5 MISTAKES MANY INVESTMENT PROPERTY BUYERS MAKE

PROPERTY INVESTING HAS CHANGED

Australia's changing society and new tax and investment laws has meant that the "old" method of investing in property is no longer applicable in modern Australia.

In order to buy and hold Australian property successfully, the average person must now have excellent credit, a strong financial statement, good income, enough money for reasonable down payment, and strong collaborative support from the hard-money lenders.

GET ALL THE FACTS

Industry research has revealed that there are 5 common errors many investors make when investing in Australia. If handled correctly, these issues can have a dramatic impact on the investment's overall performance.

1. BUYING THE "WRONG" PROPERTY.

At first glance this seems logical of course. You try not to buy the "wrong" property. However, on further study, what can actually be defined as the "wrong" property?

After all, every week in Australia, thousands of properties are bought and sold for investment. And they are all different. So what is the "wrong" (or the "right") type of property?

Some people buy only 2 bedroom apartments, as "they are the best to rent out".

Well, let's look at that for a moment. While this argument may be sound, it's not always *true.* In a block of 200 apartments, of which there are 195 two bedders, and just 5 one bedroom units, the one-bedroom may well be the better investment because of the scarcity factor.

But not if the adjoining two blocks are all one bedroom apartments! So hopefully you can see **that there is in fact no "right" type of property – but, it is important you buy for the *right reasons.***

One well known and extremely successful residential investor says he has "never seen" inside any of his rental properties before buying, claiming he would be so dismayed by the size, condition etc that he would never buy if he saw inside! He bases all his decisions on the figures, as well as other fundamentals of supply and demand, occupancy rates, ease of financing etc.

In addition, Australia's changing society means lone person households are the most rapidly increasing group...meaning demand for one bedroom apartments is likely to be in huge demand in the future.

Research has shown that nearly 60 per cent of investors say they buy an investment property that "they could live in themselves".

Nearly twenty percent of investors select a property on the basis of "they may move into it in the future", **while only 8 per cent say they bought it to make a capital gain!**

Yet historically Australian property in and around the capital cities has always moved up in value, giving investors capital growth. Yet only 8% of investors went into the property with this in mind.

These statistics raise two important issues all investors need to be aware of. Many investors are buying *emotionally.* They are buying properties that they "could live in themselves".

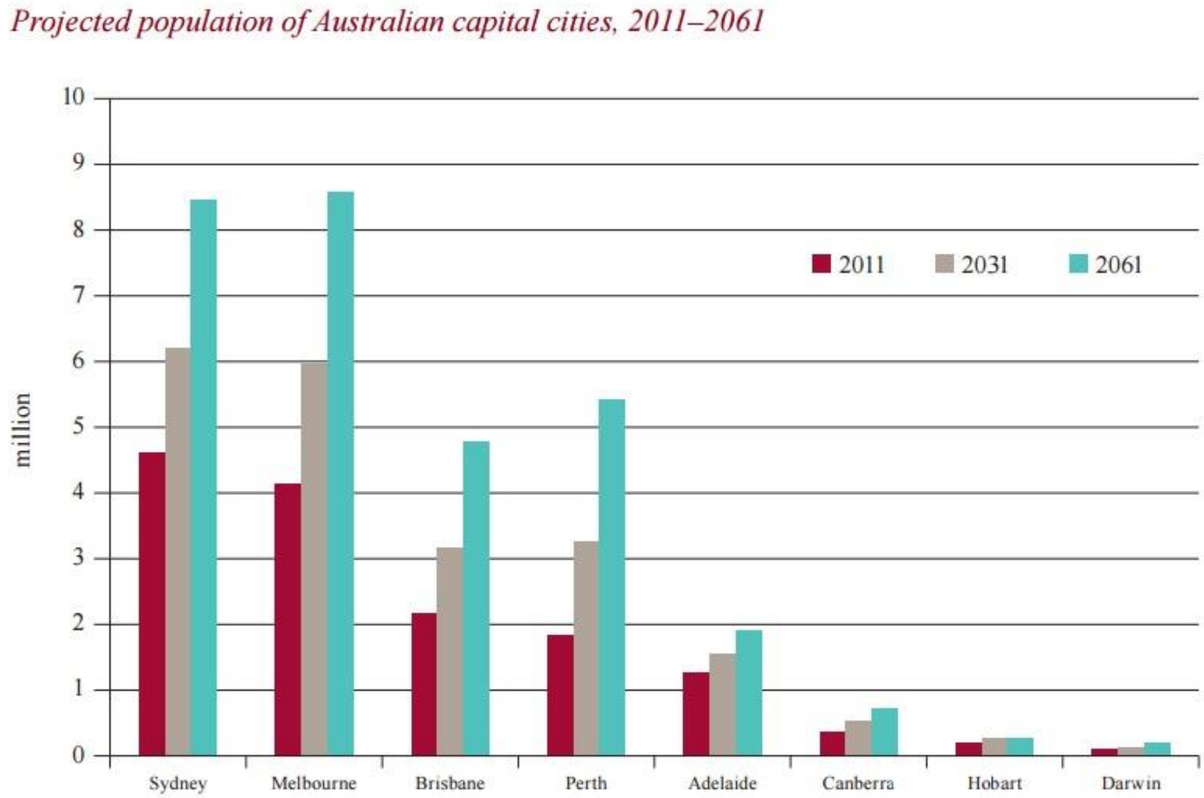
They rationalize that if they like it, "others will too".

Yet, they may be professionals in their late 40's, while their prospective tenants are young single yuppies. Buying a property they like may not appeal to their future tenants.

Second, people invest because they *love the property.* They **should** invest because they ***love the prospects*** of the property achieving above average capital growth and rental income.

Are you buying for 3, 5 or a 20 year investment? Is your main aim high rental return, or capital growth?

Melbourne is projected to eventually become the most populous city, cathcing Sydney's population in 2030 and exceeding it therafter. Perth is projected by the ABS to experience good growth (187%) increasing from 1.9 million people at 30 June 2012 to 5.5 million in 2061, although the end of the resources boom may affect these predictions.



Brisbane, with an increase of 118%, from 2.2 million people at 30 June 2012 to 4.8 million in 2061.

The remaining capital cities are projected to experience smaller percentage increases, with Adelaide increasing from 1.3 million to 1.9 million and Hobart increasing 25% (from 217,000 people to 270,700 people). The Australian Capital Territory is projected to increase from 375,100 at 30 June 2012 to 740,900 in 2061 and overtake Tasmania's population in 2038.

Smaller household sizes

Australian society is not only ageing, but it is also becoming more diverse in attitude, behaviour and lifestyle, posing increasing challenges for investors.

Australia's National Housing Strategy identified that household structures were changing as a result of ageing, migration, lifestyles and ever increasing incomes.

One and two person households are increasing inexorably in Australia, and now represent more than half of all households. **There are 1.5 million households in Australia with just one person.**

And yet many investors will *simply not* buy one bedroom apartments. **Experience teaches us these have outstanding occupancy rates with renters.**

Many renters may well *prefer* a 2 bedroom flat, but can not afford it. They then look to a one bedroom flat, but because of the scarcity of good ones, end up having to share a 2 bedroom with someone else. Which may not be their preferred option. .

Families are changing too. Couples with children represent just over a third of all households.

All data points to the continuing demand for smaller properties closer into the city. The younger generation is flocking to be closer to the city. However, the traditional family unit until requires a "house with garden", and new estates catering to this market at affordable prices is booming.

Many investors make the mistake of assuming that "the city" means the Central Business District (CBD), when the inner area suburbs are in many cases more lively, affordable and popular. **Many people are flocking to these trendy, "café style" suburbs near the CBD's, around 2km to 10kms from the city centres, as opposed to living right in the city centre.**

Then there is the "ripple effect". As prices go up in one area, the adjoining area is the next to benefit. Just because one area had good growth last year, don't assume it will have good growth next year. *It may….. but it may make the adjoining area more affordable.*

This applies city to each city, as well as suburb to suburb. For instance, Sydney investors historically have flocked north to Brisbane when Sydney's house prices get out of reach. This has happened in each and every Sydney boom.

Also, don't base your investment decision on somewhere you enjoyed on holidays, reasoning that because you liked it "others will to".

"You must try to see what type of property tenants are demanding, what is the occupancy rate, and what are the future trends"

A one bedroom apartment located in a prime inner suburb may not be what "you would live in", but could well prove to be a better investment than a mansion in a country town. In fact, almost certainly it will be.

"Be careful of your own preconceived ideas of what people want"

A family home in a middle distance suburb may in fact be the last place you would live in, but thousands of people are desperate to get into these.

2. WAITING FOR THE "RIGHT TIME TO INVEST".

Perhaps not surprisingly, this is the most common error.

There are generally two key reasons for this. First, normal procrastination. It's often easier to make no decision than an active decision.

Secondly, many people are nervous about making the wrong decision based on timing, therefore prefer to make no decision, and use the excuse of "watching the market".

Assuming the market peaks once every 14 years, that leaves an awful lot of years when you can buy, and still enjoy substantial growth.

"But it is not easy to know when the market is peaking, but it IS possible"

Few investors sold in October 1987, as the market peaked. Few investors were *buying* in Sydney pre-Olympics.

That has been an expensive mistake for many.

Real Estate author Jan Somers says:

"There is so much to be learned from these people who have been investing in property for a long time. One thing they all tell you is: if you wait for the right time to buy, you'll never buy anything at all.

And if you sell when everyone says sell, you'll never have anything at all. The trick is to buy whenever you can afford to. In other

words, buy when it suits you financially, not when it's economically correct."

Fred Johnson, author of the "Wealth Power of Property" has this to say about waiting for the right time to invest:-

"Consistently throughout the past 45 years, people have been telling me that it's not a good time to invest in property. In the early 50s when a home loan was as rare as hens' teeth, they said – it's not a good time to buy; there is no money available; prices will not rise. In the late 50s when exports were flagging, they said the economy was heading for disaster: don't buy property, interest rates were going up, import quotas were being cut and world prices for wool and wheat had dropped.

"In the late 60s, Great Britain, our biggest export customer, was negotiating to join the EEC.
Menzies raced to London to point out the error of their ways. He was unsuccessful and proclaimed that Great Britain's entry to the EEC would make previous recessions look like a boom. Don't invest in property now, they said.

"The early 70s saw low inflation. Property would not increase in value, they said. Then in the mid 70s, there was high inflation, high unemployment and then recession. The OPEC oil crisis of the late 70s caused the "experts" to say,b> that property prices would drop as people and industry could not survive the expansion of our cities as oil prices soared.
Property was out of fashion once again.

"The abolition of negative gearing in the mid 80s had people saying – don't buy property now, there's no tax advantages. In the early 90s we had another recession and low inflation with a flood of headlines such as "values cannot rise when inflation is low".

"Consistently for the past 45 years, **"experts" have been telling me that the time is NOT right to invest in property.** Assuming you have sought out the right information, the biggest mistake you can make is not to own any investment property at all."

"You will end up just like him…forever watching the market "

And those are "experts" and journalists, let alone well meaning, but badly misinformed friends and relatives.

Always use the "acid" test when seeking advice. If asking friends and relatives, ensure they do in fact have many properties BEFORE taking their advice. If Uncle Bob says "it seems expensive, best to wait and look around" you'd better be absolutely sure he owns many properties BEFORE YOU FOLLOW HIS ADVICE...otherwise, you will end up just like him, forever "watching the market."

3. FINANCING ERRORS.

Many people try to pay off the mortgage as soon as possible, using spare cash to reduce their loan.

Whilst understandable, this may not always be the best investment strategy.

That extra money could be used for further investments. Paying it off quickly does not make always good sense from an investment point of view.

Many people buy an investment property, rent it out, then put it away “in the top draw” for the future.

They only look at it again if it becomes empty or vacant for a long time!

However, a little simple tax planning and structuring of your investment can help ensure you never pay any tax on your rental income, and pay little or no capital gains tax if you sell.

If you are an expatriate, or you intend to reside and work in Australia in the future, you can structure your investment so that you arrange to accumulate tax losses for the future.

These can be carried forward indefinitely for the future, **and can be used to greatly off-set any future income tax that you may incur upon your return to Australia.**

Taking the correct loan can mean not only no monthly outlays, it can also mean that you may be able to purchase further properties, and can give you greater holding power.

Some key points to consider:

Think about your long-term investment strategy to determine the type of mortgage to best suit your needs.

There are a number of questions you should be asking yourself before you commit to a certain types of mortgage. How long will you own this property? Will you always rent it out? **Do you want to buy several properties, or even a portfolio?** Or will this be your only investment property?

What direction are interest rates going in, and how quickly? Is your income expected to change (up-down) during the course of you holding this property?

Does a foreign currency mortgage work best for you? What are risks?

"The answers to these and other questions will help you determine the most appropriate mortgage you should be seeking"

Mortgage options these days are very flexible – there are principal and interest fixed and floating rate loans, redraw facilities, back-to-back loans, multi-currency options, flexible repayment investment loans, introductory rate loans, combination loans, all in one loans, standard variable loans and several others.

Rather than approaching numerous banks direct or talking to investment advisors, seriously consider dealing with an independent mortgage expert, who is dealing directly with the banks.

Enlisting their services can make a significant difference in the cost and effectiveness of the mortgage you obtain.
They can often make the process faster thereby avoiding costly delays.

Typically, there is no cost to the borrower.

Also consider getting a preapproval. You can usually get you pre-approval in just days, and you are then ready to move immediately on any outstanding opportunity.

Try to buy with a reasonably low deposit of 25% or 30% as then you can take advantage of the massive benefits of leverage in a rising market.

Consider an "Investment Loan" instead of a standard principal and interest repayment vehicle.

These are generally the best type of loans for investors.

"If migrating or returning to Australia within the next 6 to 36 months, urgently look at buying before you go, not only to ensure you can actually obtain a mortgage, but for maximum tax relief when you arrive"

Unless you already have a secure job lined up for your arrival (or will be paying cash for your home) it may be prudent to buy (and hence put your mortgage in place) well in advance.

Even if paying cash for your home, should you wish an investment property or two, again it makes sense to look into this.

If you are migrating within the next 3 months, it may be too late already.

If you are an expat planning to return to Australia, again, take advantage of your higher income off shore to qualify for your mortgages to build up your portfolio, well before returning. In addition, this can greatly help your tax position.

4.SELLING TOO SOON

This is one of the most common mistakes investors make.

"An Australian Bureau of statistics survey revealed that over 30% of all investors sold within the first 5 years of ownership, with another 20% intending to "sell soon."

That means nearly 50% of investors will sell their investment property within the first 7 years of ownership.

The property market moves in cycles, and the longer you hold the more "cycles" you can benefit from. **By holding for the long term you get the magnified effect of compound growth.**

You can ride out any downturns. You can "add value" by renovating and refurbishing when the property is older.

As the value rises, you can refinance and buy further investments without outlaying any additional cash.

"By buying and holding, you avoid the substantial costs involved in buying and selling too quickly".

Property will continue to provide good returns, security and wealth for those who embark on a planned acquisition program of property investment, especially if they continually add to their portfolio.

By selling within 5 years, you don't take advantage of even a single cycle.

Australian property is an excellent investment. Not only is it much harder to lose money in property than the stock market, but you can continue to receive ever increasing income from rent, and benefit also from capital growth.

Around 70 percent of all properties are "owner occupied". In this respect, residential property is the only investment market not in fact dominated by investors.

That is, only around 30 per cent of properties are for investment.

This provides a natural buffer that is not available in the share market.

The majority of those in the market are owners, or paying off their own homes. **This is the secret ingredient for investment, unique only to residential property.**

"In addition, investment data released by the FIRB shows foreign buyers only accounted for around 10% of total purchasers in the years 2016-2017"

5. Don’t wait to buy real estate. Buy real estate and wait.

Self explanatory. No further explanation needed!

EDITORS NOTE: IN 1930, A TYPICAL HOUSE IN MELBOURNE COST 600 POUNDS. BY 1970 THE SAME HOUSE COST $11,800. IN 1980, IT WAS $44,800. 1990 SAW THIS HOUSE REACH $147,000, AND in 2017 IT WAS $798,000