

Choosing a Great Investment Property

10 Expert Insights

+1 Bonus Insight



Important disclaimer and no advice warning

The information provided in this eBook is general in nature and intended as an information source only. It does not consider your personal circumstances. Since everyone's personal situation is different, this eBook should not be taken as advice and you should speak with a mortgage adviser, financial planner or your accountant to determine which solution is right for you.

The comments, examples, words and extracts from legislation and other sources in this publication do not constitute legal, financial or tax advice and should not be relied upon as such.

All readers should seek advice from a professional adviser regarding the application of any of the comments in this publication to their situation.



One Agency Empire Property Group's Introduction of:

Edward Labbad Property Investment Specialist

Dear Property Investor,

Whether you are an existing investor or considering your first step into the property market, Edward Labbad, our very own Property Investment Specialist is here to help you on that journey.

Edward through research, education and analysis helps investors make informed decisions about how, where and when to invest in Australian residential investment property.

He has gone on to help numerous investors with property investments in multiple markets and numerous market conditions.

We are delighted to provide you with a free copy of this eBook.

Let our family help yours!
Regards,
The One Agency Team



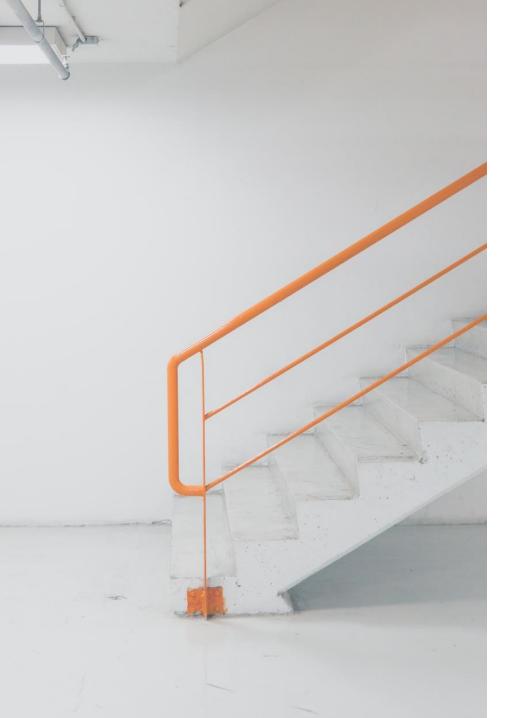


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Note From: One Agency Empire Property Group

The process of buying an investment property has many working parts. Australians have a known love affair with real estate and, as a result, there are many 'experts' with various theories of how the market works.

In order to help you navigate through the noise we have produced this eBook, in which you will learn how to implement our ten proven expert insights into buying a great investment property. We will inform you about selecting location and the type of property and help you with strategies for reaching the goals you have set.

Once you have completed this eBook, the most important thing for you to do is take action. You will not become a successful property investor without making informed decisions and acting on them.

We encourage you to share this knowledge with family and friends, and if you would like to know more please feel free to reach out to our property Investment Specialist, Edward Labbad.

We are delighted to provide you with a free copy of this eBook.

Let our family help yours!

Regards,

The One Agency Team

1. Exit Strategy/ Your End Goal

To buy a great investment property, you first must understand where you're headed. Things to consider are:



WHAT IS YOUR CURRENT SITUATION?



WHAT ARE YOUR GOALS IN PROPERTY INVESTMENT (YOUR IDEAL FUTURE SITUATION)?



WHAT IS THE GAP BETWEEN YOUR CURRENT AND IDEAL FUTURE SITUATION?



WHAT IS NEEDED TO CLOSE
THIS GAP AND HOW MUCH
TIME DO YOU HAVE TO
ACHIEVE IT?



ARE YOUR GOALS REALISTIC WHEN COMPARED WITH THE ASSOCIATED RISK IN GETTING THERE?

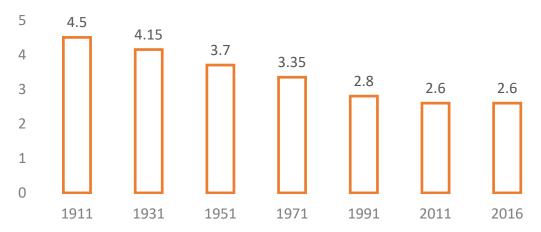
To get the most out of your investment, your objective is to purchase the right property in the right market at the right time. Understanding the relationship between these three factors removes the emotion from your property investment decisions.

2. Buying in the Right Market (4 Pillars)

Most property investors are likely to make their purchases close to where they live. There are multiple reasons for this including familiarity with the area, greater confidence in negotiation and accessibility – they can drive past to check up on it once in a while. All of these reasons do not make sound investment logic and can cause significant setbacks. At any one time cities and regions throughout the country can be at different stages of the property cycle, a subject we will look at in more detail later. The main drivers that determine sound markets for purchase include the following:

Demographics - Avg Aus Houshold Size





Population & Demographics

Property differs from most asset types because it is a centrepiece of civilised life. For this reason, the characteristics and changes within a local, regional, state or national community can have significant influence on the demand for certain types of residential property.

As an example, Australia's average household composition was measured as 4.5 people per household in 1911 but had declined to 2.6 people per household in 2016. Over that 105-year timeline, the demand for certain property types from this factor alone has altered dramatically. The main causes of the reduction in household composition include a reduction in the number of children within families (if any), prioritising careers and lifestyles causing delays in starting families, the increased prevalence of lone-person households and greater levels of wealth, which reduce the burden on families to support relatives in need.

A product of the delaying of families is the rise of the DINKs (dual income, no kids), who are attracted to certain parts of the country in droves. They come in two forms: a young couple yet to start a family, or an older downsizer couple whose offspring have flown the coop. These groups represent 27 per cent of all households and tend to prefer a lowmaintenance property that matches their lifestyle.

Population & Demographics Cont.

Another significant change Australia's population has experienced is mortality. When the aged pension for over-65s was introduced in the early 1900s, male life expectancy was approximately 55 years of age. During this time, a man would have to live ten years beyond his life expectancy to receive welfare.

The most recent census tells us that there are now almost 3.7 million Australians over the age of 65, which is close to the country's total population in 1901. Australia's ageing population and increased life expectancy have created entire industries, from aged care to superannuation. When analysing population and demographics at a more local level, we are able to determine which cities and regions are performing better than others and what we can determine about the demand for certain types of property in these areas into the future



Economics & Employment

When people are purchasing property, the two factors driving their decision are their willingness to buy it and their ability to pay for it. The economic and employment profile of an area gives a strong indication of how much wealth is in it, what future drivers exist, and the opportunity for the greater economic prosperity of your future buyers.

Almost one in four Australian workers is now classified as 'professionals' and 13 per cent are managers. A fascinating by-product of this knowledge and information boom is the greater importance of the psychological well-being of key workers, rather than the value and function of plant machinery. Consumption and time saving have been the answer for many, which will be discussed under 'Amenities' in Insight 3.

For sustainable property investment in any region or city, the primary economic drivers of the area should be diverse

Infrastructure & Investment

The old adage of 'build it and they will come' is far more relevant for infrastructure than it is for residential property. Infrastructure comes in the form of public and private transport, hospitals, education facilities, shopping centres, town centre rejuvenations, priority development areas, sporting facilities, entertainment facilities and so on.

Infrastructure and investment have a direct relationship with other market and property drivers, particularly economics and amenities. The construction of major infrastructure projects is typically a significant employer in local areas. Once the project has finished, the new amenities it provides to the community increase the appeal of the area and contribute significantly to liveability.

Infrastructure is also a helpfully loud indicator of potential future demand. Major retailers like Westfield, Bunnings, supermarket giants and Ikea do considerable demographic and economic due diligence on local markets prior to establishing a presence. These rules also apply for new hospitals and university campuses. As these key infrastructure projects become established in an area the demand for this area tends to increase.



At the end of the process, the resultant balance of supply and demand reigns. Supply includes the availability of established and new property in two separate markets: sales and rentals. The amount of supply can change for many reasons, some of which were mentioned in previous sections. Demand is driven by the need to occupy housing, as well as market psychology like the herd mentality.

A market where supply cannot meet demand typically becomes a seller's market. During this time, the vendor has the upper hand in the negotiation process as there are multiple parties competing for their property. Typical symptoms of this stage of the property cycle are high amounts of auctions as opposed to sale by private treaty, as well as high auction clearance rates, low vendor discounting and a comparatively short time on market. In a typical property cycle, most purchases are made during the seller's market phase. This speculative phenomenon is a primary driver behind a boom and is known as the herd mentality.

There are multiple causes of supply exceeding demand, but they all generally result in a temporary buyer's market. Oversupply is a common headline grabber, particularly with Highrise apartment projects (urban consolidation) in inner-city areas and house and land projects (urban sprawl) in the suburban outskirts. The risk of oversupply is higher in areas with a small or volatile population. Population volatility and other supply factors can be due to seasonal influences (such as tourism), economic influences (such as mining), or socio-political influences (such as government concessions or the Reserve Bank cash rate). Oversupply can also be a result of excessive availability of credit to property developers, who are then motivated to sell as much property stock as possible in the shortest time.

The balance of supply and demand in the rental market is equally important for a property investor. If there are too many comparable dwellings in the rental market at any one time a race to the bottom can often ensue. When a landlord reduces the asking rent, it can take quite some time to make up lost ground but might be necessary in order to remain competitive. The percentage of vacant rental properties in a suburb or region at any one time is known as the vacancy rate. Equilibrium (a balance between supply and demand) varies from market to market, but typically lies between 2.5 per cent and 4.5 per cent. A vacancy rate below 2.5 per cent would be classified as undersupply, resulting in multiple competing tenants for each available property. A vacancy rate above 4.5 per cent would be classified as oversupply, resulting in longer periods of vacancy and discounting.

A property investor can erroneously purchase a property based on a favourable vacancy rate at the time of purchase with ignorance to the gradient of the vacancy rate changes over time. Often, the gradient is more important than the actual vacancy rate as it tells us how quickly an oversupply is absorbed by the rental market. In economics, this is known as elasticity.

Supply & Demand



3. The Right Property

Understanding what the right property means isn't as straightforward as going for the best dwelling in the suburb to get maximum appeal, or the worst dwelling in the suburb to get the best bargain. The selection of a specific property involves a more intricate process of determining a deeper sense of the underlying demand now and in the future. In finding the right market, larger regional dynamics were considered. In finding the right property the dwelling itself will be considered along with the importance of getting it right.

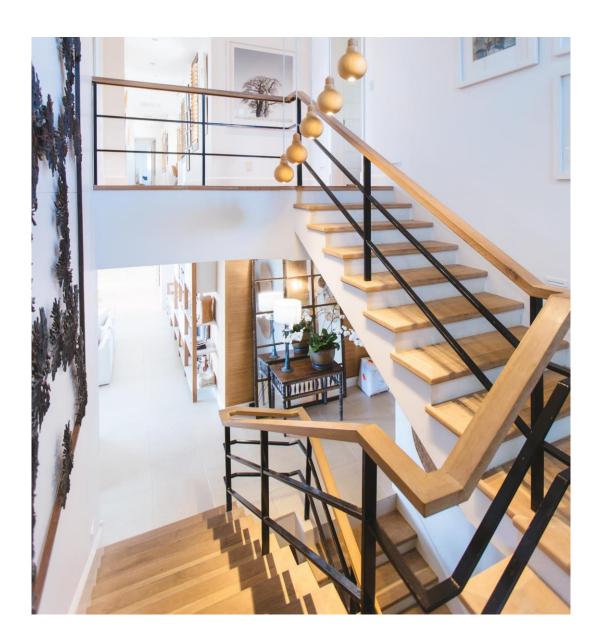
Amenities

Amenities come in two forms. The first is more immediate and involves the amenities included in the development itself. It could be a rooftop pool in an apartment complex or a playground in a house and land estate. It might seem that the more internal amenities there are the better, but with amenities come costs so a balance must be maintained. Too many amenities is considered overcapitalisation, whereas not enough amenities would be considered undercapitalisation. The second form of amenities borrows from the phrase 'location, location, location'. They are external to the property itself and blend with infrastructure. Once again, understanding the local demographic is vital in understanding what external amenities hold more value against others.

Transport

Obviously, life in Australia still exists beyond the local café and supermarket. As a population swells, the ability to efficiently move humans from one place to the next becomes more vital. Just a generation ago, proximity to a train station was considered an unfavourable trait. Today, there is a whole new acronym that defines a preferred style of property: TOD, or transport-oriented development. Cities across Australia have implemented bus lanes, grown their rail network, built bicycle lanes and accepted ride-sharing applications to respond to this challenge effectively. As a result, the once derelict transport hubs from South Bank to Bondi Junction are now hotspots of activity and demand.





Quality

Quality and standard of finish are often underestimated due to the investor's obsession with asking price. The quality of a property can be assessed in two primary ways:

- 1) Structural integrity: the quality of build, materials used and their relevance to unique local factors like climate. As an example, tropical homes are now constructed with cyclone-rated materials.
- 2) Fixtures and finishes: the quality, reliability, longevity and aesthetics of the internal features of a dwelling such as appliances, light fittings and windows. External features such as the façade and outdoor areas such as gardens, patios, courtyards and balconies also determine the quality of the dwelling.

Builders, developers and investors risk over- or undercapitalisation if they do not match the quality expected of the local demographic. Overcapitalisation occurs when the materials used are excessive for the means of the local demographic.

Design

Design and quality are complementary, much like transport and amenities. Where good quality is reflected in materials and craftsmanship, design is reflected in architecture and draftsman ship. The three primary functions of design are:

- 1) Aesthetics: often attributed to the architect, the aesthetic design of a building is the function of design that complements quality. The external design of a building can establish it as iconic in both positive and negative ways.
- 2) Use of space: the efficient use of space has become an increasing priority as the global population has swelled (especially in cities), making access to space more expensive. For this reason, floor plan design and the reduction of wasted space such as hallways are often desirable
- 3) Practicality: design can influence aspect and outlook, as well as access to natural light, avoidance of unwanted noise and environmental factors such as wind and rain



<u>Rent</u>

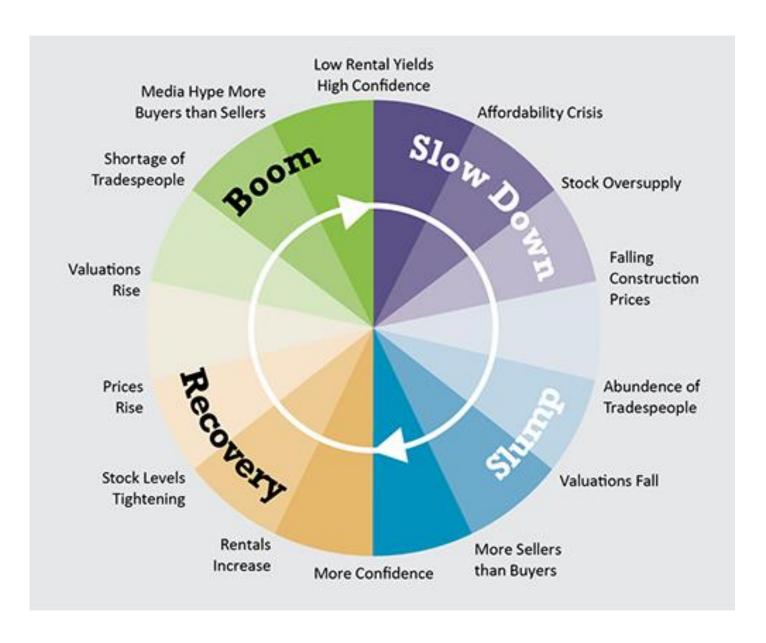
Rental income is one of only two ways an investor can make money in real estate, the other being capital appreciation. For this reason, understanding the purpose of rent in your strategy is critical.

There are two priorities a landlord can adopt with regard to rental income:

- Supplementing a long-term growth strategy: a common use for rental income is to balance regular expenses like mortgage interest, management fees and maintenance costs through a process known as gearing, which allows an investor to hold their asset for a long-term period. The intention is that this long-term holding period will facilitate a considerable increase in the asset's value. Negative gearing is realised when the costs outweigh rental income after tax. The opposite, positive gearing, occurs when the rental income outweighs the expenses before tax, which would then incur a tax debt.
- Providing a passive income: considered a more conservative approach, relying on rental income as a form of passive income is the alternative to a growth strategy. The type of property would differ in this strategy as the amount of rental income becomes a higher priority, creating demand for high-yielding assets. This greater focus on rental income usually comes at the expense of capital growth in the long term due to compromises in design and quality, as well as the type of person who is able to purchase the property (such as with student housing and defence housing). Historically, long-term growth strategies have often proven superior to high-yielding strategies in Australia for two reasons. First, the average rate of growth for growth-oriented properties has often been higher than the amount of annual profit made on high-yielding properties. Second, the cash flow situation of growth-oriented properties tend to improve over the medium term, meaning that holding a growth-oriented property could also result in achieving passive income within a few years. This would allow the investor to have their cake and eat it too.

Value

There is an important distinction between value and price that causes many investors to become unstuck. Price is the evil stepsister of value, which changes based on less reliable factors. This is perhaps easier explained through the share market. When good or bad news is released about the economy the price of shares fluctuate accordingly: good news usually increases prices and bad news usually decreases them. In fact, even the weather has an influence on share prices. While the price is fluctuating, the performance of the underlying asset (the business) is relatively independent. This means a share can be over-priced, fairly priced or under-priced based on the performance of the larger market. The same occurs with real estate. If a local market moves into a temporary period of oversupply, the price can be influenced in a suppressive way. If a property developer has an inflated view of their ability to deliver superior quality homes, the price can be influenced in an excessive way. For this reason, establishing the inherent value of the asset within the market, as well as its unique value to you, is imperative.



4. Buying at the right time

As we have seen, the residential property market is influenced by many factors that make timing the market a complex endeavour. As a result, the cycle is not always linear or time bound. The property clock allows us to simplify this complex system so we are able to make more informed decisions on whether the market is too hot to enter (danger and boom), which is when price is higher than the realistic sustainable value due to a high volume of buyer activity. Since many purchases happen at exactly the wrong time, buying at the right time is counterintuitive because the majority of other purchasers do not agree with you. This is further exacerbated if the period of stagnation spans multiple years because most purchasers are seeking short-term price gains

The important thing to remember when timing the market is that the objective isn't to have double-digit price growth in the early years of your purchase (although that is always nice); rather, you should aim to establish a sustainable long-term holding strategy to catch at least one market upswing in a ten- or fifteen-year period.

5. Time in the Market

One of the most informative statistics in residential real estate is that you are ten times more likely to double the value of your investment if it is held for more than ten years (evidenced from the RP Data Pain and Gain report). Preferably, a fifteen-year timeline should be adopted. There are multiple reasons for this

To begin with, the purchasing and selling costs of residential real estate are considerable when compared with other asset types, which inevitably eats into some of your capital. At purchase your highest expense is typically stamp duty. When selling your highest expense is usually the agent's commission. If you are able to outlast multiple cycles around the property clock you have experienced multiple periods of upturn and boom, which enhances the effect of compound growth (a favourite of business magnate and investor Warren Buffett).

The best way to understand the value of a long-term strategy is to observe the change in Sydney house prices over decades rather than years. In 1990 the median house price was \$194,000; in 2000 the median house price was \$287,000. This is a significant amount of growth, but just one decade later in 2010 the median house price was \$620,000 and has since increased beyond \$1 million.



6. Discipline

A reason most property investors fail to adopt a long-term strategy is due to the emotional challenges and temptations experienced throughout the property cycle. The emotional need to sell your asset comes from two phenomena:

- 1) Frustration with periods of poor performance: during periods of stagnation, property investors are observing a consistent lag in growth. Believing what is currently happening will always happen, they grow frustrated and decide to sell.
- The highs of early gains: during boom periods, property investors observe their comrades sell for considerable profit and decide the going is too good to miss out themselves, exposing them to just a singular boom instead of multiple booms. This can be exacerbated by unsolicited calls from real estate agents telling you how great the market is and how now is the time to be selling.

The influence of human emotion and behaviour on markets has been understood and respected by economists to the point of spawning its own discipline of behavioural economics. Although it is important to understand how emotion and behaviour influence the market, it is more important you don't become a victim of it yourself.



7.Building a Portfolio & Diversity

Regardless of the strategy, a consistent rule in property investment is to accumulate a portfolio of multiple properties. Owning more than one investment property is a rarity for Australians, and less than 1 per cent of Australians have more than two.

Consider this: you have one investment property and one of an array of issues comes up: your tenant has stopped paying rent, or there are repairs that need to be done, or prices have gone backward and you now owe more than the property is worth. Each of these challenges is significant enough that it could cause major financial hardship for you.

Now imagine you had a second investment property. While the first experienced a price drop, the second actually grew in value. This means the portfolio as a whole is still worth more than your loan amount. An even better scenario is having more than two properties, spreading your risk across a multitude of assets. If you diversify your portfolio correctly, the likelihood that all assets experience difficulty at the same time is minuscule compared to the risk of being dependent on just one asset.

Achieving diversity in your investment portfolio can be done in multiple ways, including:

Geographic:

Geographic diversification involves purchasing investment properties in different cities and regions. Since Australian cities and regions boom and stagnate at differing times, there is significant benefit in holding assets in different areas. At a more micro level, diversification can be achieved within a city or region by targeting different 'rings'. Inner-city dwellings perform differently from those in the middle and outer rings for multiple reasons, including affordability and demographic changes among others.

Property type:

Diversifying by property type involves mixing houses, townhouses and apartments as well as their subcategories, which can be sorted by lot size and number of bedrooms. These property types vary in performance at times due to a function of supply and demand. As an example, demand for one bedroom apartments close to cities has increased considerably over past decades due to an increased prevalence of couples without children and lone person households.

Price:

The price of a property, as well as the rental amount, often determine the type of tenant you will have, as well as the type of purchaser you will attract when the time comes for resale. Market interventions (like the first home owner's grant) and natural market shifts (such as demographics, mentioned above) create demand for certain price brackets in certain areas

8. The Five Benefits of Buying Brand New

The age of a property is one of the most overlooked factors when investors make their purchases, although the impact this has on a long-term strategy is huge. Properties can be purchased at many stages of their lifecycle; the strategies for each of these life stages vary considerably and can yield different results from day one.

Benefits of buying brand new property:

Greater selection and choice:

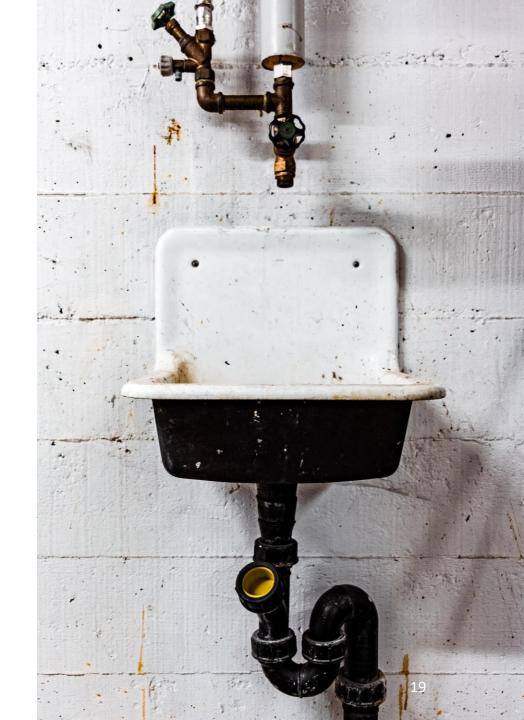
Whether an apartment block, house and land or anything in between, your choice of which apartment or house you want is highest earlier in the lifecycle. As an example, if a property developer markets a 100-unit apartment building the first purchasers have a choice of all 100. As the development progresses to completion, the choice for the remaining purchasers is reduced to whatever hasn't been selected already, that is, the leftovers. There are obviously exceptions to this rule when certain lots have been withheld from the market for particular reasons. The properties that are held for the longest period are typically retained because of their level of appeal: who wants to sell something special to them? This means the hidden gems you can never find from the real estate agent are better found before they're built.

Tax & Rental Yield:

brand new properties benefit from an additional depreciation tax benefit. The Australian Tax Office allows the investor to offset a certain amount of money each year for the fact the materials of the building and the fixtures and fittings inside the building are worth less today than they were yesterday and continue to drop in value (depreciate) over time. As an aged property has already depreciated, it cannot be claimed to the same extent as a new property. Newer property also has greater appeal to tenants, likely yielding a higher rental amount than a comparable older property.

Increased Portfolio due to Tax & Yield (Cashflow):

Given the cash flow superiority of new property the ability to hold a larger asset base is improved, allowing the investor to accumulate a strong portfolio over a shorter period of time without as many obstructions or stressors on lifestyle.





9. Brand name vs ugly duckling suburbs

We all know somebody who is a suburb snob, and this extends beyond their own place of residence. Many investment properties inherit the suburb snobbery of their owners, for two reasons. First, there is a belief that more appealing suburbs will perform better in the long term. Second, some investors make their purchasing decisions based on what others think of them rather than what makes sense. It might sound fancier to own an investment property in Bondi than one in Blacktown, but between 2008 and 2017 the median house price in Bondi grew by 95 per cent while Blacktown grew by 133 per cent. That's a difference of \$266,000 on a \$700,000 investment.

Although brand name suburbs sometimes feel right, it is important to stick to the previously listed fundamentals. Sometimes they will point to a brand name suburb, but often they won't.



10. Buffers

The journey of property investment may appear romantic, but in reality there are bumps along the road that can be exacerbated by a lack of foresight. In order to mitigate against the possibility of unforeseen circumstances, it is important to establish buffers. The best-known buffer to utilise is a cash buffer. Cash buffers allow for unexpected maintenance costs, vacancy periods, agent costs or other temporary costs.

Buffers can also be implemented in your cash flow. Being prepared for interest rate increases, levy increases or rent reductions in situations where the macro-economy or balance of supply and demand shift for periods of time ensures you are able to safely and securely hold your asset for a long enough time to reap the intended benefits.

It is important to follow all of these expert insights in order to get the most from your property investment ventures, however, none of them are of any use unless you take the first step. Getting started in property investment is what 90 per cent of Australians have failed to do, yet everybody you speak to expresses an expert commentary of their own. Don't lose sight of the horizon. Best of luck!



11. Procrastination (Bonus Insight)

The killer of all dreams.

We all have that one friend or family member who has been planning world domination for the last 10 years, at least, but has taken no action. Conversations at BBQ's with them seem like ground hog day and usually start with, "I've been planning", "I've thought of a great idea", "This is what I'm going to do".

Aspirations without action are just dreams.

The second type of person that we all know is the doom and gloom friend or family member. As the saying goes, *misery loves company*. It has always baffled me as to why people take property advice as gospel from their friend or family member who is a butcher, electrician or office professional. They definitely wouldn't allow any of these family members or friends to install a gas stove in their home (unless they were certified) or work on their vehicle engine (again, unless certified) so unless the family member or friend your speaking to is property certified and has a track record of investor success, then why would you allow their opinion to procrastinate your action to progress?

If this bonus insight has made you ponder or made you even feel a little uncomfortable, that's great, as it was designed to.

Discomfort is only temporary until you decide to move.

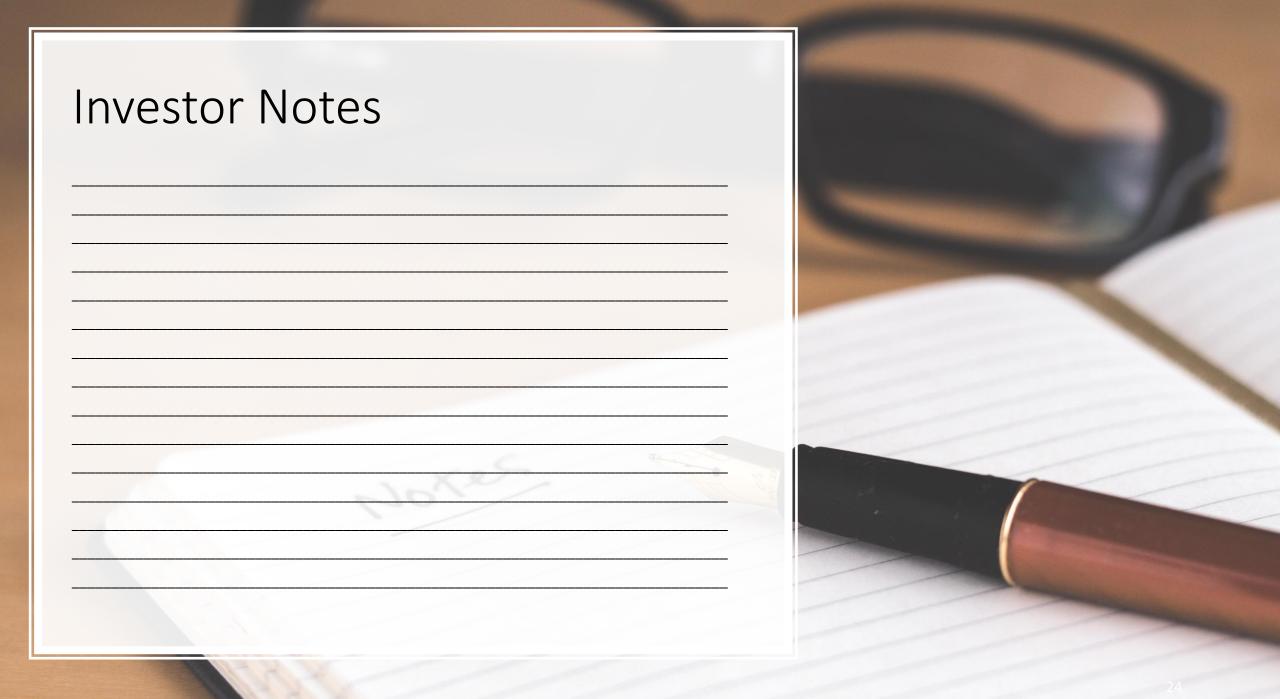
Call or Email Edward Labbad now and book an obligation free consult to make an educated and informed decision that will change the trajectory of your future

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