond retirement and our quality of lifestyle should not suffer. Considering all the events, travel, family additions, weddings, etc that are still to take place in our lives we need to consider how we will pay for this. We also need to be able to calculate exactly where we are financially today so that we know what is the difference, and how long we have to put a strategy in place to make up any shortfall. Our investment directors spend considerable time with clients customising a strategy tailored for their specific needs, age and requirements. We listen to what you want and aim to then provide a way for you to reach your goals in a sustainable and low risk fashion.