

The background of the cover features a blurred indoor scene. On the left, a white ceramic cup filled with dark coffee sits on a matching saucer. In the center-right, a small, three-dimensional paper house with a red roof, a red door, and orange window cutouts is placed on a dark wooden surface. In the upper right, a green plant with long, thin leaves is housed in a white rectangular pot. The overall lighting is soft and natural, creating a warm and inviting atmosphere.

# THE ULTIMATE GUIDE TO **PROPERTY INVESTMENT**

... For Beginners



BLUE WEALTH  
PROPERTY

## **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.

# LETTER FROM BLUE WEALTH PROPERTY

Dear Property Investor

Whether you are an existing investor or considering your first step into the property market, we are here to help you on that journey.

Blue Wealth is a property market research and education business that helps investors make informed decisions about how, where and when to invest in Australian residential investment property.

Blue Wealth has gone on to help many Australian investors with thousands of residential property investments in multiple markets and numerous market conditions.

Our company has over 30 staff focused primarily on research and post-purchase client care. We rely exclusively on a network of accredited business partners who entrust their clients to the Blue Wealth team. Blue Wealth does not deal directly with the public but requires a referral from a finance specialist.

Our mission is to provide quality information and education to all at no cost.

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

Enjoy the journey!

Blue Wealth Property

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# INTRODUCTION

Over the years, the team at Blue Wealth Property have dedicated ourselves to educating our clients and the general public about property investment. Although property is Australia's favourite asset class, it is sorely misunderstood. As a consequence, many property investors make poor choices and fail to build a property portfolio that meets their unique needs. Of the dozens of eBooks available on our education portal, this eBook has been made specifically for those who are new to the idea of property investing. In the following pages, you'll be introduced to the origins of property investment in Australia, why it is so popular and why certain strategies are better for some people than others.

## The origins of land ownership

*The first man who, having fenced in a piece of land, said 'this is mine,' and found people naïve enough to believe him, that man was the true founder of civil society. From how many crimes, wars, and murders, from how many horrors and misfortunes might not any one have saved mankind, by pulling up the stakes, or filling up the ditch, and crying to his fellows: beware of listening to this impostor; you are undone if you once forget that the fruits of the earth belong to us all, and the earth itself to nobody.*

– Jean-Jacques Rousseau

Have you ever pondered on the origins of ownership and value? If we are to refer to the above quote, who was the first person to decide a certain parcel of land was theirs only? What makes a house in Vaucluse worth \$26 million and a house in Baldivis worth \$400,000? Presumably the concept of *land ownership* originates with tribes and access to resources such as fresh water, shelter and food. Our very existence is centred on our desire to hold land and the vital resources that sit upon it (or beneath it).

As Rosseau points out, the notion of *land ownership* is perhaps the greatest cause of

conflict to this day. Consider the declaration of *terra nullis* more than two centuries ago on the island now known as Australia, or the ongoing conflict between Israel and Palestine, or even the basic purpose of the European Union: to promote stability (avoid territorial disputes) in the region. The highest-and-best-use of land has certainly changed over time which has caused the transformation of our cities and towns.

To invest in property, we must first agree that it is valuable as a society. This 'social contract' is supported by laws which protect your rights. Those rights usually create more certainty in the market, which then inspires confidence that a certain jurisdiction is a safer investment than another. Although Australia has changed prime ministers like underwear in recent years, we are still regarded as a politically-stable country. This is why people from overseas like to move here, invest here or both.

## How can I ever afford a property?

If you're entirely new to the concept of property investment, you might be confused about how so many people are able to afford homes with six-or-seven-figure price tags. This is where we introduce you to the concept of leverage through finance. Leverage is defined by *Investopedia* in the following way:

Leverage results from using borrowed capital as a funding source when investing to expand the firm's asset base and generate returns on risk capital. Leverage is an investment strategy of using borrowed money—specifically, the use of various financial instruments or borrowed capital—to increase the potential return of an investment. Leverage can also refer to the amount of debt a firm uses to finance assets. When one refers to a company, property or investment as 'highly leveraged,' it means that item has more debt than equity.

Let's break this down for the first-time property investor.

Essentially, leverage is the ability to borrow a large amount of money with a smaller investment (equity or 'deposit') in order to purchase an asset such as property. Leverage is great because it allows you to buy a home now, rather than saving up for your entire life to pay cash. For example, if you want to buy a \$500,000 investment property but only have \$50,000, you are able to borrow the remaining \$450,000 from a lender. This is an example of a 90 per cent *loan-to-value ratio* loan because 90 per cent of the asset's value has been borrowed and 10 per cent of the asset's value is equity (your own cash investment).

Leverage is also helpful because it makes your capital work harder. What does this mean?

## Making your capital work harder

Typically, when hearing of 'compound interest', Warren Buffett is the first name that comes to mind. In the world of financial mathematics, compound interest is considered quite simple and straightforward. Essentially, the rule of compound interest dictates that an asset growing in value will grow in proportion to its increasing value over time. If that didn't make sense, don't worry. We will provide an example below:

Compound rate	\$50,000 asset	\$500,000 asset
5% p/a	\$52,500	\$525,000
5% p/a	\$55,125	\$551,250
5% p/a	\$57,881	\$578,813
5% p/a	\$60,775	\$607,753

Let's assume that a particular asset is growing at a rate of 5 per cent per annum. It is rarely this precise, but it is helpful to illustrate the point. If you were to invest just \$50,000 cash, within four years you'd make \$10,775 in compound growth. You'll notice that each year the amount of growth increases, even if just by a small amount.

On the other hand, if you were to invest in a \$500,000 asset growing at the same rate (5 per cent per annum), you'd make \$107,753 over the same time period. By combining leverage and compound growth, your asset base can grow at a rate higher than many Australians' annual incomes.

## The process of buying an investment property

The main reason why many first-time investors would download this eBook is because they're confused about where to actually start. Organisations such as Blue Wealth Property can help you with this, however we have included a brief overview below.

### Stage 1: gathering together acquisition costs and building a credit history

Earlier, we discussed the fact that home buyers are able to afford such expensive price tags because the majority of the asset's cost was covered by a loan. Nevertheless, most buyers are expected to cover a portion of the costs themselves. These are known as acquisition costs. Acquisition costs include a deposit (ideally 20% of the asset's value but can be as low as 5%), any lender's mortgage insurance (LMI) required by the lender (this is usually higher if you have a lower deposit), stamp duty, solicitor's costs and any mortgage costs (such as valuations). Saving up for acquisition costs can take some home buyers many years, particularly if they don't have much of a disposable income. Over this period of time, you should ensure that you pay your bills on time and develop the best possible credit history. This will come in handy during stage 2.

### Stage 2: identifying your borrowing capacity

Your first chicken-and-egg conundrum is whether to look for a property first or obtain advice on finance. After all, how do you even know how much you intend to borrow until

you know which property you're planning to purchase? You can resolve this by consulting with a mortgage broker who will determine a ball-park figure of how much a lender would offer you. This will be based on your income, disposable income, ability to save, as well as your credit history from stage 1. We explain the role of mortgage brokers in more detail later in this eBook.

### **Stage 3: seek help or do it yourself?**

One of the biggest mistakes property investors make is buying the wrong property on the basis of emotion, rather than sound investment logic. This leads to many property investors buying in their local area because it is *familiar*. At Blue Wealth Property, we have developed a nation-first research model that removes emotion from the investment decision making process. This is the benefit of seeking help with a property investment group at this stage of the process. Working with Blue Wealth Property also allows you to access incentives and inclusions which are not available in the general marketplace. This is because we represent a higher level of value to vendors (by giving them multiple purchasers), which puts us in a much stronger position to negotiate.

### **Stage 4: making an offer and exchanging contracts**

Once you have found a property, the next step is to make an offer to the vendor. This could involve submitting an expression of interest form or making contact with the sales agent. Things start getting to the business end when the contract of sale is reviewed by your solicitor. Once the solicitors have agreed on mutually-beneficial terms to the contract, you are required to sign it. Contracts are then 'exchanged', meaning you have legally committed to purchasing the property. This stage usually requires you to pay a deposit which will be released to the vendor when the contract settles.

### **Stage 5: settling contracts**

Although you may have signed contracts, you don't yet officially own the property. This occurs on the date of settlement. Upon settlement, you are required to pay the balance of the purchase price to the vendor which for most people, means the beginning of your mortgage. At this stage of the process, your solicitor and mortgage broker are very busy, as are the sales agents dealing with the transaction. The settlement date will vary on the basis of your contract of sale. For instance, if you're buying a property that is yet to be constructed, you'll have to wait until it's finished.

### **Stage 6: holding your asset**

After settlement, you and your lender have ownership rights of the property. Typically, you will want to find a tenant to pay you rent which will involve a property manager. Selecting a tenant can be stressful work. For this reason, it's strongly recommended to get all the help from professionals you can. You will also be paying your mortgage once the property is settled, along with other ongoing costs such as maintenance, paying your property manager, council rates and any others agreed with your tenant. It is tempting to try selling your asset for an early profit but remember, you are ten times more likely to double the value of your investment if you hold it for the long-term (more than 10 years).

## **Understanding the property industry**

There are many professionals involved in the process of property investment. The below-listed ones are the most common:

**Real estate agents** are property salespeople licensed to manage the listings and sales in a particular state. They are regulated by a state government authority (for instance, NSW real estate agents are regulated and licensed by the NSW Department of Fair Trading). Becoming a real estate agent requires the completion of a

vocational course, either a Certificate IV or Diploma in Property Services (Real Estate). Typically, they will be experts in their specific area which is why you'll find different agents in almost every suburb. Chances are you will deal with a real estate agent if purchasing a property, but it is important to remember that their responsibility and accountability lies with the vendor.

**Property research groups** research a larger market (state or national) to identify ideal local markets for their clients to invest based on certain criteria. In the case of Blue Wealth Property, this is achieved through our proprietary research model. Once the right property in the right market has been identified, the investment group will negotiate with the vendor on certain inclusions and conditions before presenting it to their client. Since a retail real estate salesperson is not involved in the transaction, the investment group will typically charge the vendor instead of charging the purchaser which could result in a significant saving to you.

**Mortgage brokers** are professionals who act as an intermediary between a property buyer and Australia's lending institutions. Often, a mortgage broker will predominantly charge the lender for their service, meaning the costs to you is minimal (or nothing). Home buyers benefit from using a mortgage broker because they are able to *shop around* for the right mortgage for you. This is an alternative to visiting multiple bank branches and trying to decide between them yourself. Brokers also have established systems and relationships with lenders which can make the process a whole lot smoother than you doing it yourself.

**Accountants** are best known for their role as your tax agent when it comes time to file your annual return, but their role becomes more complex once you have purchased an investment property. Make sure you are dealing with accountants who understand property investment intimately. Some property millionaires even recommend

checking that your accountant is a property investor themselves.

**Financial planners** are highly recommended if your property investment strategy becomes more complex than usual. This could be due to investing through an alternative entity (such as a trust, company structure or your superannuation). Financial planning is a diverse industry with many specialists and generalists, so it is important to know which type you're dealing with, as the vast majority are not experts in property. There are superannuation planners, insurance planners, managed funds planners, investment planners, retail planners, private planners, high net worth advisers, wealth accumulation specialists, wealth consolidation specialists, retirement planners and estate planners.

**Conveyancers and solicitors** are often regarded among the most prestigious professions, but there are bad eggs in this industry just as there are in every industry. An incompetent solicitor or conveyancer can be the difference between a successful property portfolio and an unsuccessful one. Just like financial planners, legal professionals will typically specialise, meaning you should find one who understands the type of property you are planning to purchase. If your legal professional is not familiar with these types of contracts and the process involved, you could find yourself negotiating on the wrong terms, missing payments, agreeing to unfavourable conditions or unknowingly violating contract terms.

**Property managers** conduct the administrative maintenance and coordinate the tenancy of your investment property. The details of their role will be included in their agreement with you, but can include: listing the property for rent, coordinating maintenance, screening and selecting tenants, advising on market rent, representing the landlord in any disputes, inspecting the home periodically, financial reporting, as well as other duties. For their time, the landlord will



typically be charged a percentage of the rental amount, as well as any listing expenses. There is nothing worse than hearing a property investor say they manage their own properties, so although there are costs associated with hiring a property manager, it is well worth it. Most often, property managers will be attached to a real estate agency. It is therefore important not to get confused with these two differing professions.

## CONCLUSION

We hope our *Ultimate Guide to Property Investment for Beginners* clarified some of the questions or confusion you may have had about investing in Australian property. If you have any further questions or matters to clarify, please feel free to reach out to the friendly team at Blue Wealth Property.

# THE BLUE WEALTH METHODOLOGY



The Blue Wealth Property research methodology adopts a top-down macro approach to investing in residential property.

## STEP ONE: MACRO RESEARCH

The first step in the research process is to analyse a capital city from both a quantitative and qualitative perspective to determine an overall value proposition. Macro-economic analysis is used to identify geographic regions that offer factors conducive to capital growth. Research, together with economic theory, indicates that the following four key factors drive capital growth in the property market. The points below determine the extent to which a region has the economic attributes required to stimulate long-term capital growth.

- 1. Population and Demographics:** trend analysis to examine a geographic region's population and demographic evolution to ascertain future demand for accommodation.
- 2. Economics and employment:** gross state product, economic diversity and income

growth are key indicators. Income growth (be it natural or due to demographic evolution) is an important prerequisite to growth as it increases the affordability of housing.

**3. Infrastructure spending:** capital expenditure drives population growth, stimulating the demand side of the equation. Transport, health and education infrastructure are key drivers of capital growth in a property market, directly contributing to the strength of the micro-economy.

**4. Supply and demand:** demand-side pressure stimulates capital growth given less than adequate supply.

The four points above form the foundation of a research report made available to clients as part of a detailed Due Diligence Report.

## STEP TWO: MICRO RESEARCH

Once a region has been identified as having strong growth potential, Blue Wealth's micro research process is then conducted, including analysis of the following:

- 1. Value:** is assessed using recent comparable sales as a benchmark. Projects are rated based on their per square metre pricing (both internal and external) relative to recent comparable sales.
- 2. Transport:** proximity to transport nodes is assessed.
- 3. Quality:** includes analysis of the finishes schedule in addition to an assessment of previous works by the developer.
- 4. Design:** assessment based on the efficiency and use of space; minimum total and individual room sizes apply.
- 5. Amenities:** assessment of amenities, both suburb and project specific, likely to stimulate demand-side pressure for accommodation, thereby strengthening the local rental market.

6. **Rent:** contributes to the total return of an asset. Vacancy rate and yield analysis are fundamental aspects of this step of the research process.

## STEP THREE: BLUE WEALTH INDEX

Every property is then rated on a scale of 1 to 10 for its potential, for:

1. **Growth:** each project is analysed on numerous individual points based on the macro and micro factors above, resulting in a growth figure scored out of 10. Key data sources include the Australian Bureau of Statistics, RP Data, SQM Research, state and federal budgets, Blue Wealth collated databases and associated economic modelling and ancillary qualitative information collated from local council databases and the like.

2. **Cash flow:** a gauge of the pre and post-tax cash flow of the median priced property in a project. Key inputs include:

- average Australian income
- rental amounts
- holding costs – interest expenses and body corporate fees

Growth is the key for creating long-term wealth, however, we recognise that many clients are sensitive to cash flow and as a result Blue Wealth only approves properties that have scored 7 out of 10 or above for both categories. The Blue Wealth index provides investors with a simple way of comparing investments to ensure they acquire those properties most suitable for their portfolio.

### Research methodology

The Blue Wealth research methodology follows strict guidelines and systems that maintain the integrity of the research model.

Every project is reviewed on a preliminary basis by the acquisitions team once the market research gives the green light. Through their

years of experience, the acquisition team acts as the filter on the project, assessing it on a high level and vetting the developer.

The following systems are in place to ensure best practice is adhered to in every instance.

#### Step 1: Internal project checklist

Checklist One ensures records are kept for all projects assessed by Blue Wealth, be they approved or rejected by the research model. If the project progresses from the initial vetting by the acquisitions team, available information is then assessed against the macro and micro research criteria outlined previously.

Acquisitions combines the expertise of the research team with the practical knowledge and extensive experience of the sales team, ensuring that both quantitative and qualitative components of the investment selection process are addressed.

#### Step 2: Developer project checklist

This key step in the process records the following information:

- Vendor's details: confirms the name on the contract and facilitates track record analysis on the developer and builder
- Property type: the number available and the price range.
- Property details: to determine if it is DA and/or CC approved, if funding is approved, the expected commencement and completion dates and the sunset date.
- Funding details: provides detail on the developer and their financial situation. It includes specifics on the funding of the project, the number of presales required, any finance conditions and the LVR level on the project and outlines the structure of the funding.

- Negotiated inclusions: client negotiated Inclusions typically include the following:
- Rental vacancy protection at market rates: this provides effective cover for the initial vacancy period following settlement. Purchasers are provided with guaranteed cash flow at settlement to offset mortgage payments in the event of vacancy.
- Turn key: fittings and fixtures required for immediate tenancy following settlement are included, these typically include window furnishings and air conditioning.
- Full interest on cash deposits.

### Step 3: Preliminary project review

An initial assessment of the project based on the macro and micro criteria noted above. The research team reviews the project and information. There are three possible scenarios at this point of the assessment:

- the project is rejected
- the project progresses to the next stage of analysis
- further information and/or amendments are sought from the developer

### 2018 rejection rate: 93.4%

In 2018, Blue Wealth formally reviewed over 136 projects. 9 were approved, resulting in an annual rejection rate of 93.4%.

Projects may be rejected after a developer has provided information or we pro-actively seek information about a location and then review it to find it does not meet our research criteria.

There have been hundreds of projects outside of the regions we pro-actively targeted that were not considered in the rejection rate.

## NEXT STEPS

If you are looking to invest in residential investment property, then we would love the opportunity to meet and discuss that with you.

You can either attend one of our many events that are listed on our website [www.bluewealth.com.au](http://www.bluewealth.com.au) under the main heading of Events.

Or you can book directly into a meeting with one of our Investment Property Specialists by calling our main number 02 9743 0077 or emailing us on [enquiries@bluewealth.com.au](mailto:enquiries@bluewealth.com.au)

Even though our head office is in Sydney, we look after clients in all states in Australia and overseas using video conferencing, so location is not an impediment to working with us.







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