

Complete Property Solutions **Guide to Buying a Home or Investment Property**

Buying a home or investment property is not something that people do every day, unless of course you are a buyers' agent! There are many steps that need careful consideration and lots of time to get the best result. This checklist provides a snapshot of the key steps required in purchasing an investment property.

1. Your goals

Understand your investment goals and risk profile. You must have a basic understanding and belief in the property market before committing any investment dollars. Spend some time considering the risks and rewards from property investing and speak to your licensed financial planner, accountant and other people that have been successful.

2. Borrowing capacity

Before commencing a property search, it is important to know how much a bank or financial institution will lend you based on your current financial position. The mortgage market is very competitive and finance brokers can assist you in sifting through the maze of investment loan options. It doesn't cost anything to get finance pre-approval and this will put you in a good position to act on a purchase if a suitable opportunity arises. Most pre-approvals are valid for 3 months. Knowing your borrowing capacity helps you narrow your property search to properties within your price range. **CPS Property** is also a mortgage broker that can assist in your finance needs.

3. Research

This step can take a long time and is where the real leg work is done. However, by using a buyer's agent, you can leverage your time and let a professional researcher achieve a better result in a shorter time. Astute investors begin their search by using strict investment criteria. This includes criteria such as land content, location, proximity to schools, shops and transport and other physical features about the property that affect future capital growth.

CPS Property makes extensive use of growth predictions from professional research companies such as BIS Shrapnel, Residex, Real Estate Institute of NSW & Aust, ABS and the Home Price Guide. Through our own independent research we gather knowledge from local agents to make our own assessment of capital growth potential and rental yields. Combining these broad overviews with “on-the-ground” localised knowledge provides our clients with a competitive advantage when buying investment property. **CPS Property** is also able to access “silent listings” where a property is not advertised to the general public.

4. Evaluate a short-list

Extensive research then results in a preliminary list of properties to be considered. A handful of properties are selected from this list for you to inspect. Doing this yourself can take many months and it is easy to overlook properties that meet the investment criteria. The time we spend with you viewing the shortlist will provide invaluable insights into the local market and help clarify your decision-making.

5. Negotiate

Once you have selected the most suitable property from a short list, we will negotiate the lowest price possible and the best terms and conditions for the contract of sale.

6. Review contract of sale

After the offer is accepted, the contract of sale is forwarded to your solicitor for review. The solicitor will examine the special conditions, inclusions and settlement term consulting with you and liaising with the vendors' solicitor requesting changes if required.

7. Exchange of contracts

The solicitors then exchange contracts along with a 10% deposit. Once the exchange has occurred the purchaser has secured the property. (Note: contracts of sale can also be exchanged by the vendors' agent if the purchaser pays a non-refundable deposit of 0.25% of the purchase price). Once the contract is signed the purchaser has a 5 day cooling off period in which they may rescind the contract but forfeit the 0.25% deposit to the vendor.

8. Pest & Building Inspection

Pest and building inspections are usually done during the 5 day cooling off period. This also allows time for the solicitor to undertake the relevant title searches and enquiries in the property. Pest and building inspections should highlight all the problems with the property which often discourage prospective purchasers going ahead. However, the key items to look out for are evidence of current termite damage and evidence of serious structural movement which could cause problems later. All houses will have some problems and it is important to work out if they are simply cosmetic or whether they require major works.

9. Unconditional finance approval

Once you have signed the contract it is essential to provide a copy of the front page of the contract and a rental appraisal letter to your bank or mortgage broker. This will enable the bank to provide an “unconditional finance approval” and prepare mortgage documents for you to sign. You will also need to arrange building insurance and provide the bank with a certificate of currency showing the property is insured from the settlement date.

10. Settlement

Your solicitor will attend settlement and arrange payment to allow transfer of title into your name. The bank will provide cheques (up to the agreed limit) for the balance owing (less the deposit paid). Various adjustments need to be made for stamp duty, solicitor fees, council and water rates, mortgage duty etc.

11. Property management

Engaging a property manager to find a tenant and lease your investment property is money well spent. If the property is in Sydney, **CPS Property** will locate a tenant, screen the tenancy application, prepare the lease documents, arrange the bond, collect the rent, conduct regular inspections and coordinate repairs. Fees for property management are tax deductible against rental income.

12. Tax depreciation schedule

To maximise the tax deductions on the property you should engage a quantity surveyor to prepare a tax depreciation schedule. Depreciation can be claimed on

the building structure and the fittings and fixtures within the property. This schedule will itemise the amounts that can be claimed each year in accordance with relevant tax laws. **CPS Property** can recommend reliable and cost effective quantity surveyors to prepare these schedules.

13. Landlord insurance

Landlord insurance provides protection from tenants leaving without paying rent, damaging your property, public liability, legal expenses and more. This insurance provides you with peace of mind knowing your property is protected. Insurance premiums are tax deductible.

14. Monitor and maintain your investment

Like most things in life, investment property requires ongoing maintenance. Tenants are unlikely to renew their lease if there is a constant string of problems with the property. Keeping your tenants happy is a great way to ensure a constant stream of rental income.

Once you have held the property for around 12 months you should consider getting a new bank valuation and if the property has grown in value and using the additional equity to purchase another investment property. Leveraging the equity from your investment property enables you to grow your property portfolio at a faster rate.

While you may be tempted to sell your investment property in the first few years, it is usually better to hold the property for the medium to long term (provided your cash flow is sufficient). The price of property in the major capital cities of Australia has generally doubled every 7 to 10 years. Once you sell, there is no further opportunity for capital gain. Property investment is all about generating equity from an appreciating asset. Sit back and enjoy watching your assets grow.



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Disclaimer: The above guide must not be taken as specific advice for your personal situation. CPS Property is not a licensed financial advisor. Please seek independent advice from qualified legal and financial professionals before taking any action.