PROPERTY INVESTMENT GUIDE
Real estate and property development are known to be amongst Australia’s safest and most predictable forms of wealth creation. Over the long term, astute investors will have seen the value of their properties rise steadily. In fact, many local property owners have seen a two-fold increase in the price of their home or investment property in Melbourne’s metropolitan areas. What this shows is that as long as you have a clear, and actionable long-term strategy, property is one investment class where historically the average person has had a great chance to succeed.

However, we know from our clients there is still a lot of uncertainty about the ‘right’ strategy to follow. This question is even more important today given Melbourne’s strong growth over the last couple of years raising question marks over where we are in the property cycle.

To try to answer some of the common questions we receive, the OYOB team has compiled this guide, to give a comprehensive overview of some of the strategies the rich use to invest in property, strategies that we utilise to give us and our clients the very best chance of succeeding in the long term.

We believe there is currently a two-tier property market in Melbourne. On one hand there are the average “investors” or “home buyers,” who are educated to purchase retail property and to wait for growth to outstrip their costs and on the other there are the more experienced “property developers” who have the expertise, experience and financial capacity to identify and unlock further value in their purchases, allowing them to greatly skew the odds of a return in their favor.

At OYOB, we believe all investors should have access to better investment opportunities. We provide these property investment opportunities to our community through earlier, direct investments into the projects of successful developers. If you are looking to get started, or wanting to explore, new ways to invest in property, there’s a lot to talk about.

So if this interests you, please read on!
When creating an investment strategy or game plan you need to know what your own goals are. An example of one of these considerations is the question – Do you know what is more important to you: strong capital growth or a regular income as a result of your investment?

To illustrate this, if you were to borrow to invest in a 4 bedroom house in Box Hill you would find it has historically provided very good capital growth over a 10 year period. However, a current median rental yield of 1.6% is unlikely to come close to meeting your income needs in retirement.

The purpose of this guide is to highlight some of the different investor scenarios and to share our experience and knowledge in property investment to give you insights as to how you can consider investment in property to suit your own individual situation.

1. **ALREADY A PROPERTY INVESTOR**
   If you are already a property investor… We can help you find some interesting investment ideas by looking at how the development process provides new stock to the property market, and how you can leverage this information to access even better property investment opportunities.

2. **LOOKING TO PURCHASE YOUR FIRST HOME**
   If you are looking to purchase your first home… We can help you learn how anyone should be able to save for their first deposit and how to choose your first property and get in at the right price.

3. **FIRST TIME INVESTOR**
   If you are a first time investor… We can help show you the best way to utilise your assets and the equity in your home to secure the best wealth creation for your future.
So why do we want to help? Why did we create OYOB?

We’ve condensed the motivations behind creating Own Your Own Block into a single line:

**PROPERTY IS OUR BUSINESS, PEOPLE ARE OUR PASSION**

Over the years we’ve seen so many people not following through and missing out on amazing wealth creation opportunities. Through speaking to our clients and the people we meet through our business, we feel there are many reasons for this.

1. There’s a wealth of information out there and frankly, it can be overwhelming. Many of the people we’ve worked with have told us how difficult it is to know where to start or whom you should trust.

2. You might be worried about timing and that the market may be due for a correction. There’s a solution for this, which we will go into later, but by purchasing right, you can build some margin into your investment and protect your capital.

3. You might be sick of property spruikers and real estate agents often over-promising and selling you the product they have in stock, rather than the one you actually want. It is a sad fact that commissions rather than the interest of the purchaser are often the driver behind many property investment purchases.

4. Many financial advisors, to whom the average Australian will go for investment advice, don’t have the experience and ability to give property investment advice, preferring instead to steer clients to invest in managed funds and other more commission-friendly investments.

We hope through this guide we can help more Australians to understand and see through some of the common drivers behind the property investment industry.

Most importantly, we feel that everyone should have the opportunity to achieve his or her goals and dreams. Many members of the OYOB community have achieved many of their personal and financial goals through property, and we want to help as many other people as we can to do the same.
Do these scenarios sound familiar to you? You should read on...

It’s important to know your goals before starting on your investment journey. Are you nearing retirement and looking to invest in cash flow positive property or investments for passive income, or are you trying to build strong capital growth to set yourself up for the future? What does this mean for the type of property or investment that is best for you?

Everyone has his or her own unique set of circumstances, which will influence their property investment journey.

**PAYING OFF MY MORTGAGE**
I’m still paying off my mortgage… I would really feel more comfortable if I had a plan to reduce it sooner.

**RETIREMENT IS A LOT CLOSER THAN I THOUGHT**
I’ve just realised retirement is a lot closer than I thought… and I need to make sure I can support myself when I stop working.

**SEEKING FINANCIAL FREEDOM**
I’m seeking financial freedom… I’m looking for ways to create a passive income.

**EXPERIENCED INVESTOR OR DEVELOPER**
I’d consider myself an experienced investor or developer… but I’m struggling to find value in the current market.

**FIRST HOME**
I’m struggling to save to purchase my first home.

**MISSED THE BOAT?**
I feel I’ve missed the boat completely… I’ve been waiting on the sideline as prices go up and I feel it may be too late to enter the market.

Whatever your situation, there is a pathway to property investment and ownership.
Victoria is currently Australia's fastest-growing state. Due to higher relative property prices in Sydney, many homebuyers (and investors) are looking towards Melbourne. Melbourne, again the world’s most livable city in 2016, also attracts plenty of overseas migration with strong employment, less congestion (it’s true, just visit some parts of Sydney!) and an enviable living environment.

The Australian Bureau of Statistics projects that Melbourne’s population will exceed 10 million people by 2050 (Australian Bureau of Statistics) more than doubling our current population. By 2056, it is expected that Melbourne will have overtaken Sydney as Australia’s biggest city.
Australia’s major city growth projections to 2060

To accommodate this expected population growth, Plan Melbourne was created by the Victorian Planning Authority (VPA) to guide the development of our city for the next 35 years. It sets the vision, outcomes and strategy for maintaining Melbourne’s prominence as “a global city of opportunity and choice”.

Australia’s major city growth projections to 2060
(Source: Australian Bureau of Statistics)

Melbourne’s planning strategy continues to be revised to keep up with unprecedented population growth
There are currently two main avenues available to the VPA to provide the new housing stock to meet this demand:

1. **URBAN RENEWAL**
   Urban renewal involves unlocking under-utilised areas for jobs, investment and housing. It can often involve re-zoning land, improving an area’s amenity and identifying transport and infrastructure needs. For the purpose of providing new housing stock this will usually mean allowing an increased density of residential development within the constraints of our established suburbs, resulting in the release of new townhouse and apartment stock.

2. **GREENFIELD DEVELOPMENT PROCESS**
   The Precinct Structure Planning process re-zoning and releases new greenfield suburbs within the urban growth boundary, delivering a diverse range of efficient and affordable housing options. Each community has its own local town centre to cater for everyday shopping and grocery needs, local services and employment. This process will result in the release of new land and housing stock.

Greenfielding has a critical part to play, as urban renewal alone cannot cater for the population growth expected in Melbourne. The VPA’s Greenfields program continues to release developable land in the Urban Growth Zone through Precinct Structure Plans (PSPs). Substantial infrastructure funding is now being provisioned through enforced developer contributions, meaning new estates such as Caroline Springs and Woodlea in Melbourne’s West are able to deliver a level of residential amenity that is comparable or even better than many of Melbourne’s more established suburbs.
Major factors influencing the demand for property in Melbourne

There are a number of major factors influencing the demand for property in Melbourne. We’ve listed some of the main ones below along with a short review of where we believe things stand this year.

1. **POPULATION GROWTH**
   Melbourne’s population growth shows no signs of abating. Research findings from the latest census data revealed Victoria grew by 146,500 people in 2016, a much higher rate than previously planned for.

   ![Graph showing population growth across different states](image)
   **Victoria is the fastest growing state in Australia**

2. **FOREIGN & INTERSTATE INVESTMENT**
   Foreign investment is important to consider because of the perceived mismatches in value between markets. Locally, the price of property may seem astronomical, but compared to many major cities around the world - including our interstate neighbour Sydney - Melbourne’s property market remains relatively well priced. This mismatch, along with the stability and attractiveness of the Australian economy encourages many foreign investors to seek a better return on their funds. Foreign residential real estate purchases in 2015-16 totaled $72.4 billion. The latest budget has made an effort to slow down overseas investment. The 2017 budget changes introduced higher stamp duties on foreign property investors and reduced the amount of new residential stock available for overseas buyers.

3. **INTEREST RATES**
   A low interest rate environment encourages borrowing and many more people take the opportunity to purchase or invest in property. Often, this environment can correlate with less stringent borrowing requirements and finance is readily available, exacerbating the demand for property. Recently, the Australian Prudential Regulation Authority (APRA) has enforced a number of regulations on our banking system to reduce the number of investment loans available for property investors. In their 17th of July 2017 meeting minutes, The Reserve Bank of Australia (RBA) hinted at laying the groundwork for a rate rise to 3.50%, change is expected to be gradual, rather than immediate.
NEGATIVE GEARING

Negative gearing was introduced to Australia in 1985 by the Hawke/Keating governments to incentivize investment in Australia. This has worked extremely well (perhaps too well?) and is without a doubt one of the main drivers behind property investment in Australia. The recent 2017 budget changes eliminate travel claims and limit deductions on plant and depreciation claims, a move that may reduce the efficacy of negative gearing for some.

SUPERANNUATION

The introduction of superannuation in 1992, again under the Keating Labor Government was part of a wider reform package addressing Australia’s projected retirement income dilemma. It has put the onus on our superannuation funds and individuals to invest and grow our nest eggs for retirement. The Self Managed Superannuation Fund market alone is responsible for over $70 billion of non-residential real property and $25 billion of residential real property ownership. We expect these figures to grow, especially in the residential property market where previously unavailable property investment products are being introduced to the sector.

AUSTRALIAN HOUSING POLICY

This determines the release of residential and commercial property available for development. Currently in Greater Melbourne, this is governed by the VPA’s Plan Melbourne policy. As already discussed, this involves either unlocking urban land suitable for re-development or re-zoning entire new suburbs in Melbourne’s Urban Growth Zone. The VPA is currently under pressure to release new land to cater for the astounding population growth currently underway in Melbourne.

There are also major factors driving property supply primarily set by our government and these are just as important to understand if you’re a property developer or an investor.

So what does this mean for investors like us?

While many of the macro-economic drivers remain in place to drive demand, Australia’s government and APRA have introduced a number of measures aimed at reducing property investment demand in Australia.

While we don’t like to make predictions on growth or bubbles, it is apparent that after the strong run of the last few years, we are currently in a relatively mature market. This doesn’t mean we need to stop investing altogether. What it does mean is that investors should be looking to protect their investment dollars by only investing in opportunities with a significant margin of safety built into their purchase price.

So how can we find opportunities in the current environment? Read on.
Chapter 4

Property investing – What is your edge?

It’s important to understand the difference between a developer and the retail investor. In a rising market, both investors are going to make money, but over the long run – especially in a mature market like Melbourne is in now – the developer tends to have an edge over the retail investor.

Retail purchasers buy into property at the end of the development process, when the bulk of the profit has already been made. As a result they are reliant on further property market growth to make a profit on their purchase. A developer however, purchases a property with the intention to create an increase in the property’s value through re-zoning, subdivision or construction. By reducing their reliance on the property market cycle, which is outside their control, they are able to build a greater margin of safety into their investment.

In today’s mature market, it is important that you stack as many factors in your favour as possible in order to preserve your capital. As Warren Buffet, one of the 20th century’s most successful investors has previously shared:


*As we’ve said before, we like to refer to investing with a developer’s approach as “Wholesale investing”. Why? When you successfully invest with a developer’s mindset, you are able to pay for land at cost price. The ability to improve the value of the land functions as a hedge against potential decreases in the property market. This is the edge we have created for members of the Own Your Own Block community.
On the other side of the equation, an investigation into the potential upside of any investment needs to be accompanied by a similarly, if not more thorough exploration of the downside risks. Understanding what could go wrong is the first step to ensuring you have properly protected yourself against any issues that could be thrown at you.

We’ve listed a few examples of some of the risks, which must be mitigated in property investing. These apply to both retail and wholesale investors.

1. **PLANNING RISK**
   - What can you actually build according to zoning requirements and ResCode
   - Delays in a planning application process
   - Individual council planning schemes add complexity to planning
   - Stability of statutory contributions and levies

2. **CONSTRUCTION RISK**
   - Risk of cost blow outs
   - When builders are overextended between projects this can slow down progress on your property; in a worst case scenario they can lose control and become insolvent
   - On-site delays and slow down of work
   - Service authority compliance regimes

3. **TIMING RISK**
   - Macro-economic factors such as interest rates affecting the market

4. **BORROWING RISK**
   - Linked closely to all forms of risk; the cost of, and ability to hold an investment

5. **KNOWLEDGE RISK**
   - Applicable to everyone, we don’t know what we don’t know

Being aware of these risks allows an investor to put strategies in place to manage and control them. Risk management, the ability to properly identify and control your risk, is an essential part of every good investor’s edge.
LAND BANKING

The term "land banking" has often been given a bad rap, due to property spruikers enlisting Australian investors to invest in land with minimal chances of re-zoning. It is highly unethical to promote or offer a buy-in scheme without doing the proper research to ensure that land is zoned correctly. A land banking strategy can be applied to both greenfield and infill sites.

A true land banking strategy will only involve purchasing in areas where demand can be foreseen. This sets the scene for stock levels to be reduced and prices to rise. There should also be a pathway to creating further value through re-zoning and/or development. This is a big part of having that investor’s edge we talked about earlier.

With this in place, the investor can then hold onto their purchase for an extended period, waiting for the right time in the property cycle to maximize their return on their capital.

Essendon legend Mark “Bomber” Thompson’s recent windfall of roughly $6.92 million was the result of a land banking investment (Source: Herald Sun, “Armstrong Creek pays off for ‘Bomber’ Thompson”, 13 May 2017)
LAND DEVELOPMENT

This process involves the investor realising their property investment. If the wholesale investing approach has been followed an investor will generally have two options:

i. **TO SELL**

Investors will usually ensure they sell into a rising market, often after significant factors have contributed to outsized increases in their property’s value, such as:

- A period of sustained price growth in a strong property market
- The addition of significant amenities such as public transport options and retail/commercial development to the area, influencing population growth and as a result, further growth in prices
- Re-zoning of the area (e.g. rural to residential or commercial) allowing a greater use, and causing the property to be re-valued under the new zoning opportunities

ii. **TO DEVELOP**

Experienced investors have the option to maximize their returns by further developing their properties. Examples of some of the types of development available are:

- Torrens subdivision: land, house & land packages
- Strata subdivision: units, apartments, townhouses
- Renovation or refurbishment: retail, commercial
- Re-purposing land: change of use (e.g. childcare centres, medical centres, etc.)

DEVELOPMENT LENDING

Another way the rich invest is through lending to other developers. Lending towards property development attracts a higher premium due to the added complexity and expertise required to manage a development mortgage over typical residential mortgages. Developers are happy to pay a higher cost of borrowing because the returns from development can be much higher than simply purchasing a property at retail. Interest rates can range from 6% up to 20% or even higher depending on the complexity of the project.
A SPECIALIST ADVISORY TEAM

Many wealthy investors don’t have the time or the expertise to directly manage their property investments. In this instance a specialised property advisory team can be engaged at a cost to provide a strategy and to manage investment assets.

An example of a property advisory team:
- Financial advisor
- Property/Real Estate specialist
- Finance specialist
- Project/Development managers
- Solicitor
- Tax specialist

These property advisory teams will be made up of experienced real estate and property development focused specialists who have been involved in the industry through a number of cycles. They will usually employ a combination of the first three strategies previously mentioned to achieve their employer’s objectives.
Why are we sharing this information with you? We want to change the property game, and make wholesale property opportunities available to everyone. This is Own Your Own Block’s plan to do it.

Chapter 6

We want everyone to have the same opportunities as the wealthy. We want to change the property game.
The OYOB Community

Over the last four years we’ve been building a collaborative property investment community that has invested in over $30 million worth of projects together. Our very first greenfielding project, the Mernda on the Park Estate, is currently under construction in Mernda, one of Melbourne’s premier growth suburbs in the north.

Direct access to the Developer – Purchase Property at Wholesale

We connect our community directly with vetted developers, allowing you to leverage off their experience and knowledge, to purchase and invest at the very earliest stage of development.

- **Fractionalised Property Investments**
  A fractionalised investment allows anyone to invest in property with as little as $10,000. It allows better diversification and a much lower entry point for those just starting out in the property market.

- **Greenfielding and Land Developments**
  If you’re interested in wholesale property, greenfielding allows you to purchase at up to 30% below the current market price. This can help you to build in a margin of safety for your property investment, giving you that essential investor edge.

- **High Interest Investments**
  Properly managed property development lending can provide investors with secured returns much higher than regular interest and term deposit rates. For instance, first mortgages in the Finnia Mortgage Fund offer rates of 6% while second mortgages can offer rates of 12% or even higher.

Your very own Property Advisory Team

We’re not a project marketer. We don’t promote property purchases or investments that we wouldn’t invest in ourselves. We also haven’t built our business model based around commissions for selling other people’s properties to our investors. Instead, we’ve chosen to align our profits with yours through our projects, only profiting when you do.

We’re aware that property investment is only a small part of the picture, and have carefully partnered with vetted advisers in the property space – financial advisors, mortgage brokers, solicitors – who share our values, ensuring you’ll have access to specialised expertise when it comes to getting answers and making decisions on achieving your own personal goals through property.

*We’re here to help. You no longer need to do it alone.*
Where to from here? Can we help you with the next step?

Back in Chapter Two we mentioned who we think this investment guide might benefit. If you’re still reading we hope it means our mission to help everyday Australians achieve their financial goals through property resonates with you.

We’re hopeful that in the next few years the opportunities we’re sharing will be commonplace. We’re certainly doing our part to make this a reality.

We’d love to catch up, share with you our plans, find out how we can help, and direct you to some valuable resources that may be of benefit to you on the next step of your journey.

If you are interested in finding out more, about any of our products or how you can get involved, reach out to our Client Relationship Manager, Mary at:

Mary Ignatidis
Client Relationship Manager
1800 00 6962