THE DOS AND DON'TS OF PROPERTY INVESTMENT

Property investment guru and Sky Business Host, Chris Gray, explains what to do and what to avoid when investing in property to build your wealth

There are many different property investing strategies, and no one single strategy is perfectly suited to meet everyone's needs. Choosing the right strategy for you will depend on your income, life stage, time availability, skill and your attitude to risk – among many other factors.

Before becoming a property investor or adding another property to your portfolio, it's always prudent to ensure you have done your homework and understand what you can afford. There can be many additional costs to buying a property and all these need to be factored in along with potential interest rate movements in the future.

THE DOS OF PROPERTY INVESTMENT

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DO CONCENTRATE ON THE NUMBERS

Numbers tell you virtually everything and are cold and hard, which is just what you want when making investment decisions. The aim of most property investors is to make money, and the numbers don't lie. Add in some sensitivity analysis around the values, interest rates, rents and expenses, and you should be able to get a good idea of where your portfolio is likely to head.

DO CONCENTRATE ON THE LONG TERM

Property is a long term game, especially when it costs five to six per cent to buy and two to four per cent to sell before capital gains tax. It's therefore essential that you buy the right property in the first place and don't have to sell soon after, as that can quickly make any profit disappear.

DO BUY IN THE BEST LOCATION YOU CAN AFFORD

They say location, location, location for a reason. Buyers and renters are attracted to areas which are close to work, schools, transport and leisure facilities, and will often pay a premium for them. As affordability becomes more and more of a problem with ever-increasing property prices, the limited supply and high demand in the good suburbs may continue to sustain those higher prices.

DO BUILD IN A CASH BUFFER

Regardless of your investment, there will always be an element of risk. It's important to try to reduce that risk as much as possible. As well as buying the best quality properties you can in the best blue chip locations, it's important to have plenty of spare cash on hand for any unseen circumstances, such as emergency repairs. It's also important to budget for rising interest rates. The only people that typically lose money in property are those who are forced to sell, but having a cash buffer will reduce that risk and give you more time to ride out any bumps.

DO GET PROFESSIONAL ADVICE

It's impossible to be an expert at everything. If you try to do everything yourself, you're almost bound to make mistakes. Professional investors hire the best experts they can throughout the entire process including accountants, lawyers, valuers, building inspectors, property managers and buyer's agents. Cheap professionals are often cheap for a reason – they're not busy and are desperate for business, or they don't value their own expertise. The best professionals are often very busy and are successful property investors in their own right.

DO BE CONTRARIAN

If you want to create more freedom and choice in your life, often you need to do the complete opposite of what a typical person does. It's emotionally challenging to go against the grain, but often that's what it takes. So do your homework, check for any possible downsides, and then go for gold.

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DON'T GET EMOTIONAL

Many investors make emotional decisions based on what they've learnt from family, friends and taxi drivers who are all 'experts' even though they don't invest for a living and may not have made much money from their investments. You may drive past a property and see yourself living there, however this doesn't mean it's a good investment. This is also the case with fancy renovations – just because you've turned a property from old to new doesn't mean it will sell for a profit if you've overpaid to do it up.

DON'T GO FOR THE LATEST FAD

Every time I speak at a home buyer show around the country, there's always a latest fad that everyone is attracted to. It might be US property, granny flats, subdividing, or reno-and-flip. These fads come and go and often by the time you get into it, that cycle or opportunity is about to come to an end. While the early adopters who get in and out of the market quickly do profit from these, many average investors get stuck with a loss or a lemon.

DON'T THINK BIGGER IS ALWAYS BETTER

They say that as land appreciates and buildings depreciate, you should always buy houses as they have more land content per dollar spent. However, houses are very expensive with often little demand from renters, meaning not only is the price of the property more volatile, the yield is much lower. I would always recommend a smaller property or unit in a great suburb over a massive house in the middle of nowhere.

DON'T TRY AND PICK THE HOTSPOTS

If you can pick an area that's just about to boom and invest, your property price is likely to spike upwards in a very short period of time. However, these rapid growth spurts that come from new infrastructure or new industry often don't last forever and can come with great risk if you don't time it perfectly. Most typical investors are unable to pick the right hotspot, or do so after it's already boomed and end up with an investment that goes nowhere or suddenly drops in value. A classic example of this is when investors follow the mining boom until suddenly the project stops and there's no more demand at any price.

DON'T TRY AND TIME THE MARKET

Buy low and sell high is a great investment strategy for both the share and property markets, however very few can do it and even the experts don't profess to be able to do so perfectly. I believe it's time in the market that counts, not timing the market. As the cost of getting in and out of property is high, you're much better to ride out any flat or quiet periods rather than trying to get out and then in again.

Chris Gray

Chris Gray has over 20 years experience in property investing and education. Chris is CEO of *Your Empire*, which searches, negotiates and renovates properties on behalf of time-poor professionals. He is also host of Sky News Business Channel's *Your Property Empire* every Friday, and was Financial Judge on Network Ten's *The Renovators*. Chris is additionally a qualified accountant, buyer's agent and mortgage broker.

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This article was first published in ‘It’s My Home’, Summer 2015 edition, proudly brought to you by Genworth Australia.