We Buy Under $350 K



patterson property advisors

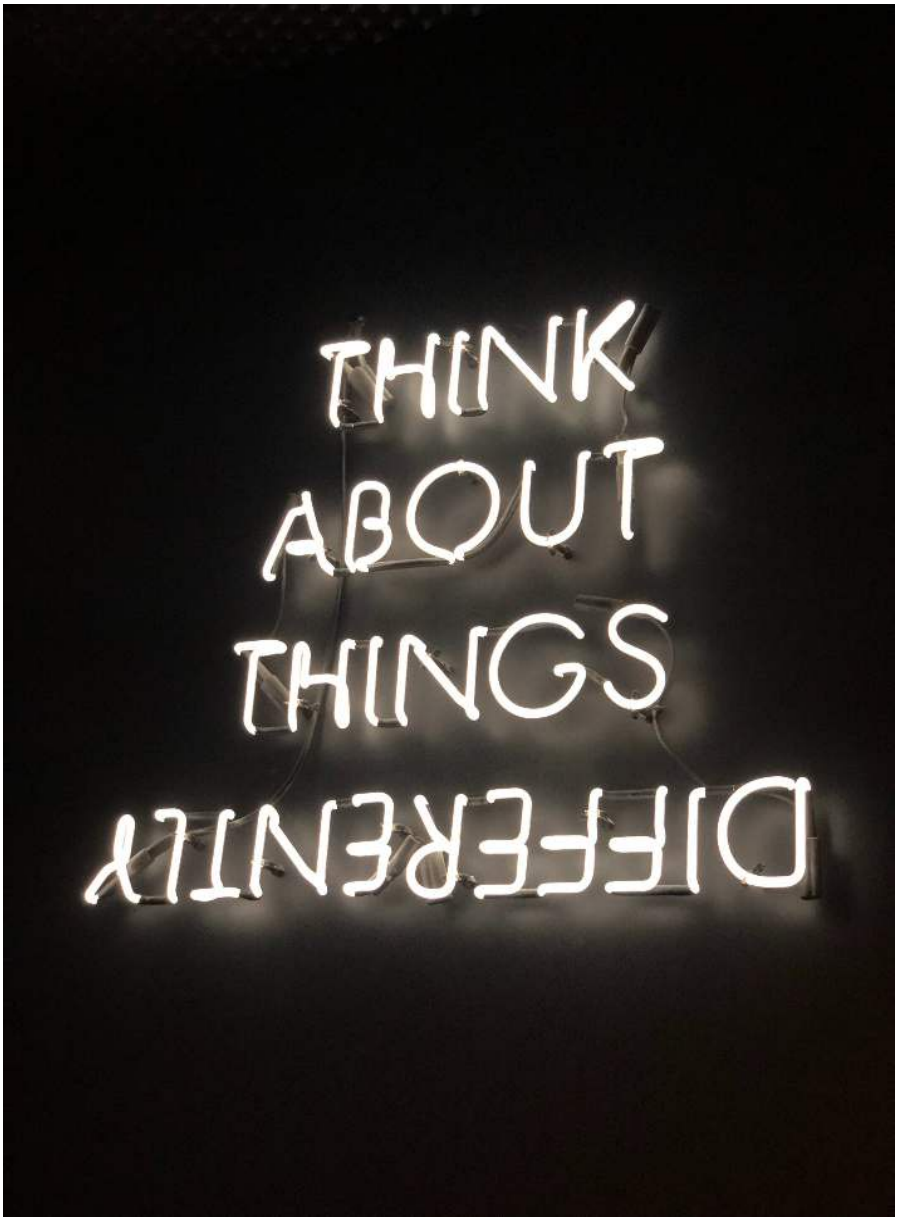
All across Australia there are thousands of well established homes in good condition which can be purchased for under $350,000, and, in many cases, considerably less. Some of these properties represent incredible value as Investment Properties as they are located in good sized towns with a healthy growing population but with a low pool of available rental stock.

What many people don't realise is that these properties, quite often, achieve far greater rental yields than properties located within major capital cities and because of the low entry prices and high rental demand, can give investors far better returns and generate considerable positive cashflow.



While property "Gurus", Investment Property Sales Companies, Builders and Developers are all spruiking the tax benefits of Negative Gearing and Depreciation and pushing expensive Off The Plan and Newly Built Properties onto the Investor Market, there is an ever growing number of astute investors targeting these lower priced Investments and building long term positive cashflow.

While there is absolutely nothing wrong with purchasing new stock and the tax benefits can be significant for high income earners, there is also a huge percentage of the population who simply cannot afford to invest in this market, or, if they can, are quickly limited to the number of properties they can purchase due to the restrictive nature of Negative Gearing. (There is a limited number of properties the banks will lend against if all of them are losing money and requiring investors to make up the shortfall while they wait for Capital Growth)



WHY IS THIS END OF THE MARKET NEGLECTED?

The main reason you don't really hear much in the media about Investment Properties that sell for under $350K is that there is very little opportunity for people to earn big commissions in this end of the market. Let's look at all the people involved in the sales of Investment Properties in Australia and why they ignore this market.

Real Estate Agents

Real Estate Agents work on commission (normally between 1.5% and 2% of the purchase price) so they obviously make more commission on higher priced properties than cheaper ones, but the work is just the same. Liaising with the Vendor, taking photos, creating marketing materials, uploading information onto the Real Estate portals, conducting open homes, sending contracts to Solicitors and Conveyancers and the list goes on!

If given a choice, most agents will focus on the higher priced properties they have to sell and any enquiries on the cheaper properties are often last on the list to be called back. Quite often, the agents don't put a huge amount of effort into these cheaper listings so you can't get all the information you want in a timely manner and many agents simply wont return calls or enquiries.

Mortgage Brokers

Even though Mortgage Brokers are paid commission by the banks for the loans they write , just like the Real Estate Agents, it takes the same amount of work (sometimes more) to organise a loan for a cheaper property than a more expensive one. The Banking / Lending Industry has become highly regulated with huge amounts of compliance and oversight from the Regulators. This has created additional work for the Mortgage Brokers, so small loans are not looked upon very favourably by Brokers as they still require a significant amount of work to process.

Property Marketing Companies

There has been a huge increase in the number of Investment Property sales companies and property "gurus" spruiking the concept of wealth creation through property investment. The problem is, they are all selling the same idea and, usually, the same type of properties. These companies are, more often than not, just re-sellers of New and Off The Plan properties being built by Builders and Developers.

In Australia, many Builders and Developers simply subcontract out the sales component of their business rather than employ their own in house sales teams. These 3rd party sales people also work on commission and are paid very well for their services.

This is why these companies spend a fortune on beautifully crafted marketing materials and glossy brochures and that's why everything they sell is either Off The Plan or Newly Built as this is where the maximum financial rewards are.

Again, the higher the value of the property, the higher the commissions. There are no commissions possible if they are selling cheaper priced established properties as there is no builder or developer involved in the transaction.

Builders and Developers

Builders and Developers are in the business of selling new stock and they want and need a high proportion of pre sales before the banks will lend them money to start building, so nearly all of the Investment Property advertising we see is beautifully presented high quality brochures and marketing material showing rendered (photoshopped) pictures of what the properties will look like once they are built. These are highly styled and filtered images showing luxury appliances, gorgeous models and beautiful views. All of the sales and marketing material is designed to evoke highly emotional reactions which is all part of their sales process. Because of the huge populations in the major capital cities, this is where these developments are built, so no one is creating glossy brochures for the lower end of the market, so no one really ever gets to see what's available.



SO WHAT ARE THE BENEFITS OF BUYING INVESTMENT PROPERTIES UNDER $350 K ?

Smaller Deposits Required

While this may seem like a fairly obvious point, it's not to be overlooked. Looking at an Investment Property worth $600,000, you need approx.. $150,000 if you want to cover a 20% deposit, stamp duty and other costs. For many people, trying to save $150,000 is close to impossible.

The properties we focus on are between $200- $350 K . At an average of, let's say, $300 K, you need approx. $85 K if you want to cover a 20% deposit, stamp duty and other costs.

This is a significant difference which means it's much easier to get started on the property ladder when the deposit needed is much less.

Smaller Loans Required

Smaller prices means smaller loans which means less stress. In today's highly regulated banking environment, it can be very difficult for certain sections of the population to qualify for finance. Most Investment Loans are written as 30 year loans so this can impact mature age lenders as the banks aren't comfortable writing larger loans which take 30 years to pay off but it can also impact younger lenders as they want to see stability and quite often, younger people aren't earning the sorts of income required to qualify for the larger loans.

When the loan sizes are smaller, loans can be written over 10 or 20 years but also the qualification requirements aren't as stringent so lower income earners and other "non conforming" type borrowers can access these smaller loans more easily.

You can often negotiate a cheaper purchase price

When you buy brand new and Off the Plan properties, the purchase price is fixed and non negotiable but when you are buying established property, you can quite often negotiate a deep discount off the asking price. The reason is that some properties stay on the market longer than others which can often put the seller under stress. You never really know the reasons people are selling and quite often people are willing to accept a lower price just so they can make the sale and move on.

Staying unemotionally connected to any property you are considering and having a few on your short list which you are making offers on keeps you in the drivers seat and able to offer a much lower price than what people are asking. Like the old Real Estate saying goes "You make the money when you buy, not when you sell "



You Can Pay The Homes Off Faster

In most cases the rental yields on properties under $350K are a lot better than properties over $600 K. So with interest rates around 6% and yields as high as 7-10 % , these lower priced properties generate income for you each and every year. This is great for a few reasons, these additional funds can be used to make additional payments off the mortgage which in turn further reduces the overall amount of interest you will pay and the length of the loan. Also, because you are not choking on a huge mortgage payment, I find that many of our clients make additional payments which further reduces the loan size.

At a certain point, you will find that you have built up enough equity to repeat the process and now you have two properties generating income which can be used to further reduce the mortgages and so it goes on. In my experience, its much easier to build a portfolio of inexpensive Investment Properties that generate fantastic returns and pay for themselves over time than buying one or two expensive Investment Properties which are Negatively Geared and cost you money each month.

Makes it easier to break into the property market

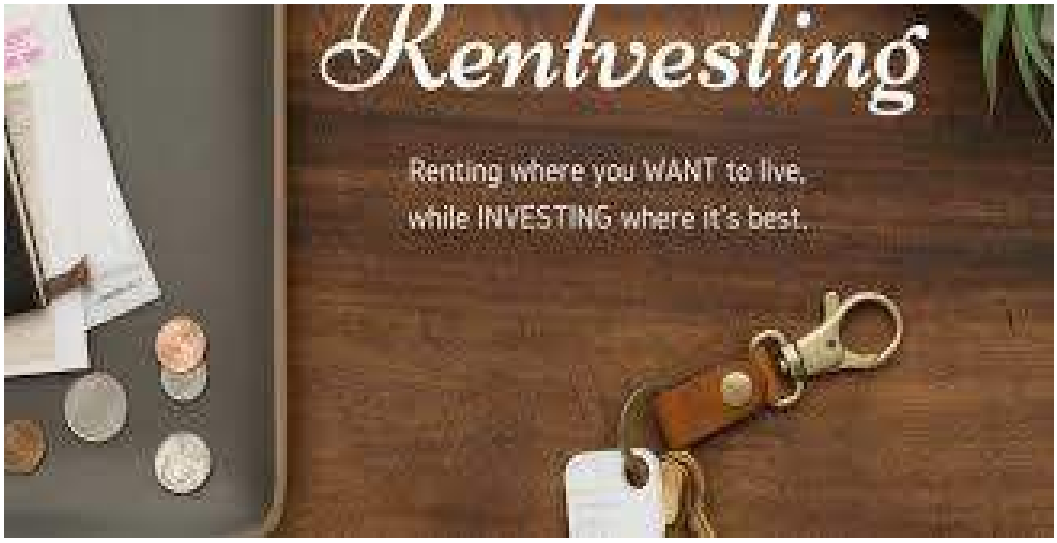
There's an old Chinese saying that says " The best time to plant a tree was 20 years ago, the second best time is right now ". The same can be said for property investing. The sooner you start on the property ladder and get the benefits of positive cashflow and capital growth working for you the better. It's possible to get started with as little as $55, 000 and while this might not get you the best house in the best street, it will get you started and that's the main thing.

Let's face it, it's getting harder and harder for certain sections of the population to get a foot on the property ladder. Big deposits, strict lending criteria, increasing purchasing costs and other factors make purchasing new and expensive Investment Properties more and more out of reach for many people. Remember, you can always use the strategy of buying cheaper cashflow strong properties as a stepping stone to building equity and moving onto bigger more expensive properties later.



Fantastic for Rentvestors

The term “Rentvestors” describes someone who rents where they want to live but invests in places where they don’t. For young people starting out, this is a very sound strategy as it means they can live close to universities and areas of high employment, while enjoying a lifestyle close to bars and restaurants and other amenities, without having huge commutes and travel times. Purchasing at the cheaper end of the Investment Property market means that Rentvestors can achieve Capital Growth and Cashflow which can assist them later when they want to purchase a home to live in.



SO WHERE IN AUSTRALIA DO I FIND THESE LOWER PRICED INVESTMENT PROPERTIES?

The key to finding the best Investment opportunities at the lower end of the market is to do extensive research. Anyone can go to either of the two big real estate websites (Realestate.com.au or Domain.com.au) and by using their search filters, you can find properties which fit within a certain price range. This is easy to do. The problem is you will find a large number of properties that, for a huge variety of reasons, will be unsuitable. Just because something is “cheap” doesn’t make it a good investment. There are a lot of other important factors to consider.

I will share with you the exact process I have used for over 20+ years to find the best and most suitable properties all around Australia which will give you high rental yields, providing strong cashflow from day one, located in desirable and established regional communities with great infrastructure and solid growth prospects.

So why am I doing this for free? I know for a fact that there is a huge percentage of the population that would like to get started in property investing but, for a variety of reasons, they can’t afford to invest in the cities due to the high barriers to entry, or the banks wont lend them large amounts of money. Some people don’t have huge savings, other people would like to buy a home to live in but need to build equity first, there are other people who cannot get 30 year loans as they are mature aged and there are some investors who cannot buy any more new properties as they are caught in the Negative Gearing trap. What is really interesting is there are also plenty of people who can buy whatever they want at whatever price but are choosing to focus on this highly lucrative end of the market as this is where they feel the best returns can be made.

While the process I follow is relatively straightforward, it does require work. So I'm also hoping that there is a percentage of these people who, for a small fee, would much prefer me and my team to do all the work and just find the right property for them, organize the finance (if required) , sort out all the documentation and legal work, get the appropriate inspections (Building & Pest) organise any repairs which might be needed and find a solid tenant for them. I genuinely hope that if you do decide to invest in this overlooked but highly profitable end of the property market, that you choose to utilize our services but if you want to go it alone, this is what you need to do.

1. **Research what regions of Australia have good growth prospects.**

All across Australia, there are infrastructure projects either planned or underway which will see significant benefits occurring to particular regions and towns within those regions. The major infrastructure projects you want to focus on are, Roads, Transport (Rail and Sea) Electricity and Water. These 4 infrastructure categories drive growth as well as both short and long term employment opportunities wherever they are located, which in turn, drives housing demand. Some of the websites we use for large scale infrastructure research are:

Infrastructure.gov.au

Business.gov.au/ grants-and-programs

Regional.gov.au

Regionalaustralia.org.au

Nationalwatergrid.gov.au

Bitre.gov.au

Atap.gov.au

Investment.infrastructure.gov.au

Nfra.gov.au

Transportinfrastructurecouncil.gov.au

1. **Research which towns within these regions are the most suitable**

Once you have created a shortlist of regions within Australia that you feel might be suitable, you then need to research the towns and communities within these regions to find the ones you feel have solid prospects for sustained growth and economic vibrancy. Some of the websites we use to research this are:

home.id.com.au

corelogic.com.au

Abs.gov.au

Lgam.info

Tapri.org.au

Pc.gov.au

1. **Research which properties within your selected towns are the most suitable.**

Once you have created a shortlist of towns you like, you then need to find the most suitable properties within these towns that you believe are best suited to your investment goals. The obvious starting point is to look at what properties are for sale on either Realestate.com or Domain.com. This will show you what's on the market right now but also calling the local real estate agents in these towns can often reveal properties which are " off market" these are properties that are for sale but not advertised online or the Agent may know of some upcoming listings you might get access to. (A word of caution, these agents don't want to be taking calls with tyre kickers and time wasters so make sure you don't get on their "black list" by wasting their time and becoming annoying. Tread carefully with these agents as there are only very few per town and you don't want to get on their bad side and find that when you are actually ready to buy something, you have wasted so much of their time that they just ignore you. It happens!)

1. **Create your own checklist of what each property must (or must not) have, in order to make the shortlist of what you might potentially buy.**

I have always made sure that every property I purchase for myself or my clients meets certain criteria. You will be surprised at how two similar looking and similar priced properties in the same town can achieve significantly different rental yields. The local council can give you information on the property and tell you if there are any easements or other factors which may impact your decision. I always make sure I have a Building and Pest inspection on every property without fail. Assuming the Building and Pest inspections are okay, I then have my own list of additional points I consider, some of the things on my criteria list include:

Is the property tenant friendly ?

Can people move straight in ?

Is there room for cosmetic improvements ?

Will fresh paint, carpets, blinds etc improve the property?

Is it close to amenities?

Is it close to primary and high schools, shops, medical facilities, parks, sports centre, etc

Are the kitchen and bathrooms functional ?

Are all the appliances working ?

Is there a fence / gate on the property ?

Does the property have street appeal?

When was the last time it was tenanted ?

Is the property within 30 minutes of a hospital?

What's the water pressure like in the taps / shower ?

Is there an established garden?

Is there a water tank?

Is there cover for cars?

Is there a lock up garage / shedding ?

What do the neighbouring properties look like?

What condition are the fences in?

Do all the windows open?

Are there keys for every lock?

Is the lawn dead or in need of attention?

Is there a clothesline and letterbox?

Is there adequate storage space in the home?

Is there an attic?

Is it on a main road?

Is it in a noisy area?

These are some of the questions I ask and you can't always find out the answers by simply asking the Real Estate Agent. There is a limit to what they will tell you, especially when you start talking about noise etc. Some of the ways I find out extra information about properties is by using Google Earth so I can see a birds eye view of the property and what's surrounding it. Occasionally I have even called the neighbours by finding their details in local directories and asked them some questions. Of course, you don't need to go to the lengths we do in order to find a suitable property but the more information you have, the better.



FREQUENTLY ASKED QUESTIONS

So where are these properties generally located?

We focus on good sized regional towns and rural growth corridors with solid infrastructure, employment and economic vibrancy. These towns are quite often “satellite” towns to larger regional centres with growth potential, low vacancy rates and an active community.

Do you get Capital Growth in these areas?

Most people believe (or are told) that there is no Capital Growth to be had in regional markets. This isn’t necessarily the case as an article in the Financial Review in July 2024 stated that “ Regional Property price growth is triple that of capital city markets” . In the towns we are focussing on we have been achieving double digit Capital Growth per annum over the last few years and that's expected to continue.

The key is to finding those areas that will achieve capital growth over time.. It's important to note that while regional areas on the whole might not achieve the Capital Growth of larger cities, the rental yields are often far superior which enables people to generate cashflow and slowly upgrade these properties over time if they wish to. This is a simple way to manufacture Capital Growth by improving the properties, creating a better product for the tenants to live in and enabling us to legitimately justify a higher weekly rental.

One of the most important aspects to focus on when we are chasing Capital Growth is to ensure we are buying in towns with large amounts of Infrastructure spending occuring which is creating new long term emplotyment opportunities and this is what's driving housing demand. We are also always looking for opportunities to manufacture capital growth either by way of a cosmetic renovation, sub-division or the addition of a granny flat.



Is there rental demand?

Yes, everyone has to live somewhere and we ensure that every town we find our properties in has solid rental demand and low vacancy rates. In a lot of these towns, new homes aren't being built by developers for the Investor market. Most new homes which are being built, are for Owner Occupiers so quite often, there is a shortage of rental accommodation. In many cases the homes are tired looking and in need of a little bit of attention. Sometimes a fresh coat of paint and new carpets will bring the property back to life and make it more appealing to renters.

How do you source these properties?

We have a team of full time researchers and property scouts working both online and offline sources to find suitable properties. Quite often, we find properties which are "off market" where the agent will call us directly with a property for us to buy. Because we are buying a lot of properties for our clients, we build strong relationships with all of the key players in the towns and communities which gives us an advantage over someone just looking to purchase one property.



Why cant I just find them myself ?

You can, there is nothing stopping you. We just find that many people are happy to pay a small fee and leave it to a team of experts who know what they are doing and can make the whole process easy. Our team have access to resources and contacts that other people don't and that can give our clients the edge when entering this lucrative market.

What sort of people rent these properties?

Normal people just like you and me. Quite often the weekly rent on our properties falls between $250 - $400 dollars depending on the price and quality of the properties we buy. While this might not sound like much, there are a lot of people who can afford these prices so there is always demand at these lower weekly rental prices. A lot of our properties are rented out by single elderly people, single parents and young couples just starting out.. Of course we screen all the tenants as per normal with any tenancy agreement and you get the final say on who can or cannot move in.



What if people damage the place?

Normal wear and tear is part of any rental scenario regardless of the property. We always recommend our clients take out Landlord Insurance which protects against any wilful damage and loss of rent while any damages are repaired. Of course every tenant pays a bond when they rent any property so if there are any costs incurred as a result of a tenant moving out and leaving damage, it comes out of the bond as per normal.

How much do you charge to find these properties for your clients?

We charge a flat fee of $6900 + GST. This is broken into 2 payments of a $990 Commencement Fee and a $6600 Completion Fee. What's important to understand though is that we negotiate very hard on the asking price and if we cannot secure a discount larger than the $6900 fee we charge, we normally don't buy the property. In fact our goal is to make sure we negotiate a discount off the asking price so every client ends up miles in front as a result of engaging our services.



So can you explain the fee breakdown for me?

There are 2 fees payable in the process of finding and securing a suitable property for our clients. These include :

COMMENCEMENT FEE - $900 + GST

Once a client decides to join us, they pay a $990 fee. At this stage we release all of our research and information we have on the towns and regions in Australia we are currently buying in so our clients can feel very comfortable that there is solid evidence backing up our recommendations.

At this stage we also book a Discovery Call which normally takes approx. 60 minutes. On this call we start to work through the budget we have to work with, whether we need to help with finance and we also develop a purchasing strategy which is agreed upon and what characteristics the property we are looking to purchase must have.

The team at P.P.A then create a shortlist of the best available properties which meet all of the agreed upon criteria. We send this list to our client and then we call to discuss which, if any, of the properties the client would like to make an offer on. Assuming we have found a suitable property to make an offer on we then move to the next stage of the process.

Once we agree on the maximum price we will pay for the property, we then make a formal offer to the Vendor (The initial offer is always considerably less than asking price). In most cases we make the offer Subject to Finance and a satisfactory Building & Pest Inspection and quite often other terms or considerations will be included in the offer document.

Typically what happens at this point is that we enter into negotiations with the Vendor on the asking price and we use all of our market knowledge and recent buying information to our benefit to secure the property at the best possible price. Once the price is agreed upon, we will organise a Building & Pest Inspection on behalf of the client to make sure there are no major issues with the property. We expect there to be minor repairs needed which is more often than not the case but what we dont want to see are any Dealbreakers.

A Dealbreaker might be something like structural issues, non approved additions, major termite problems etc. If there are minor repairs required, which we always expect there will be, we get quotes from our team of reputable tradespeople and then, depending on the repairs required, we either ask the Vendor to make the repairs or we make the required repairs. Typically we get any repairs quoted so we can have these done after settlement. (Minor repairs might be things like replacing rusty downpipes, fixing a cracked window, replacing missing tiles, upgrading smoke detectors etc)

During this time if tenants aren't already in place, (most times they are) we will introduce you to the best local Property Manager to find suitable tenants so when a client takes possession of a property, there are paying tenants in place generating strong cashflow from Day One. We will also find the best local Conveyancer to handle the legal aspects of the sale for our client so that they can rest assured that there will be smooth title transfer and settlement.

So, only when the final price has been agreed upon, we are happy with what we have found in the Building and Pest Inspections, any repairs have been quoted / completed, Property Manager has been appointed, tenants are in place, conveyancer has been engaged and contracts have been signed by both parties and everyone is happy, does the client pay the final fee at settlement.

COMPLETION FEE - $6000 + GST

The Completion Fee is only paid at the very end of the Buying Process when all of the agreed upon work has been completed and the client is happy and the property then settles. This fee is paid at settlement as a disbursement along with any other buying costs. This is typically handled by the Conveyancer who has been appointed to oversee the settlement process. We have structured the fee payments so that we only get paid the bulk of our fee when we have found a suitable property, all work has been completed and the client is 100% happy with the purchase. We do it it this way so every client is in control of the outcome and if we dont find our client a property they really like and want to buy, then we wont be paid. This forces a win - win scenario for both parties.

So what if i want to buy more than one property?

We have quite a large number of clients who purchase more than one property and we genuinely appreciate it when they utilise our services to do so. When clients do that, we reduce our fee on the second purchase to $6400 + GST and then we reduce our fee one more time to $5900 + GST for purchase number three onwards. We try to keep our fees as low as possbile to help our clients build a portfilio of these high performing properties faster.

Can I buy these properties in my SMSF?

Yes, we have an ever increasing number of clients purchasing these assets for their Self Managed Super Funds. We are not Accountants or Financial Planners so we recommend you speak to qualified professionals that can better advise you with this Investment Strategy.

OKAY, I WANT TO GET STARTED, WHAT NOW?

If you want to get started or if you want to talk further about how to become a client or if you have any questions, then simply email jason@pattersonpropertyadvisors.com.au or call on 1300 306 700 and speak to one of our team.