# **AUSTRALIAN PROPERTY:** FAQ

**UPDATED 2016**

## Barriers to Property Investment

There are certain barriers that often stop people from investing.
We look at some of the most common ones here.

### I THINK I'LL WATCH THE MARKET FOR A WHILE BEFORE INVESTING

There's no point to "watch the market". The best time to invest is when you can afford to. Because of the effect of compounding, a delay of even 6 months can cost you thousands, or even tens of thousands of dollars in the long term.

### WHAT IF THERE IS A DOWN-TURN?

The great thing about Australian real estate is, unlike shares or buying a new car, the value doesn't drop by 20, 30 or 40% the day after you purchase it! In the case of shares, you can lose 99% or even all of your investment if the company goes belly up. Even in the biggest property downturn in history when interest rates were 17%, the share market collapsed and the economy was in the doldrums, only properties bought at the top of the boom were affected, and even those had recovered within a few years. Many of those properties had doubled 10 years later.

In the meantime, again unlike shares you can receive a regular and ever increasing income from the property. Many people waited to invest until "after the Olympics" in Sydney, or for the world economy to improve, or for prices to drop. That waiting decision can be very costly.

### WHAT IF THERE ARE TOO FEW TENANTS?

Current occupancy rates vary between 95-98% in the major cities. There is a huge pool of qualified tenants in all Australia's cities. The trend is for young people to stay in the education system longer, marry later, have less children, or have them much later. More women are entering the workforce. Some people choose to rent, while investing elsewhere, because of tax benefits. If anything, the number of renters will increase.

### WHAT IF PROPERTY VALUES FROP AFTER I BUY?

Property values seldom rise in a straight line. They tend to jump upwards, stagnate for a while, then jump again. For a long term investor, the trend is upwards, so short-term fluctuations should not be overly concerning. The Australian property cycle tends to follow a 18 year cycle, which is generally around 14 years up, followed by around a 4 year downturn.

You can see all the Australian property cycle information at www.citylifepropertygraphs.com

### I'M FINDING IT HARD TO MAKE A DECISION

You are most likely suffering from "information overload". This is extremely common these days, due to access to the internet, email, magazines and papers. You'll need to focus on what you want to buy, and then take action (and stop looking for something "better"). Make a decision, then move on and start planning for the next property.

### I DON'T LIKE BORROWING MONEY

Borrow within your comfort zone. But remember, very few people are able to pay cash for any property, so the use of OPM (other people's money) to buy appreciating investment property, is a sound financial strategy. Never underestimate the power of compound growth by the use of leverage.

### I HAVE FRIENDS LOOKING FOR A 'BARGAIN' FOR ME

Are they professional real estate investors? Do they own a large portfolio themselves? Do they dedicate 8 hours a day looking for property? How many "bargains" have they bought themselves?

Unless the answer to all these questions is positive, the change of them finding **you** a bargain is virtually zero.

Unless you have the time to look every day for 6 months, it is a much better strategy to pay fair market value, for a good property, in a sound location, from a reliable agent or builder.

### I WON'T BUY ANYTHING "UNLESS I SEE IT" WITH MY OWN EYES

Most good projects in Australia are selling off-plan, before construction starts. To wait until it's built means you will almost certainly miss out, or at best miss the best units, and paying more, as prices often increase during construction. Citylife database clients often get properties at reduced prices *before* public advertising.

Secondly, most people never seem to get around to looking during their short business trips or holidays. Years can be wasted this way. Each year wasted now, has a huge financial implication in 10 years' time.

### WHAT IF I PAY TOO MUCH?

Property valuation is not an exact science. There is a potential for 5-10% percent differential either way when buying. Just make sure you pay fair market price, in a good location, from people you trust, with reliable developers, and let time grow the asset for you. Even so-called "Bank valuers" often cannot correctly determine fair market value.

For example, you may be willing to pay a premium to get a view. The bank valuer may valuer your property the same as a similar apartment 12 floors lower, with no view. They do not always recognize such things.

### I'M NOT AN EXPERT. I DON'T KNOW WHICH PROPERTY IS BEST FOR INVESTMENT

The Australian real estate market is incredibly dynamic. Knowing how, where and when to invest can be daunting. There's why at Citylife International Realty we do all the research in advance for you, and recommend certain projects ahead of all other developments so that you can invest with confidence. We reject hundreds of projects. We recommend only a handful.

We give investors access to our knowledge and experience earned over decades.

We offer a low-risk, hassle-free turn-key experience to investors who want to acquire income-producing real estate and build a portfolio of properties from one initial deposit.

### THERE IS WORLD ECONOMIC UNCERTAINTY

There has always been uncertainty. Yet through all of history, and all times of uncertainty, Australia's property market has continued upwards. Australia's safe haven status is likely to increase demand in the future. Also, in times of uncertainty people historically look for the security of property.

### I DON'T HAVE THE TIME TO LOOK INTO THIS RIGHT NOW

It's often easier to "put off" your own affairs, whilst looking after your clients or business matters. Waiting can be deadly. It makes sense to try to make the time to secure your own future. Delaying investment decisions at the right time, when you can afford it, when you have a secure job, can be a big mistake.

### MY CASH IS TIED UP IN A FIXED DEPOSIT. CAN I STILL BUY?

Yes. Talk to us about alternative ways of securing the property.

### MY JOB IS UNCERTAIN. I DON'T WANT TO COMMIT TO A BIG MORTGAGE AT THIS TIME

In today's world no job is 100% secure. Don't let the prospect of possible uncertainty prevent you from buying an investment property. Simply take the necessary precautions with insurance, structure your finance property, let the rent cover the interest, and sit tight. It might be even beneficial to buy sooner rather than later if this is the case, to ensure you can get a loan. Once you have a property the rent will usually cover the bank interest payments so once you have secured a loan there is usually little to worry about even if your job is uncertain.

A friend of ours has not purchased an investment property during the past 15 years, "worrying" about losing his job. In fact he has had 4 different jobs in that time, never had more than a month between them, and still hasn't invested as "you never know".

It's fair to say this "decision" has cost him over a million Australian dollars.

### MY FINANCIAL PLANNER SAID I WAS "OVER-EXPOSED" TO PROPERTY, AND SHOULDN'T BUY ANYMORE

The Atchison Report commissioned by the ADPIA and conducted by Melbourne based Atchison Consultants shows that Australian residential property delivered investors the best returns out of all major asset classes over the 15 years between 1987-2002.

Ibbotson Associated "Financial Wealth of the World Pie Chat" shows 49% of the financial worth of the world is concentrated in direct property.

Some financial planners actively discourage investment in property as they do not receive any commission when their clients invest in this asset class, or if they do the commission is "too low." If you still feel shares will possibly offer better returns, we suggest you look at the report SHARES V PROPERTY on the website www.citylifeprojects.net.

You should remain objective, and make your own decision. A secure property portfolio, with ever increasing rents, can enable you to retire much earlier than otherwise thought to be possible.

### I'VE BEEN LOOKING FOR A LONG TIME FOR A GOOD PROPERTY BARGAIN BUT I NEVER SEEM TO FIND IT. HOW LONG SHOULD I KEEP LOOKING BEFORE BUYING AN INVESTMENT PROPERTY?

If you a property "speculator" as opposed to a property "investor", you'll need to keep looking. As you need to turn the property over quickly, you need to secure an under valued property. However, if you are an investor, you should be looking for long term capital growth, a secure rental income and tax benefits for the future. The sooner you buy the better.

Providing you pay fair market price, structure it correctly, and deal with reliable people you should achieve sound capital and rental growth over the long term.

### I CHECKED WITH MY ACCOUNTANT. HE WASN'T KEEN FOR ME TO INVEST IN PROPERTY

Accountants are usually specialists in accounting, not property investment or even wealth creation. They will be able to complete the required tax return forms for you. There are however, specialist property tax accounts, and some even own rental properties themselves.

**Finally, some words of wisdom, as always, from Jan Somers, school teacher turned millionaire property investor, and bestselling property author. (as quoted in API magazine)**

### ON INVESTING

"If you want to become a millionaire in less than a year, than buying properties and holding is not the answer. If you want to become a millionaire in 10 or 20 years, than perhaps our way might work for you."

### ON LOANS

"The Somers recipe does take into account many things, but one thing it demands is that people get accustomed to the idea of maximizing their borrowings and taking advantage of the power of leverage, or gearing. That's something that requires a dramatic mental shift for some.

"it's the idea of Interest-Only loans, it's the idea of borrowing hundreds of thousands of dollars, it's the concept of owning a lot of properties, it's the concept of handling big amounts of money," says Jan. "But my point of view is if you want to retire early, you need to learn how to handle big amounts of money. If you can't handle big amounts of money then you're in the wrong game."

### ON HERSELF

But, concerning the borrowings at least, readers should know that she's been there: "if there was one mistake we made, it was not borrowing enough early on," Jan says.

"In the early 80s we had a number of properties because we moved around with Ian's work, and had been accidentally investing for ten years before the penny dropped. Then the whole world just opened up."

### ON BORROWING

"It's a big mental barrier…most people would say that getting started and borrowing the money is the biggest hurdle. Once they've started then they see how easy is, then they'll come back and say, 'how quickly can I get the next one?' But the first is always the biggest barrier."

Jan reflects that the mental barriers are higher for people like her, who come from an academic background.

"In some ways, people who are not as academically qualified have a better chance of succeeding because they're prepared to accept that the world is not a perfect world, whereas academics believe in an idea, perfect world, therefore they're hesitant to become involved in property investment," she says.

### ON PROPERTY INVESTMENT

"Property Investment is so good it works even though it's not perfect. You'll never find the perfect house, you'll never find the perfect financing, but you'll find something that will take you to financial independence in a very short time.

Another barrier is simply that there is too much information around now. People are suffering information overload, Jan believes, and that brings them to a grinding halt.

### ON TENANTS

But once you're in, remembering the human factors will help to make it a success. One example is considering the preferences and needs of tenants: "Investing for me is more about investing with the tenant in mind so it's a long term proposition," Jan says.

"You just need to treat tenants as people, not as second class citizens. Then they stay. However, you need to have a property manager who will move the rent along and keep things going at market rates, but still be fair and recognize that good tenants perhaps deserve a slightly lower that market rent in exchange for looking after the property. That way you'll have less maintenance and less turnover."

## ON REAL ESTATE AGENTS

A good property agent, she says, is hard to find but worth the search.

"It may take as much time as finding the property," she warns. "I would say in order of where your time will be spent, finding a property takes the least amount of time. Finding the finance takes a good chunk of time, as does finding a property manager. But people have it the wrong way around. They spend all their time finding what they believe is the perfect property and good finance, and then engaging the first property agent they come across. Then they wonder why it doesn't work."

## ON SIMPLICITY

"You need to get back to basics; you need to find property that the tenants want to rent. And finance it in the simplest way, perhaps with an Interest-Only Loan that's fixed for a certain time. Have a credit line as a bit of a side package, and be prepared to hang onto it for 10 or more years. There's not much else you need to do."

# Investment Mistakes

## The time to Act

*"Engaging in genuine discipline requires that you develop the ability to take action. You don't need to be hasty if it isn't required, but you don't want to lose much time either. Here's the time to act: when the idea is hot and emotion is strong.*

*Let's say you would like to build your library. If that is a strong desire for you, what you've got to do is get the first book. Then get the second book. Take action as soon as possible, before the feeling passes and before the idea dims. If you don't here's what happens: You Fall Prey to the Law of Diminishing Intent.*

*We intend to take action when the idea strikes us. We intend to do something when the emotion is high. But if we don't translate that intention into action fairly soon, the urgency starts to diminish. A month from now the passion is cold. A year from now it can't be found.*

*So take action."*

Jim Rohn. *Business Philisopher.*

## Fall in love with the Deal, Not the Property

*"One of the biggest mistakes I see investors make is when they buy an investment property not on the basis of the returns, but because they "absolutely adore that cute little property." There is nothing wrong with adoring a property. In fact, when it comes to choosing a home to live in, the more you like the property, the happier you are likely to be. But when it comes to an investment property, leave your emotions behind. You are building passive investment income. Stick to investment factors: Do the numbers work? What are the growth prospects? It is a numbers game."*

Dolf de Roos. *Author Real Estate Riches.*

***"There is never going to be a perfect time. You can grow old waiting for the planets to align, and someone, anyone to give you a sign. If you wait until the wind and the weather is just right, you will never plant anything and never harvest anything."*** Mark Victor Hansen

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