How to create an insanely effective purchase plan

It's not enough to just go out and buy property. You need a master plan on how, when and what to buy to maximise your profit. *Your Investment Property* shows how to create a purchase plan that rocks

If you've started off buying property haphazardly, with no clear plan on when and what to buy next, you're not alone. Many of us buy what we can when we can, most of the time.

But, according to experts, doing it this way is not only inefficient but also attracts unnecessary risk. Without a clear game plan on how you're going to grow your portfolio, you could end up with undiversified assets or, worse, unable to grow your portfolio at all as you hit the serviceability wall.

There's good news for everyone. If you're just starting out, you're in a great position to get your purchase plan in order. If you're already in the game but lacking this structure, don't despair. It's not too late. Even if you've started off without a definite plan, there's still time to go back to the drawing board.

So what does an ideal purchase plan look like? It's simple. It should facilitate your goal of growing your portfolio to a point where it's producing the growth or income you're aiming for. It should serve as a structure for you to stay in the game.

So how do you design one? To help you craft a workable and effective purchase plan, we've enlisted Australia's leading buyers' agents and advisors to give us their top tips.

THE EXPERTS

SAM SAGGERS
CEO,
Positive Real Estate

RICH HARVEY
Managing director,
propertybuyer.com.au

LINDY LEAR
Property advisor,
Rocket Property Group

BRYCE HOLDAWAY
Empower Wealth Group

What you need to consider when setting up a purchase plan

When setting up a workable purchase plan, you need to take a few things into account, such as:

1. FINANCE

TOP TIPS

- Find out if you qualify for a loan
- Check your credit rating
- Consider reducing your debt or credit card limit
- Get a pre-approval
- Avoid cross-collateralisation
- Set up a buffer

Even before you start planning how you're going to buy, you need to know where you're at financially and how much you can afford to start with.

This means a financial investment health check with a mortgage broker or bank as an essential first step, according to Lindy Lear, property advisor with Rocket Property Group. "You need to find out whether you qualify for a loan," she says. "Banks rule, and without a clear understanding of the type of profile you need to be attractive to the banks, you could save the deposit but be missing other important criteria to satisfy them. I have seen someone's plan to purchase a property ruined by one bad credit rating from an unpaid (forgotten) electricity bill. So part of your plan is to have a clean financial record from the start," she explains.

Reducing debt, particularly credit card debt, will also make you look better to the banks. "Keeping your credit card limits as low as possible is important, as having a $10,000 limit on a gold credit card might give prestige but it reduces your borrowing power dramatically," she says.

You also need to determine how much deposit you will need. The old rule of saving for a 20% deposit may take years, and this can be very discouraging. However, Lear says banks will now lend 90% and sometimes even 95% of the purchase price, which means that even on limited savings it's possible to start investing.

Getting pre-approval for a loan is the next step. Having a pre-approval means you're ready to buy as soon as you find the right property.

Sam Saggers, CEO of Positive Real Estate, points out that the financial plan should also include a structure that will allow you to expand your portfolio effortlessly. "I would structure the financing with multiple lenders and set up a buffer of between 10% and 25% as a backup," he says.

2. GOALS

TOP TIPS

- Get clear about what you want to achieve
- Set a date as to when you want to achieve this goal
- Identify milestones you need to cross to get to your goals

Your goals will determine the type of property you buy. Here are some questions you may want to ask yourself:

- **Q What is buying property going to help you achieve?**
- **Q Are you looking for future financial security?**
- **Q Are you looking to achieve passive income in retirement?**
- **Q Are you looking to improve your lifestyle or build an inheritance for your children?**

"Your goals will inspire you to set your plan and, more importantly, stick to the plan," Lear says.

It's also important to set deadlines – a timeframe in which you want to achieve your goals. For maximum impact and inspiration, go bold and visual, says Lear.

"I like to have my plan big and visual," she says. "I want to see it on the wall. I write them on big butcher's paper. I have all my goals in there, including financial, property, personal, and even holiday goals all on it, with columns for each of the seven years on the plan. I set the date I want to achieve my seven-year goals, then I work backwards as to what has to happen each year, working backwards to the big question, 'What do I need to do right now to get started to my seven-year goal?'"

3. ATTITUDE TO RISK

Assess what your attitude to risk is, how much time you have until retirement, and how much property knowledge and experience you have before planning your purchase, says Bryce Holdaway of Empower Wealth Group. "Once you have this information, then you can work backwards to figure out how many properties you require, what growth and yield combinations are necessary, and ultimately what type of property in which locations you will need to invest in to achieve your desired outcome," he says.

4. AGE

Like Holdaway, Saggers believes your age determines the strategy you will be using and the type of property you will be buying.

"If you are looking to retire in 10 to 15 years, getting into the property market is a good idea, but you need to choose property that is going to perform over a medium term due to your age," he says.

Designing a purchase plan that rocks

Once you've figured out your goals and financial standing, it's time to create that plan. Here's how you can do it.

STEP 1. Define your strategy

Rich Harvey, managing director of propertybuyer.com.au, explains that a good purchase plan starts with the right strategy. He recommends asking yourself the following questions to help you decide on which strategy to adopt.

- **Q What's more important to you, capital gain or cash flow?**
- **Q Are you going for a combination of growth and cash flow?**
- **Q What's your strategy and how will this property fit in with the overall strategy?**

STEP 2. Set up your criteria

Once you've decided on your strategy, you can now set your criteria. "You need to select criteria to match your strategy," says Harvey. "The criteria you set will guide you and serve as your compass when you do your research."

Some of these criteria may include:

■ Price

For maximum profit, Harvey says it's best to stick to properties as close as possible to the median price of the area. He also suggests buying within 20% of the median whenever possible.

■ Location

Buying undervalued properties ensures profit at the outset. This means looking at areas where properties haven't experienced a recent growth spurt but are about to. Look for suburbs that are experiencing gentrification, and have a rising population and a limited supply of housing. The suburb must also have features that attract both buyers and tenants.

■ Land content

If buying a house, you need to check the land content, bearing in mind that the higher the land content the better.

■ Scarcity

If buying a unit, you need to look at the uniqueness of the property. Big apartment blocks with hundreds of units are unlikely to give you that edge.

■ Transport and amenities

Is the property near transport links and amenities? Properties in a good location are always more in demand from buyers and renters – it's that simple.

■ Number of bedrooms and bathrooms; car port

Your strategy determines the size of the property you buy. Ask your agent what type of property is in highest demand so you can target the right number of bedrooms.

■ Physical features

Does the property have the features that attract homebuyers and renters? Does it look modern or outdated? The first impression is crucial for both renters and buyers.

STEP 3. Do your research

Once you've refined your criteria, it's time to check the facts. This means you have to talk to the locals to find out what's special about the suburb. You may also consider driving to the area to check whether the property was indeed only a 'few' steps from the shopping centre as suggested by your local agent, or more like a 30-minute brisk walk.

You also need to talk to the local council about current and planned

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developments in the area, especially if they are adding more supply to the suburb. New stock, while it can help in setting a new benchmark for prices, is still additional stock that your property will compete against.

Some of the questions you may want to ask your local agents or valuers include:

- **What are the key drivers of growth in this suburb?**
- **What types of property are most in demand?**
- **Are there areas that are considered dodgy or no-go zones? Where are they?**
- **What attracts people to the suburb?**
- **What's the optimum price range for growth and yield?**
- **What does the vacancy rate look like?**
- **Has the suburb changed over the past 5–10 years?**

Another thing to consider is whether you want to do the research yourself or engage a buyer's agent. If going on your own, when should you do it? What methods are you going to use to find these properties?

"You need to be realistic about the amount of time you're able to do this on your own and be confident that you can do this," says Harvey. "Many people underestimate how much time it takes to do proper research. There's always a danger that they may take shortcuts just to speed things up."

RICH HARVEY'S TOP TIPS FOR DOING RESEARCH

- **Research regularly, preferably every weekend**
- **Check out anywhere between 50 and 100 properties**
- **Track sales online**
- **Review your notes after inspecting around 10–20 properties**
- **Sort your notes and refine criteria if necessary**
- **Keep an eye on the overall market condition**

Buyers' agents can do all the legwork for you if you don't have much time and are not so confident about your ability to judge a property's potential. They do cost quite a bit, though. Based on quotes gathered by *Your Investment Property*, the average price is around $10,000 for a full service, meaning sourcing and negotiating up until settlement.

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STEP 4. Cull your list

Once you're satisfied that you've seen enough properties, it's time to look at your list and narrow it down to three to five properties that best match your criteria.

"Rank in priority order," says Harvey. "You may have to compromise on some criteria, so be realistic. Also, remember that your research is time sensitive."

Once you've identified a few properties by applying your criteria, narrow down your list until there are only two properties left. By this time you may want to start looking at the rental potential of those properties. The quickest way to do this is to grill the property managers in the suburb you are targeting. Harvey lists the following questions to help you assess the suburb's rental market:

- **How much could I rent this place for, conservatively?**
- **What's considered fair rent in this area?**
- **How many other properties like this are currently on the market?**
- **What's the average vacancy rate for properties in this suburb?**
- **What types of features are popular among renters?**
- **What type of renter demographics would be interested in renting this type of property?**
- **What's the average duration of a tenancy in this suburb?**

STEP 5. Get an appraisal

This is where you work out how much to pay for the property. You can do this by getting a professional valuation done or one of those desktop valuations from the data providers, bearing in mind that some of them may be too conservative.

To get an idea yourself, you need to look at the comparable sales results, ensuring that you're comparing like with like, meaning you're comparing properties with similar features such as type of construction, number of bedrooms, and so on.

Value is determined by the size of the building or the internal dimensions of units and apartments. Valuers also take into account the number of bedrooms and bathrooms, whether there's a car port, and the overall condition and age of the property. The current state of the local market is also taken into consideration, as well as the property's aspect and its proximity to transport and amenities.

STEP 6. Do your due diligence

This is when you get the professionals to do the building and pest inspection, and the strata search if buying a unit. You can use the result to negotiate the price down if there's any issue with the inspection report. It's tempting to skip this step, especially if you've already spent quite a lot on getting an inspection done but have been unsuccessful in buying. Don't skip it.

The few hundred dollars you save by not getting the required inspection done will pale in comparison to the potential cost you will face if you buy a property with structural defects.

STEP 7. Negotiate

"Negotiating is an art," says Harvey. "It's where deals are won or lost."

If you're negotiating on your own, the key is to understand the seller's motivation. It's also crucial to time your offer. There are many ways you can negotiate on a property, but it's important to remember that you're still dealing with another human being.

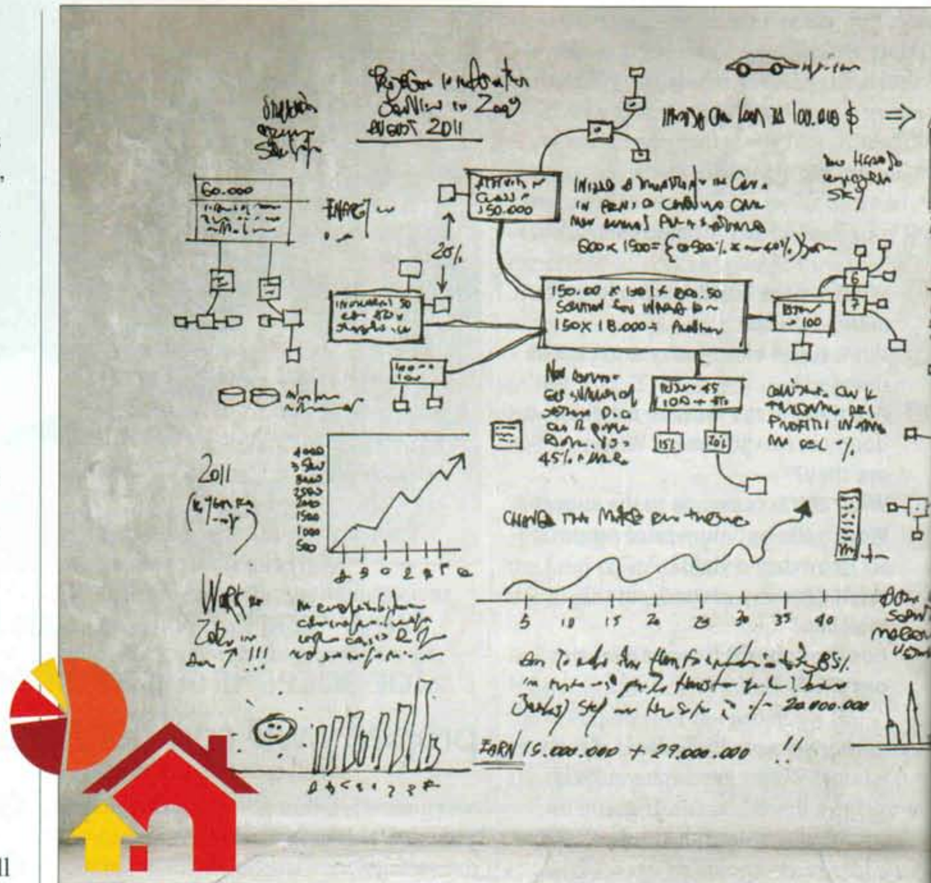
If the person senses that you're real and not out to trick them, you're in a better position to win the deal. By adopting an aggressive and sneaky stance, you could alienate the seller, especially if there are multiple offers.

You want to be fair but not to overpay. That's why you do your due diligence well before you reach this point. Set your bottom line, and if the vendor declines, move on. Remember, the saying: the deal of the century comes every week.

If you're using a buyer's agent, they will handle this process for you. This is where you can really separate the good from the mediocre. If they can get you a good property at a great price through their research and negotiation skills, you've already got your money's worth. If not, you just wasted $10,000.

POTENTIAL PROBLEMS TO WATCH OUT FOR

- **Inability to get loan approval**
- **Lower bank valuation on the property**
- **Procrastination and apathy**
- **Work and family commitments**



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How to deal with inconsistent income

One way to handle inconsistent income is to focus on getting positive or neutrally geared properties, so you won't have to dip into your pocket to support your investment.

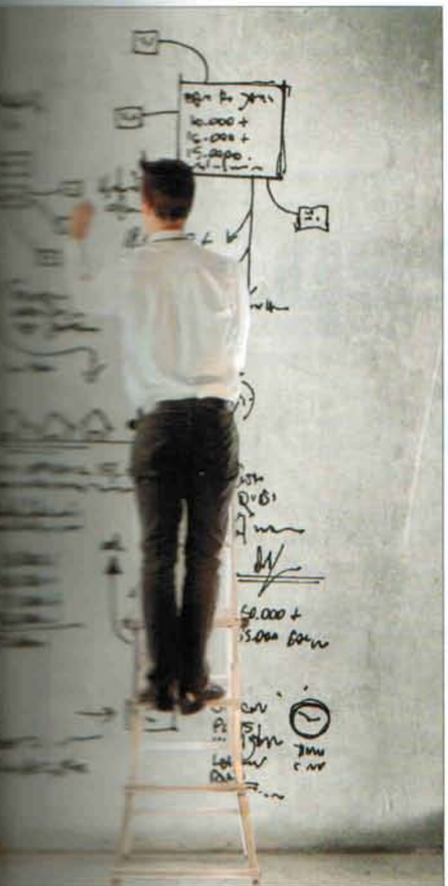
Another way to do so is by what Bryce Holdaway calls "front footing" it and planning for it in your household cash flow projections.

"The way it works is that if an investor anticipates shortfalls, then this should be provisioned for through building up savings or using equity to provide a sufficient buffer during any period of cash flow shortfalls," he explains.

This would be important for someone who is self-employed with a fluctuating income, or someone looking to go on maternity leave when an entire income will be lost to the family budget for a period of time, perhaps indefinitely.

"A sufficient buffer in reserve is required to absorb the peaks and troughs in income flow," says Holdaway. "This is done through simple but effective account structuring. This is crucial because, without such a buffer, it can cause the investor to be forced to sell and, generally speaking, selling through poor cash flow planning generally only results in a loss. It's why cash flow modelling is critical."

Sam Saggers of Positive Real Estate follows a similar principle and explains that starting with a budget that is revisited often is important. "The plan should include building up a buffer allowing for some belt tightening in order to save for future emergencies," h



sum. "If you don't get into this habit of saving, it will often be hard to get more market capitalisation. It's true – no one ever saved himself or herself wealthy; however, more savings does mean you can create more exposure in the long run to more areas through property."

How to create a realistic timeline

Saggers likes the idea of having a goal of six properties in six years. "If we plan well, buy well and try hard, this is an achievable and should give you enough exposure to the market that in the long run will allow for a happy retirement," he says. "The timeline would mean that every year you revisit tax planning and property, SMSF and property debt reduction structures, refinancing opportunities and property improvement ideas. It's important to plan to have a good debt-to-service ratio as well as a low LVR [loan-to-value ratio] over time."

Lear likes to do it sooner rather than later by buying within three months of getting a pre-approval. "From when you know you qualify for a loan from the bank, and based on your deposit and borrowing power, I would set a timeframe to purchase a property of no more than three months," she says. "It would be easy to get stuck in the details and procrastinate and keep looking to find the 'perfect' property, and be still looking 12 months later."

Another good reason for setting a deadline to buy is that there is a time limit of three months for prequalified loans. "Get good investment advice from someone qualified and whom you trust, do your due diligence, and stay best friends with the banks by having a good financial history," she says. "This way, buying an investment property will be a great experience for you and get you that much closer to your ultimate goal."

For Holdaway, it's about aligning it with your profile and goals. "There is no one-size-fits-all timeline," he says. "Every situation requires a specific tailored solution."

He recommends that the timeline should include real-life expenditure like car upgrades every 10 years or so, the annual family holiday and any renovation planned on the family home, as well as child care, school fees, and all the income and expenses associated with the properties. "Factor in conservative interest rate, capital growth and rental yields to give an opportunity to outperform the property plan."

Potential problems and how to deal with them

As anyone in the property investing business will tell you, the process is not without challenges. Along the way, you may find that your circumstances and income change. This, according to Lear, will be one of the main problems you're likely to face as it determines whether or not you can get access to finance. "From experience, a 'no' from a bank does not necessarily mean 'no' from every bank. Persistence can win the day, and trying other banks can definitely pay off," she says.

Inconsistent income can also cause problems with your loan application, but this should not stop you from getting a loan, says Lear. "Find a good broker who understands the requirements of the different banks. A good broker will match you to the best lender for you. It may not be the 'big four' banks, but there may be another lender who is happy to lend you the money, which means your plan is working," she says.

Other problems can arise if valuations done on the property come in short, hence the bank will not lend you enough money to settle on the property. This can be very disappointing as many valuers can give very conservative valuations that appear to be under market expectation, says Lear. "To get around this, you can either apply for the loan from another bank and hope that the valuation will be different (quite often the case), or let the property go and wait for another," she says.

Saggers warns that human factors could also get in the way. "Beware of naysayers," he says. "You will have many people in your life saying you won't succeed, it's a bad move, and so on. This noise can often distract you from the main goal." ∎