

# Property investing on the cheap: How to invest with just

# \$10,000

Property investing is a great way to make money, but it requires major capital outlay. So, if you're not flush with cash and only have \$10,000 in the bank, can you still make your foray into the property market? What type of properties can you buy and how would you structure your finances? **Nila Sweeney** asks the experts

So you've got \$10,000 sitting in the bank earning a lousy 6% taxable interest and you're unsure what you should do with it. You'd like to invest in property but the banks say you need at least a 10% deposit, and therefore your \$10,000 isn't going to be enough.

Property investor and educator Helen Collier-Kogtevs says you could either leave the money in the bank and watch it do virtually nothing for you, or you could use some 'outside the square' strategies, such as the ones outlined below, to invest in property even though you aren't flush with cash just now.

## 1. Joint venture partner(s)

Collier-Kogtevs admits to having personally used joint venture (JV) partners for many years and says she plans

to keep using them to grow her property portfolio in the future.

"My philosophy is that 50% of something is better than 100% of nothing," she says. "When I pose this strategy to some investors, I find that many turn their nose up at the thought of using JV partners, as they don't like having to share the profits of their investments or they believe it's too difficult to find JV partners. My experience has been to the contrary in both of the above arguments."

Collier-Kogtevs argues that if you draw up a legal contract governing the partnership that's beneficial to both parties, then the partnership can be very successful. She points out that the agreement needs to stipulate how the profit from the property is to be



split up and what happens if someone's circumstances change and they want to pull out of the deal. "The horror stories that I hear of usually are due to there not being any contractual agreements in place," she says.

Finding a JV partner to buy properties with can help you get into the property market, even though you have limited equity (\$10,000) to bring to the partnership. "The best part about partnerships is that you're only limited by your imagination," she says.

You can structure a partnership in any way that works for both parties. For example, Collier-Kogtevs structured one of her JV arrangements with partners by getting them to provide the deposit and purchasing cost while she covered the mortgage and management of the property. The parties agreed to split the profits on a 50:50 basis when it's sold.

"Not all JVs need to be done this way," she says. "Alternatively, you could find a partner or two who also has \$10,000 to put towards an investment property and collectively you could borrow the balance and equally share the profits. Maybe your \$10,000 might secure you only 30–40% of a property purchase, but the way I see it, it's 30% more than what you had yesterday. JVs can work very well as long as you aim for a 'win-win' for all parties concerned."

## 2. Buy off the plan

Bill Zheng, CEO of Investors Direct, suggests minimising your stamp duty cost by buying 'off the plan' or buying at the early stage of a construction. "Together with the First Home Owner Grant and 100% mortgage product (with less restriction on genuine saving history), you may be able to get a property as your first

reallife

## Property trust



two separate living areas and the whole property is quite low maintenance.”

Anthony and his friends eventually took out a \$320,000 loan with Wizard, which they divided equally among themselves. “We’re responsible for our own

repayments so I can make extra repayments if I want to pay it off more quickly,” says Anthony.

Typically, such arrangements are backed by a legally binding co-ownership agreement, where each party’s rights and liabilities are clearly documented. However, the four friends decided that such legalities were an

unnecessary complication for them.

“We have all our names on the title, but we didn’t enter into any agreement,” says Anthony. “We’re basing everything on trust and friendship. We just trust that friends will do the right thing. We had a big discussion before we moved in. We realised that we won’t get any benefit financially if we didn’t hold on to it for at least five years. Everyone realises there’s no point selling their share within at least the first five years, so in a way we have an agreement there. If we go our own way or want to move out, we just turn our share into investment property and rent it out.”

His advice? “You really have to know the person well. You have to have a clear understanding about what you’re getting yourself into. It’s probably a good idea to look at co-ownership agreements. For us, it works really well without such an agreement, because we’ve been friends for many years and we’ve built up solid trust of each other.”

### The benefits of friendship

**Owners:** Four friends  
**Mortgage:** \$320,000 total, equally split among 4  
**Deposit:** \$10,000 each  
**Got:** Two-storey house with five bedrooms

Anthony Hussey and three friends – Shannon Young, Daniel Keohane and David Butler – had been renting together for about three years. When it was time once again to renew their lease, they took a long hard look at how much money they had been spending on rent, and decided it wasn’t in their best interest to continue. So they cobbled up a small deposit, about \$10,000 each, and approached several banks.

“I went to school with these guys, so I’ve known them for about 10 to 15 years. We’ve been through a lot together, so this is just another step and another experience for us all,” says Anthony.

“We were looking for a place that we could all agree on. We finally found a five-bedroom, two-storey house with a really nice front garden for entertaining. It’s got

home,” he says. “In a later stage, you can turn this first home into your investment property and move on to another home. Because you would use up most of your money in the purchase, you’ll need to make sure that you buy income insurance to protect the loss of income.”

### 3. Use deposit bonds

Collier-Kogtevs also recommends buying high capital growth properties off the plan by using low-cost deposit bonds to secure the property, if you only have \$10,000 of available funds.

Deposit bonds are documents that guarantee that a property vendor will get a deposit at the time of settlement rather than at the time of exchange of contract. It acts as a substitute for a cash deposit between the signing of a contract and settlement of a property. A typical fee for a six-month guarantee is 1.2% of the deposit, equating to \$480 for a \$40,000 deposit. For longer-term bonds, the cost depends on the value of the property and the length of time that the deposit bond is required to be valid for, but your \$10,000 should enable you to secure an investment property.

“The good thing with off the plan purchases is that if the capital growth is high, as it must be for this strategy to work, and the settlement period long, you may be able to obtain finance using the end value of the property at the time of settlement,” says Collier-Kogtevs. “We’ve personally bought off-the-plan properties many times and have borrowed on the end value of the property and not the purchase price. This is a facility that lenders generally don’t tell you about unless you ask.”

The added bonus in buying off the plan is that in states like Victoria you can save on stamp duty, according to Collier-Kogtevs. By buying off the plan you only have to pay stamp duty on the value of the land. If you build a house on the land after you purchase it, then the value of the house isn’t subject to stamp duty.

“We applied this strategy in the early days of our investing when we had very little equity to invest with. One of the properties we purchased off the plan took years to build and at settlement we were able to borrow against the end value of the property and not the original purchase price. The property value over the construction period had grown by 15% and we were able to borrow from the new value, which meant we didn’t have to find

the deposit and stamp duty amounts at settlement,” Collier-Kogtevs says.

While buying off the plan is a relatively cheap way to buy a property, there are some risks associated with this purchasing strategy. For example, if the expected capital growth doesn’t occur, you must be in a position to personally fund the deposit amounts at settlement.

“The risk can be losing the property plus potentially your \$10,000 and your credit rating, while at the same time having the deposit bond company chase you for the deposit amount,” Collier-Kogtevs says.

“You should also make sure that you can support the properties at settlement and/or have an exit strategy in place if you can’t. This strategy should only be used for purchasing high capital growth properties.”

### 4. Personal loan

This strategy is a little unorthodox but can be very effective, according to Collier-Kogtevs. The idea is to obtain a personal loan from the bank to pay the difference between your \$10,000 and the required deposit amount plus purchasing costs for the property.

“If this strategy is applied to purchasing high capital growth properties, then the capital growth could far outstrip the cost of the personal loan, and after one or two years of capital growth the equity can then be used to fully pay out the personal loan,” she says.

However, she warns that although this strategy can be applied to any property, it’s important to understand that there are risks involved, so it’s important that you target high growth property in a buoyant market to help minimise your risk.

“If the market is flat or on the decline, it may be best to try alternative strategies,” she advises.

### 5. Borrow the lot

Zheng says you can also choose to not use any of the \$10,000 or only put in very little of it to purchase a property, keeping the \$10,000 as your contingency to cover future income shortfall to service debt should you lose your income for a short period of time.

Bear in mind, however, that by borrowing 106% of the finance for purchasing your investment property, you’ll have to pay higher interest rates and a hefty lenders mortgage insurance (LMI) premium.

“Together with the First Home Owner Grant and 100% mortgage product (with less restriction on genuine saving history), you may be able to get a property as your first home”  
 Bill Zheng, Investors Direct





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Helen Collier-Kogtevs,  
property investor and educator

“You may pay a little bit more interest, but you didn’t put much money in, so hopefully when your property goes up in value in a few years, you can refinance and start paying normal interest,” says Zheng. “This makes your \$10,000 cash in your pocket even more important; you’re technically buying time for growth with the \$10,000 you didn’t spend on buying the property.”

### 6. Rent to buy

Another strategy, according to Zheng, is to rent a property from an investor and pay them a higher than market rent for a period in exchange for a discount on the purchase price. “This is what we call ‘rent-to-buy’ strategy. In this option, you don’t take ownership of the property immediately, but you have a contract in place for a future purchase price, which is normally lower than the market price at a future time.

“The cost is that you pay more in rent right now for that privilege. You may use that \$10,000 cash to help do that, and by the time you can purchase this property off your landlord, you probably have enough equity in the property that you don’t need the \$10,000 cash any more.”

### 7. Call option

Zheng also suggests looking at turning your money into a ‘call option’, where you pay the vendor an option fee, betting on purchasing the property at a certain price on a future day. If the property price goes over your estimated price (strike price), then you can call in your option to make the exchange at the strike price, and hopefully you’ll have enough equity in the property to get 100% finance.

“This is a risky strategy, as you could lose the option fee if you choose to walk away from the transaction because the market is against you,” Zheng warns.

### 8. Save someone’s financial trouble

Zheng points out that an even more interesting option can be using your \$10,000 to solve someone’s problem in exchange for a portion or the whole of a property. For example, if someone’s in trouble paying their current mortgage, if they sell the property now, they aren’t going to have much money left, or even run the risk of losing money.

“If you come in and offer them \$10,000 to pay for their outstanding debt and take over their mortgage, you

could get your hands on a property that otherwise will be out of your reach,” he says.

“Get your lawyer to write up a contract to get them to assign all the rights to you for the property. This way, you don’t own the property yet as the current owner is still on the mortgage and title, but you’re controlling the property 100%, and all the future sales proceeds will go to you, plus rental income, etc. This strategy allows you to have the control but not ownership, and enjoy all the financial benefits of an investment property.”

### What type of property should you buy?

Since you have limited cash, you should avoid buying very expensive properties, says Zheng. “I’d keep it under \$400,000 if possible. Expensive properties are usually low on rental compared to mortgage repayment. If you’re starting out in the investment business, lower risk properties are better as you may need to build your capacity to handle the ups and downs.”

Zheng adds that buying a property should be considered a major investment decision, even for people who are only thinking about getting themselves a home. “A property is the largest asset most Australians have. It pays to think about the long-term return of this asset rather than just whether it’s a good home to live in,” he says.

What’s considered a good investment for a residential property is a big topic. Good, solid and historically high performing suburbs are usually a safe bet because past performance is the best indicator of future performance.

“There are new areas that can also enjoy spectacular growth. If you choose to buy in those areas, you’re making a decision based on future potential rather than historical performance. You may get it right, but you can also get it wrong – it’s a high risk and high return proposition,” says Zheng.

### How would you structure your finance?

Zheng says funding your investment property is a choice between fixed or variable rate: “Most investors don’t take up fixed rate because they need the flexibility of being able to refinance their loans to release more equity for future purchases.”

“Fixed rates are derived from the variable rate and offered by sophisticated financial institutions.

“These institutions take the variable rate themselves and offer ‘mum and dad borrowers’ to take on the fixed rates, and they’re betting on that we’re worse off with the fixed rate and they’re better off with the variable rate. Not surprisingly, these financial institutions are winners most of the time due to their experience and financial resources.”

### Structuring your property ownership to maximise benefits

When you apply for finance, you also need to consider the structure of the entity that will own the property.

“The ownership structure has far-reaching implications for tax, control of the property and your legal liabilities, should you ever find yourself in the unfortunate situation of being sued,” says Patrick Bright, author and CEO of EPS Property Search.

**Sole ownership:** It’s the simplest way of structuring your properties. However, it offers no protection if someone sues you. There are no additional costs except paying your tax agent to do your tax return, according to Bright. You’re entitled to the 50% discount on capital gains tax after 12 months.

**Tenants in common:** Parties own the property in any proportion they agree on and get a separate title. Each tenant or owner can sell or deal with their interest at any time without the need for the other co-owner’s approval, unless they have co-ownership agreements in place.

**Joint tenants:** The co-owners are entitled to shared legal possession of the whole property, have no separate shares from the other and own the property in equal shares. Most married couples and de facto partners choose to own their properties as joint tenants. However, in the case of your death, your portion of the property would pass to the other co-owner.

**Trusts:** These are created by a deed, which protects the assets of individuals and their families, preserving them for the future. Under a trust structure, the trustees hold titles to trust properties in their names, but manage that property for the trust’s beneficiaries.

**Company:** Under the company structure there are shares, which entitle the holders to receive dividends and surplus assets when the company is wound up. Another advantage is that shareholders aren’t liable for the company’s obligations.

Bright advises that before you buy a property, you should consider who’s going to own it.

“If you’re buying your first home, you might as well put it in your own name and get all the benefits that go with that, especially if you’re an employee picking up a wage and are interested in getting some legitimate tax benefits.

“If you’re serious about building a property portfolio, then you should have a good chat with your accountant about your current situation and long-term plans, and work out the most appropriate structure for you.” **YM**

