Making Everything Easier!™

Australian Edition

Getting Started in Property Investing

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Learn to:

- **Decide if property investing is the right choice for you**
- **Spot the best deals on financing**
- **Pick the right property in the right location**
- **Understand your obligations as a landlord**

Bruce Brammall

Financial adviser, mortgage broker and personal finance journalist

Eric Tyson

Robert S. Griswold

Australian Edition

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by Bruce Brammall
Eric Tyson
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Introduction

Welcome to *Getting Started in Property Investing For Dummies*, Australian Edition! We're delighted to be your tour guides. Throughout this book, we emphasise three fundamental cornerstones that we believe to be true:

- Property is one of the three time-tested ways for people of varied economic means to build wealth (the others are shares and small business). Over the long term, you should be able to make an annual return of around 7 to 9 per cent per year investing in real estate.
- Investing in real estate isn't rocket science but does require doing your homework. If you're sloppy with your legwork, you're more likely to end up with inferior properties or to overpay for a property. Our book clearly explains how to buy the best properties at a fair (even below-market!) price. (Although we cover all types of properties, our book concentrates on residential investment opportunities, which are more accessible and appropriate for non-experts.)
- Although you should make money over the long term investing in good real estate properties, you *can* lose money, especially in the short term. Don't unrealistically expect real estate values to increase every year. When you invest in real estate for the long term, which is what we advocate and practise ourselves, the occasional price declines should be merely bumps on an otherwise fruitful journey.

How This Book Is Different

If you expect us (in property spruiker fashion) to tell you how to become an overnight multimillionaire, this is definitely not the book for you. And please allow us to save you money, disappointment and heartache by telling you that such shysters are only enriching themselves through their grossly overpriced CDs and seminars, or are likely urging you into their property developments with funding from their related-party loans.

Getting Started in Property Investing For Dummies, Australian Edition, covers tried and proven real estate investing strategies that real people, just like you, use to build wealth. Specifically, this book explains how to invest in houses, units, apartments, small apartment blocks, commercial properties and raw (undeveloped) land. We also cover ‘indirect’ real estate investments such as real estate investment trusts (REITs) that you can purchase through the Australian Securities Exchange or a real estate managed fund.

The objective of our book is to give you the best crash course in property investing, so that, if you choose to make investments in properties, you may do so wisely and confidently.

Foolish Assumptions

Whenever authors sit down to write books, they have particular audiences in mind. Because of this, they must make some assumptions about who the reader is and what that reader is looking for. Here are a few assumptions we’ve made about you:

- You’re looking for a way to invest in real estate but don’t know what types of properties and strategies are best. (We’ll show you.)
- You’re considering buying an investment property, be it a house, a unit, an apartment or flat, a small apartment or unit complex or an office building, but your real estate experience is largely limited to renting an apartment or owning your own home.
- You may have a small amount of money already invested in real estate, but you’re ready to go after more or bigger properties.
- You’re looking for a way to diversify your investment portfolio.

If any of these descriptions hits home for you, you’ve come to the right place.

How This Book Is Organised

We’ve organised *Getting Started in Property Investing For Dummies*, Australian Edition, into four parts. Here’s what you can find in each.

Part I: Understanding Real Estate as an Investment

In this part, we explain how property compares with other investments, how to determine whether you've got what it takes to succeed as a real estate investor, and how much money you'll need to invest in various types of real estate. We cover why your home isn't really an investment property and why a holiday home can be both home and investment property. We also discuss the range of real estate investments available to you — such as residential and commercial properties — and researching property trusts.

Part II: Financing: Raising Capital and Sourcing Loans

You can't play if you can't pay. This part details how and where to come up with the dough you need to buy property. We explain the common loans available and some not-so-common ways to finance property investment. We also share all of our favourite strategies for finding and negotiating the best deals when you need a mortgage.

Part III: Finding and Operating Properties

This part looks at the rules of buying real estate right. We tell you how to determine where and what to buy. In this part, you find out how to choose the best locations and how to project a property's cash flow. We also take a look at the ongoing costs of real estate and what you need to consider to cover those expenses. Importantly, we also focus on the basics of being a landlord, and how to find and keep the best tenants and sign solid lease contracts. And finally, we provide some tips on building a property portfolio, as you look at purchasing your third (fourth, fifth, sixth . . .) real estate investment.

Part IV: The Part of Tens

This part contains ten important tips that didn't fit neatly into the rest of this book. This section includes ten ways to increase a property's return, from raising rent prices, to subdividing and developing, and taking advantage of tax benefits.

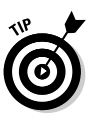
Icons Used in This Book

Throughout this book, you can find friendly and useful icons to enhance your reading pleasure and to note specific types of information. Here's what each icon means:

This alerts you to those who may have conflicts of interest or offer biased advice, as well as other concerns that could really cost you big bucks.

This icon flags concepts and facts that we want to ensure you remember as you make your real estate investments.

Included with this icon are complex examples and interesting technical stuff that you may want to read to become even more familiar with the topic.



This icon points out something that can save you time, headaches, money or all of the above!

Here we're trying to direct you away from blunders and errors that others have made when investing in property.

Suddenly investing in real estate is much easier with research tools a mouse click away. This icon highlights the most useful sites.

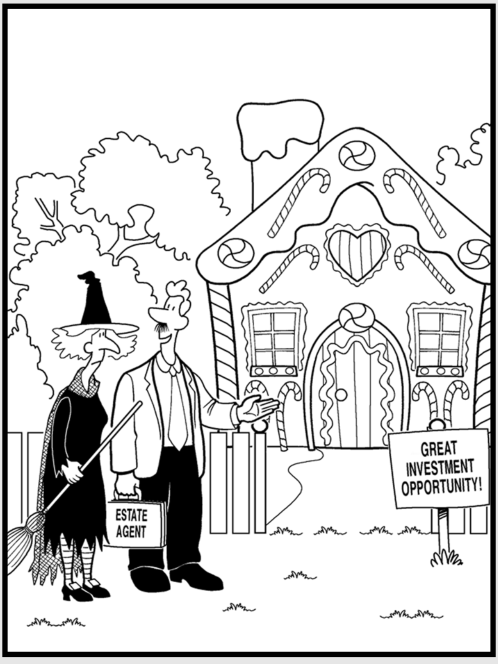
Where to Go from Here

If you have the time and desire, we encourage you to read this book in its entirety. It provides you with a picture of how to maximise your returns while minimising your risks in the property market. But you may also choose to read selected portions. That's one of the great things (among many) about *For Dummies* books. You can readily pick and choose the information you read based on your individual needs.

Part I

Understanding Real Estate as an Investment

Glenn Lumsden



'. . . and if the real estate market ever nosedives, you can always just live off the gingerbread.'

In this part . . .

Real estate is just one of many available investment options, so, in this part, we compare real estate investing with alternatives you may consider and look at how to fit real estate into your overall financial plans.

Chapter 1

Stacking Up Real Estate Against Other Investments

In This Chapter

- Getting started
- Contrasting real estate with other investment options
- Deciding whether real estate works for you
- Arranging your overall financial plans to include real estate
- Watching out for statistics

The vast array of choices available to Australians is both a privilege and a burden. Go to the supermarket in search of something as simple as bread and you'll know exactly what we mean. Choice is even more widespread when it comes to the world of investment. You have thousands of choices among managed funds, shares, bonds . . . the list is seemingly endless.

Allow us to help you through a portion of the cluttered world of investment. In this chapter, we start to explain how, why, when and where to invest successfully in real estate. And, even though we're advocates for investing in real estate, we also take you through some issues to weigh up if you're wondering whether you have what it takes to make money *and* be comfortable investing in real estate. We share our experiences, insights and thoughts on the long-term strategy for building wealth through real estate that, at its core, is a fundamentally simple investment strategy that virtually everyone with a long-term time frame and determination can understand and achieve.

Getting Yourself Motivated

It's never too early or too late to formulate your own plan into a comprehensive wealth-building strategy. For many, such a strategy can help with the challenges of funding private school education for children and ensuring a comfortable retirement. The stock market and other diversified investments are essential to a proper asset-allocation and diversification strategy.

The challenge involved with real estate is that it takes some real planning to get started. Without doubt, calling a stockbroker and purchasing a few shares in your favourite company is a lot easier than purchasing your first rental property. But buying good property is more time-consuming than difficult. You just need a financial and real estate investment plan, a lot of patience and the willingness to do some research and legwork, and you're on your way to building your own real estate empire!

The vast majority of people who don't make money in real estate make easily avoidable mistakes, which we help you steer clear of.

In this chapter, we give you some information that can help you decide whether you have what it takes to make money and be comfortable with investing in real estate. Unlike almost any other type of investment, real estate is hands-on. When you own shares in a company, you can't personally dictate how that company operates, or influence how profitable it is. Direct investment in property is the opposite. You're in control. Major decisions are in your hands. You can determine how to lift your income and how to raise your profits (or capital gains or equity). We compare real estate investments with other investments you may be considering. We provide questions you need to ask yourself before making decisions. And, finally, we offer guidance on how property can fit into your overall personal financial plans.

As Bruce approached the end of his 20s, his employment as a business journalist gave him the scope to investigate how the rich made their money. He found that he could usually narrow down the stories behind a person's wealth to a few themes — inventing something, owning and running a business, or successfully investing in other businesses. These businesspeople and investors covered a variety of industries and their business successes had no obvious common link. However, a non-business link soon emerged. Most of these people seemed to have made substantial sums of money from property investment.

Comparing Real Estate with Other Investments

You've surely heard about or even considered many different investments over the years. To help you appreciate and understand the unique attributes of real estate, we compare real estate with other wealth-building investments like shares and running your own business, using key economic attributes.

Returns

Clearly, a major reason many people invest in real estate is for the healthy *total returns* (which can include both ongoing income and the capital appreciation of the property). Real estate generates robust long-term returns because, like shares and small business, it's an ownership investment. By that, we mean that real estate is an asset that has the ability to produce income *and* capital growth.

Our research and experience suggest that total real estate investment returns are comparable to those from shares (about 7 to 10 per cent annually, measured over decades). (In Chapter 2, we discuss *real estate investment trusts* (REITs), which are publicly traded companies that invest in commercial real estate such as apartment buildings, office complexes, shopping centres and so on. These have gone through considerable periods of growth, with rates of greater than 10 per cent growth, though returns since the onset of the global financial crisis (GFC) have been sorely tested.)

And *you* can earn returns better than 10 per cent per year if you select excellent properties in the best areas and manage them well. That said, investing in real estate is accompanied by the following:

- **Few knockout wins:** Your returns from real estate probably won't approach the knockout wins that are sometimes achieved by business entrepreneurs or by picking penny-dreadful shares on the stock market and doubling your capital in a month. Real estate profits take time — profits are earned through hard work, judgement and research.