

How to choose a **PROPERTY**

Buying a property is a large financial investment and, if you're planning to occupy it, a place where you will spend lots of time. As such, choosing the right property is a big decision which should not be taken lightly. It's important to strike the right balance between making a sound financial decision and

purchasing a home that fulfills your individual lifestyle needs.

Making a successful property investment involves more than just compiling a list of dream features and investing in the first property you see. A good investment involves a carefully thought out strategy and considered property search.

THE PROPERTY SEARCHING PROCESS

It might seem like common sense, but engaging in a well-informed property searching process is key to securing a profitable long-term investment. While it can be enticing to jump into the first property you view, investing time into researching and viewing a range of potential investments can give you a better idea of what represents good value. It can also render better financial returns later on down the line and save you from settling for a less than perfect investment.

► STRATEGISE

The first step towards making a successful investment is setting a clear goal of what you would like to achieve through your purchase. For example, are you investing for rental growth or capital gain? If you are investing for rental growth, you might consider purchasing in properties in outer city suburbs, where prices are more affordable and the rental yield is higher. By contrast, if you are investing for capital gain, you might invest in inner-city properties, which are more likely to hold their value over the long-term. Once you have settled on your goal, you should identify the key aspects your property should have. Is a house or a unit in more demand in this particular area? How many bedrooms do most people want and is parking essential? Having a clearly defined goal will help give you more focus and knowledge in what to work towards.

► MAP IT OUT

Before attending any open homes, draw up a plan of all the properties you want to see on a given day. This will help ensure

the most efficient use of your time and save you from spending half your day in the car. For instance, if you have ten properties to see between 9am and 1pm, that leaves around 15-20 minutes per property. The more properties you see, the less time you have to spend in each one and so you don't want to waste time looking at properties which are not suitable for you. When you do see a property that hits the mark, you then need to look at it from all angles to double check you haven't missed anything important that could detract from its value.

► RESEARCH

It's worthwhile to consider reviewing current market research about the area you're looking to invest in, since this can help you assess the future vitality of your investment. While you can pay for market research, the real estate websites and your local council can usually provide area demographic statistics and information on potential developments. Of course, as a website can't give you a true feel of the area, it's essential to spend lots of time walking around any prospective neighbourhoods you are considering to determine their suitability.

► AGENT RELATIONSHIPS

When looking for any property, it's well worth spending some time talking to agents in the area. Even if you decide not to invest in their particular property, agents are great business contacts who can alert you to new properties before they hit the market. Talking with the real estate agent at an open home can also be a great opportunity to find out extra information about the property. Find out where the current owners are going, their reason for



selling and any other information you can gather. For instance, the vendor might have purchased another property and be more open to a faster sale at a more affordable price. Alternatively, they might not have purchased another property and prefer a longer settlement period or the ability to rent the property themselves for a while until they do find something.

► COMPARE LIKE WITH LIKE

When searching for a property, many buyers have a particular suburb in mind and don't like to deviate from this area. While it's great to have a clear picture of your ideal suburb, it's best to keep your options open and compare a couple of different ones. You might be able to afford a two bed in one suburb but a three bed in another. Keep track of all the properties you view using a checklist. In this edition of *It's My Home*, Genworth has created a very comprehensive checklist (on page 20) that will allow you to note down key aspects - the number of bedrooms, garage, price range, size, aspect etc. This will help you make a well-considered purchase decision as it can be very confusing when you've seen 50 or 100 of them as they all blend into one.



A PROPERTY WITH MULTIPLE BEDROOMS IS GENERALLY MORE ATTRACTIVE TO FUTURE TENANTS AND BUYERS THAN A SINGLE BEDROOM PROPERTY

BEST FEATURES TO LOOK FOR IN A PROPERTY

In order to obtain the best possible rental yield and capital gain from an investment property, there are a number of key aspects you should look for. An important point to remember is that a property does not necessarily have to be pristine to make a good investment. Numerous buyers will pay a premium for perfection, but you can often obtain a much better deal with a property that is not completely immaculate but in a better location. You can't change a property's location when you have more money later on, but you can change its condition through renovating. Further to this, cheaper properties can be easier to tenant as they appeal to a larger portion of the population than a higher end property.

► LOCATION

As a general rule, the best suburbs to invest in are those that have limited stock and high demand (from high income local workers). These suburbs are usually located close to city hubs, shops and transport and it helps ensure your investment is always tenanted and easy to sell in the future. Look for properties within 10 to 20 per cent of the median

area price that are positioned away from noise and main roads.

► SMALLER BLOCKS

Properties in big blocks are generally more expensive in the long run as they come with additional strata fees and amenity expenses for pools, lifts and gyms. Smaller blocks, by contrast, have less ongoing expenses and are more unique as there are typically fewer available for sale or for rent at the same time. In smaller blocks, it also takes less time to make important decisions, meaning repair work can be done quickly before expenses escalate.

► TWO OR MORE BEDROOMS

A property with multiple bedrooms is generally more attractive to future tenants and buyers than a single bedroom property. It's much easier to get two people each paying \$500 per week for a two bed than it is to get one person paying \$700–\$800 per week for a one-bedroom property.

FINANCIAL CONSIDERATIONS

As with any investment, there are a variety of financial decisions to be made when

purchasing a property. Make sure you add up all the costs of owning it and make sure you can still afford it if the tenant doesn't pay the rent for a while, if there are surprise repairs and if interest rates rise. Most people that hold onto property for the long term generally make money whereas those that lose money are often those that are forced to sell in the short term. You should calculate your profit break-even point before making an investment, comparing expected rental income against mortgage interest and other expenses to be paid before tax. This will help you in assessing whether your property is a viable investment.

► BUDGET

Before making an investment, you should always determine exactly how much money you have coming in and how much you need to borrow. Having a clear picture of your current financial situation will help you make a more informed investment decision. When it comes to borrowing funds for an investment, many people are afraid of being in debt. While you should be careful with your finances, remember that debt can often mean you can buy a better property in a better location which can, in turn, reduce your risk of having it unlet or not being able to

sell it in the future. However, in a falling market, debt can increase your losses, so always double check your numbers.

► BANK VS MORTGAGE BROKER

The decision of whether to borrow through a bank or mortgage broker is one which stumps many investors, particularly first homebuyers. While there are a variety of pros and cons associated with each borrowing avenue, the right decision will ultimately depend on your particular lifestyle and financial situation.

When selecting a home loan provider, remember to look beyond the loan with the lowest interest rate and check for hidden costs or fees which could pop up down the line. You should be aware of any monthly account keeping fees your provider might charge and what would happen if you decided to sell your property later on – how much would it cost to cancel the loan? Choosing the cheapest loan might save you a few thousand dollars per year, but going with a lender that gives you a bigger borrowing capacity to buy an extra property might make you tens of thousands more.

Investing in Lenders Mortgage Insurance (LMI) is another worthwhile consideration as it can potentially allow you to pay a lower deposit and borrow

a greater amount of money. Not only could this enable you to purchase a home sooner, it could mean that you could buy a better property in a better suburb. Even if you have a 20 per cent deposit, it's worth considering only putting down 10 per cent, adding the LMI cost to your loan and then putting the remaining 10 per cent into an offset for unseen emergencies. That could be the difference between hanging onto your property if you lost your job or had a strata special levy and being forced to sell at a loss. The LMI cost is often insignificant in comparison.

► CONSULT THE PROFESSIONALS

Using a team of professionals such as engaging a buyer's agent, professional valuer and building inspector is a great way to free up your time and find the perfect investment faster. While these experts come at an added cost, they can be well worth the investment. A buyer's agent is able to search and negotiate properties on your behalf and will often have access to properties before they hit the market, giving you an edge over other buyers. Similarly, investing in an independent valuation and building inspection can provide you with an unemotional assessment of a property's worth and save you from problems later on down the track.



ABOUT CHRIS GRAY



Chris Gray is CEO of Your Empire, a buyers agency which builds property portfolios for time-poor people – searching, negotiating, renovating and managing property on their behalf. Chris's team buys 1-2 properties a week and often spends \$5m+ a year renovating on others behalf, providing a unique insight into market conditions and buyer and seller sentiment. Chris hosts 'Your Property Empire' each Monday on Sky News Business channel, where he interviews various heads of property research companies and major industry figures. Chris is a qualified accountant, buyers' agent and mortgage broker.

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