



How to Avoid Common Pitfalls in Property Investment

Part 1

There's an enormous amount of pitfalls and many of us could write a book on all the problems that we could have experienced or seen in property, but most of us will still want to invest. So, there's lots to learn about it and I'm happy to share.

My name is Louise Lucas. I'm the CEO of The Property Education Company. I have been investing and working in this business since the 80s. We have mortgage brokers and we want you to feel confident in your buying and that's what we're here for, to make sure you're making the right decision when you get to it.

This year we won the National Award for Customer Service from Australian Achiever. We've actually won the National Mortgage Broker of the Year award a few years ago and lots of others. And I've also been doing this for a very long time and investing in property.

Note that all the information tonight will be general information. And if you'd like to talk to us at any point in time, please feel free to book a meeting with me.

So, the objectives of this session. What I want you to do is know the seven most common mistakes of property investing and property investing, when I mean that, it's not just for strictly investors. This is also for people who are buying their first home. And what often happens is people buy their first home, have a horrible experience and it takes them years to recover and they learn lots from it. We don't want you to have that happen to you either. And I'm going to cover at least 25 ways to help you potentially overcome these pitfalls and common mistakes that people make.

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So, the first one, let's get straight into it, is poor money planning. This happens all the time, and I often have people ring me after they've bought a property and even a few years down the track and they'll go, "Oh, this property is costing me a fortune!". And it might not necessarily be the property. They'll just have had one hot water system go and it feels like the place is costing them thousands. But the reality is if they actually did the figures, and when you actually look at the figures, the property won't be costing them thousands. Their budget is costing them thousands. They're spending far more than they should be on what they are earning. And I like this quote from Dave Ramsey, who many of you will have heard of. "You will either tell your money what to do, or the lack of it will always manage you." So, I think that's pretty profound and that's what people lack, as we know.

Not understanding your true borrowing capacity. And the best way to do that is to not necessarily be judged on what the bank actually, or any lender will say you can borrow, but actually going back to your budget, and be very certain how much you can save at the end of each month that might be required to use towards a property investment. So in that way, what spare have I got at the end of the month? Now, if you don't have any spare, you should not be buying an investment property. And you need to be careful, if you can't save now, should you be buying a house? So you need to be able to save. That's the key criteria for getting in.

Failing to account for all costs is the second thing and insufficient cash buffer. We always advise people to keep a buffer and often you can do this in a loan. So when we borrow, we actually borrow extra out of your own home maybe for the deposit, and we keep a buffer of say 20,000 so that that is your sort of safety net. No matter what happens with that property, you will have that money set aside, hopefully in an interest-only loan, not costing you anything. So it sits there with the money in offset or in redraw. So it's not costing you anything and it is your buffer.

So failing to account for all costs, that's an interesting one. Now, recently some other poor broker had a client come to settlement and the broker said, "Well, where's the rest of your deposit? You've paid 5 percent and you need to pay the other 10." And he goes, "Oh, I thought now we've got a loan approval. I didn't think you needed that. And I went and spent it". Unbelievable. And he could not settle the property. Being aware of what money is actually required to settle a loan is enormously important.

Now usually we will account for all costs associated with the actual purchase. So we will include the stamp duty, the government registration fees, the bank fees, and the conveyance of fees, we give an estimate, but we cannot give you a firm figure on maybe the rates that have to be paid by you when you are purchasing because maybe you are purchasing in March. The rates were paid for the year in February, so you have to pay back the vendor for the rates for that period. And a lot of people don't take these into account, so that can be tricky. So you need to have that in the back of your mind, what are all the costs associated with this property and what you might have to pay at that time.

How to Avoid Pitfalls in Property Investment

So planning for your finances. The best way to do this is to meet with your mortgage broker. Start with the broker, it could be the most suitable way. Calculate your total costs, and building and pest rates, owners corporation fees are really important. They are often overlooked and people might have thousands in owners corp fees and then you have to pay back the owner at settlement. And if you haven't accounted for that, you could be up for an extra 5,000 to 10,000 dollars because they have to come out at settlement and you might think, "Oh no, I can pay that over the course of the year". No, you might not. You might have to do it right at settlement. So you always need to account for all those fees and you need to get the final figure for that from your conveyancer or whoever's managing that side of it, the legals for you. Your broker can give you an estimate, but it's far better if the conveyancer will give you the final figure, but unfortunately, a lot of the conveyancers don't give you that figure until like the day before settlement. So it's too late then to scramble around and get some money. You need to be aware and ask them up front, get me these figures early, which they often won't do. So you need to harass them and say, come on. I need to know how much I need to have in the account ready to go. Okay? So, keep that in mind.

And as I said, it's a really good idea to have a buffer account or a loan for a period. So when we're structuring loans for investment, particularly, we will have an owner-occupied loan. We will then maybe have the deposit account, which is the account and the final loan is for the actual purchase of the property. And that's at an 80 percent lend. But in this deposit account, we will keep an extra buffer. Preferably up to 20 grand that we keep aside. So if you don't have any buffer at all, then you should think twice about what you can do. It's a really sane idea and it just always gives you that peace of mind knowing no matter what happens, it's there. Now, some people can't trust themselves with having the money in an offset account, so we can actually arrange that it's in redraw. So it sits in the loan, you don't pay interest on money that's sitting inside the loan, and that could reduce your bill as the month goes on, but it's available, they are all the same for you. So that's the first thing.

And of course, consider interest rate movements. And while we're all hanging, hanging for them to go down, interestingly this week, some of the fixed rates that banks have been offering have gone up, which is really peculiar. Now, the variable rates are still staying where they are, but the fixed rates are actually rising. And I'm not sure what they're thinking. I thought we were getting some mid to low five fixed rates and we thought, well, they clearly think rates are going lower than that. But then other lenders have got fixed rates in the sixes. So there's a lot. And the thing at the moment is it's not just pricing. Banks are not just pricing on what the RBA say, or the Reserve Bank, and what's happening there. They're actually pricing on their own book. So their loan book is what can determine. And now we've got all these very smart computers that are working in the background and so they go, "Ooh, watch out bank. You've got too many of this type of loan. You need less of them and more of these." So they will reprice depending on what they're needing as borrowers at the moment.

How to Avoid Pitfalls in Property Investment

So when you see that sort of thing, you get a rate and you think, well, that's peculiar. Why are they treating me like that? It's got nothing to do with you. It is maybe the way they're managing their own loan book. So be aware and then get your broker to check.

Now we do an assessment on everyone's loan every six months. Seeing that we can reprice your loan down and we've found that that's keeping our interest rates for clients a lot lower than the average. We're getting some really competitive rates, but by gosh, you've got to be on them all the time. And we've got a ruthless team member Claudia who looks after this and she's really onto them, making sure they're all giving us the most suitable rates possible, but you need to keep asking. You can't let it go, or we call it paying the lazy tax.

And I love this, "Under assets on your application form, you've got this loan if I get it." And this is the problem, people think, oh, it's just the loan. But it's all those other costs and associated things that you have to be aware of that you need in cash to get the actual property going. So that's the first one.

Second, let's talk about the pitfall of location selection errors. And "Buy land, they're not making it anymore." That's an often-used quote for people to say, you're better off buying a house than an apartment. But that's not necessarily true because apartments may grow often at a rate higher depends on where they are. Not all, obviously, you'd need to check. However, location selection errors. We had a client come to us a few years back. She was trying to sell a property that they had. And she said, "Oh, it's really difficult. It's a fabulous place." I said, "Oh, let's have a look at it on Google". And I said, "What's behind it?" Oh, there was a cemetery nearby. There were power lines and a refuse tip all on the same. Absolutely. And I said to her, "What on earth induced you to think that buying there was a great idea?" And she said, "Oh, well, it was cheap." well, duh. And that's why they were struggling to sell it later. So be really careful about buying something because you think it might be cheap when it might have issues so people say to me, "Oh, you know, I can buy that place in the right area but it's on a freeway or on a highway." And I say, really, if those people have struggled to sell it, there might be a reason you will struggle in the future and you don't want a place that you've bought that you will struggle to sell at any point in time. So you always want to hang on if you can and buy something that's in a great area and a great street and buy for the right reasons. And most people, this is where they go, "Oh, I know my area. I know the prices have gone up. Let's buy here." And that doesn't necessarily hold at all. Absolutely not.

Ignoring demographic trends. Oh, there's a lot of that. People say, oh, again, I know the areas, but they do not actually ever consult if they're buying a property investment. Do they consult with the property managers in the area? Do they find out who is renting what in that area? You really need to be doing active research and calling people. And people go, "Oh, why would they take my call?" Because you might rent out that property through them one day. So you really need to get onto that and have a go and get familiar with the people in the areas that you're looking.

How to Avoid Pitfalls in Property Investment

But how do you find those areas to look at? And as I said, overlooking issues where property is cheap. I could not believe those people buying. It was in a suburb out of Melbourne. So they had huge power lines down the back of the properties, a cemetery and a dump, a tip. So unbelievable.

So how to get location success. Do not rely on what you think you know, and I constantly never second guess myself. I go and do the research too, and so should anyone. And there are people you can use their expertise, but then still you want to do your own research so you know what you're making a decision and why.

Set your criteria. What is it that you want out of this property? And how long are you holding it for? And making sure its proximity to transport, schools, employment opportunities, and infrastructure are all vital.

Days on the market. If something is in a market, if it's less than 30 days if you could see on realestate.com, and you'd go to the Suburb Research tab, and you find that the days on the market are less than 30. That market is hot, and that means it's expensive, and you probably don't want to buy in that area. Whereas if it has a median days on the market between 30 and 60. That's an average. It's an active market. There's still plenty of activity going on, but you're more likely to get a more reasonable price. You're not paying necessarily the top of the market. So there's a tip for watching out for where and how long.

When you've got more than six sales per listing, that shows you're likely to have stronger growth. So, watch out for that. And you can see that again when you look at the suburb research under realestate.com and you can see what's happening, how many sales are on the market now, and what's the turnover been in the last year and etcetera. Now, sometimes you'll see, oh, there's like 90 houses on the market and only 90 sales in the last 12 months. Well, you certainly don't want to be buying there. You want somewhere where there's a thousand people looking, there's 90 houses for sale and they've sold like 500 in the last 12 months. Makes more sense, doesn't it?

So also, I always check with the experts, John Lindeman and Hotspotting's Terry Ryder. They both send out reports. I buy the reports when they come up for the ones I want. John offers a complimentary talk to you. He's a great guy. He does this as much for fun as helping people and he offers a complimentary consultation to everyone. I highly recommend you talk to him if you are looking to buy your next property or what to do with what properties you might have. He's terrific in helping people and his data is very much based on he's been a research analyst for many years so I highly recommend talking to him. He's very useful and helpful.

I love this cartoon I got. "For the sake of full disclosure, I'm obligated to inform you that this property is located on a planet besieged by war, poverty, disease, political unrest, and rampant stupidity." Wouldn't you love to hear that sort of response? That'd be hilarious, wouldn't it?