



**Buying your first
investment property**

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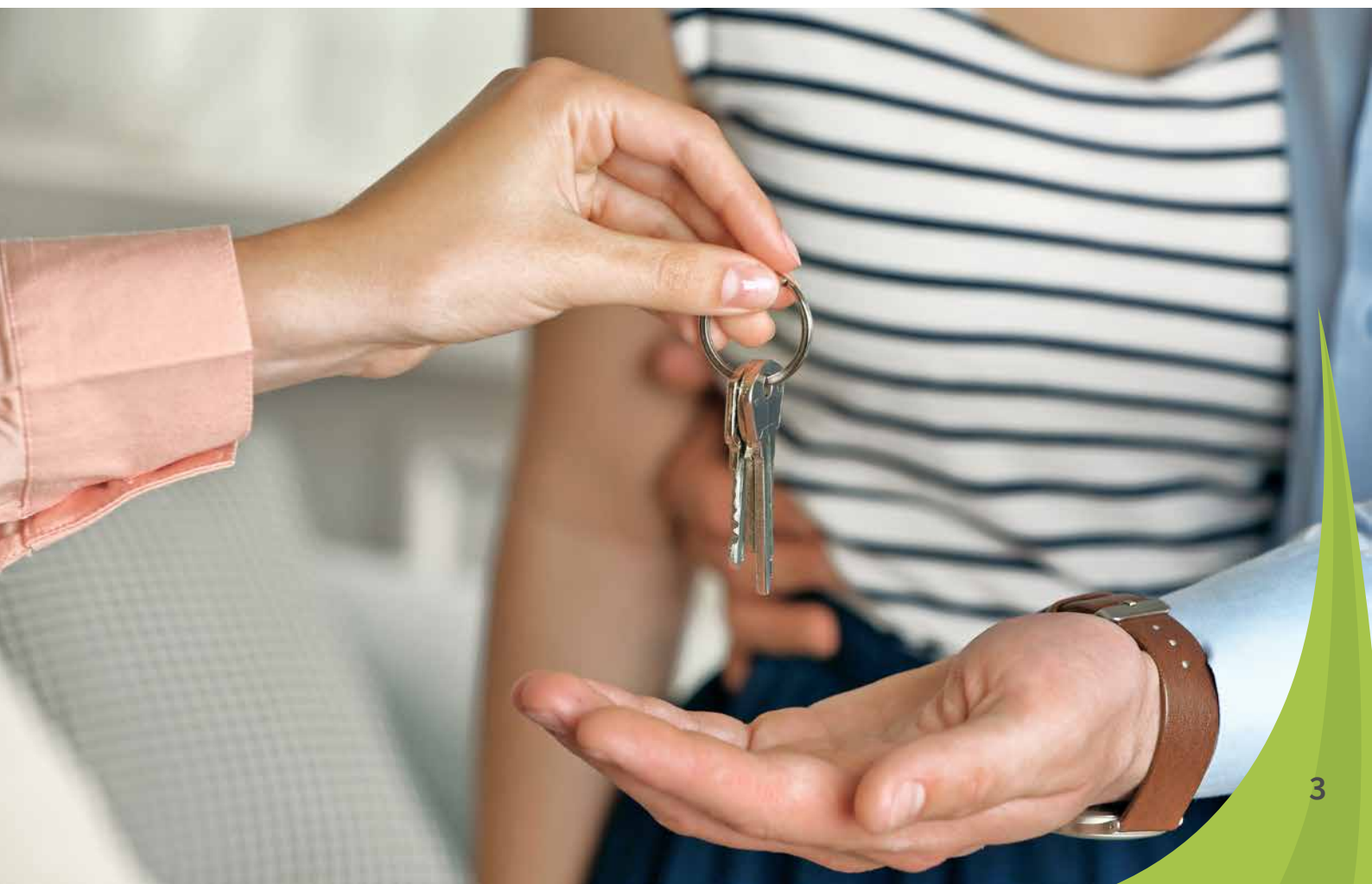
Introduction

It seems firmly ingrained in the Australian psyche that bricks and mortar is the keystone to lifestyle and financial freedom. For owner-occupiers and investors who have found their property (or properties) this may indeed be the case. But does it happen so seamlessly for everyone? How did these people get started?

When we begin to consider property investment there are a multitude of questions that naturally arise. Where do we start? Who do we need to talk to? How do we know which property to buy? How much can we afford? What is negative and positive gearing? What will it cost us each week?

To give yourself the greatest chance of success, professional advice and sound research are essential. At Financial Spectrum, we thrive on helping everyday Australians maximise their wealth. For many of our clients, a diversified investment strategy that includes property is an effective way to do this, if undertaken in the right way.

We have developed this eBook to help with the process of purchasing your first investment property. Every large goal starts with a first step. By arming you with relevant information, it will help you set foot on the property investment ladder and build your wealth.



Step 1: Understanding your goals

Before you should even consider property investment, you need to sit down and really think about your goals, expectations and motivations for wanting to get involved.

What do you ultimately hope to achieve from your investment in property? Is it to generate extra cash-flow to help with mortgage repayments (positively geared), or would you prefer a shortfall to help offset your income tax (negatively geared). Are you willing to undertake a minor or major renovation prior to renting?

These are just a fraction of the variables you need may need to consider. Spending some serious thinking time before diving in will pay dividends and save much angst later on.



Step 2: Determine your borrowing capacity

Before you get too excited and head out to conquer the property investment world, it is critical you understand your borrowing capacity. This simply means how much you can borrow based on your current financial position. While this may seem logical, it is often overlooked in the excitement of the search. Having a clear understanding of your borrowing capacity enables you to narrow your property search to suit your budget, saving you time and energy.

To support our clients we partner mortgage brokers who can determine what you can afford, short list loan options to meet your needs and help you complete all of the paperwork. They can get you to the point of pre-approval, so when you do find that perfect property, you can put an offer in right away. This can make negotiating easier as a vendor is more likely to accept an offer when finance is in place.



Step 3: Research property options

Now you know what you can afford to borrow, it's time to begin the search process. Patience is often required as it can take some time.

Seasoned property investors often begin by applying strict criteria to their search such as economic growth of a location, supply and demand, local planning and regulation, local tenant profiles, land and floor plate sizes, functional layouts, quality finishes, favourable aspects, manageable on-going costs, as well as proximity to employment, transport, shops and schools. Knowing and understanding these parameters can be a sound indicator of long term growth and rental return.

To support our clients we provide access to a specialist property partner. All of their property is subject to a rigorous assessment process to determine the long term strength of the investment, including economic drivers, supply and demand factors, geographic profiling and demographic analysis.



Step 4: Evaluate your short list

Now you've narrowed your search to a short list of potential properties, it's time to physically inspect each. You should also research property sales and rental values in the areas you're looking at. You'll be better informed of what the capital growth potential might be as well as what your current and future rental returns.

If you're happy with your short list and the features of these properties, it's time to arrange building and pest inspections to identify any potential problems. Many people overlook this important step, but problems incur costs and you don't want to be forking out thousands of dollars down the track. You can request a satisfactory building and pest inspection as a condition of purchase in the contract.

You should also secure the property sale contract. We encourage all of our clients to engage a solicitor to carefully review it for any special conditions, exclusions and problems which may impact the property's value or desirability.



Step 5: Arrange insurance

Once you sign the contract and pay the deposit, you have a financial interest you'll want to protect.

Make sure you take out building and contents insurance to cover the structure of your property, along with its chattels, such as carpets, tiles and curtains.

We strongly encourage our clients to take out landlord insurance for peace of mind from tenant issues such as non-payment of rent, property damage, legal expenses, public liability and more. Insurance premiums for landlord insurance are also tax deductible.

There may be other insurances recommended for your specific situation and our team of professionals can guide you in the right direction.



Step 6: Select a property manager

While not every property investor agrees, engaging the services of a professional property manager can be time and money well spent.

A good property manager can find a tenant that is carefully vetted for suitability. They can also act as an intermediary between you and your tenants, collecting the bond and weekly rent, conducting regular inspections and co-ordinating property repairs. Do you really want to do all that?

The good news is their management fees are tax deductible against your rental income.



Step 7: Get professional tax advice

As a property investor you can benefit from tax depreciation on your property. This said, property investment comes with additional administration and your tax returns will become considerably more complex.

To maximise allowable tax deductions and help you navigate the paperwork, we strongly recommend getting professional tax advice. Items such as depreciation on the building structure and on many of the property fixtures and fittings can be claimed.

We can help you with a tax depreciation schedule that clearly and legally identifies the items and amounts that can be claimed each year in accordance with the relevant tax laws.



Step 8: Leverage for the future

For those who would like to create an empire, this is where to begin!

Once you've held your investment property for 12 months or more you can request a new bank valuation. If the property has grown in value you could consider using this additional equity to purchase another investment property. By leveraging the equity in your investment property, you can grow your property portfolio at a faster rate.

Our financial planners can provide sound advice in this area and show you smart financial planning strategies to super-charge your investment portfolio potential.



Case study: Peter and Sophie's experience

Peter and Sophie have been married for five years and have one daughter. During this time they have been slowly building up an investment portfolio in shares and managed funds, but were keen to purchase an investment property.

They came to see one of Financial Spectrum's financial planners to discuss how to build their wealth so that they could afford their first investment property.

Financial Spectrum helped Peter and Sophie with the following:

- Creating a budget to build enough savings for a deposit for an investment property.
- Securing finance for their first investment property through their mortgage partner.
- Referring them to their specialist property partner, who after understanding their investment strategy, presented property options to meet that strategy.
- Ensuring that they were well-protected as a family with the appropriate life and income protection insurance.

With Financial Spectrum's help, Peter and Sophie were able to purchase an investment property with confidence and are looking extend their property portfolio over the coming years.



How Financial Spectrum can help

Property investment can be a great pathway to creating the life you desire, so we hope this guide helps you get a foot on the property ladder. But there is no denying that finding, purchasing and managing an investment property can be complex and time consuming.

At Financial Spectrum, we can guide you every step of the way, removing the complexity and saving you time. Working together with our property investment and mortgage partners, you will have the greatest chance of securing the strongest opportunities to suit your investment criteria.



About Financial Spectrum

Financial Spectrum is an privately owned financial planning practice. We develop tailored financial strategies to help you build your wealth and achieve your lifestyle aspirations.

We offer so much more than investing. We take the time to understand you, and then help you make the right decisions to achieve the future you're aspiring to.

We can help you to:

- Plan for the future
- Build your investment strategy
- Grow your personal wealth
- Simplify your budget
- Minimise bad debt
- Increase your super
- Reduce your tax
- Protect your family

Let us help you take control of your finances, build your wealth and achieve your future lifestyle aspirations. Contact us for a complimentary, no obligation meeting today.





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