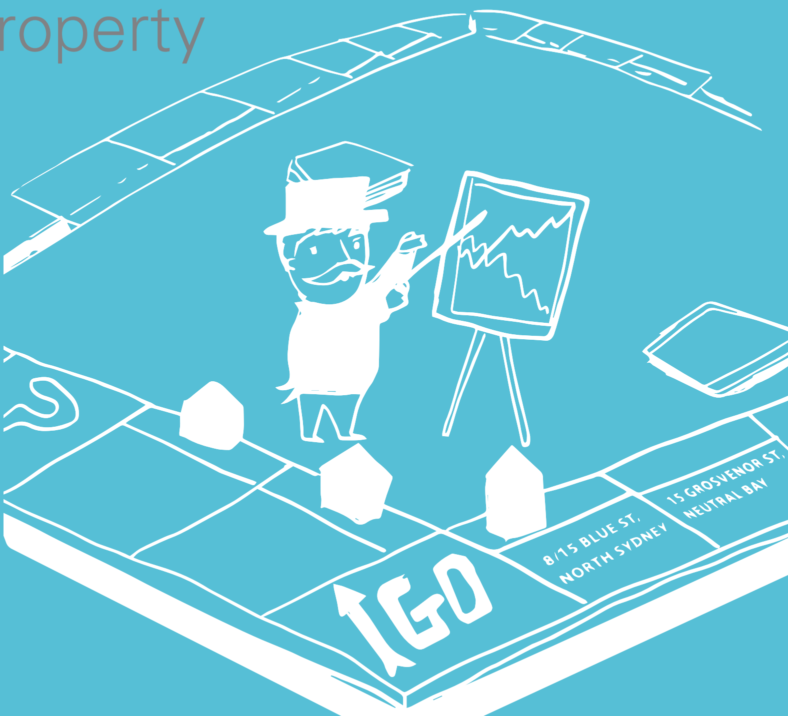
STANFORD BROWN
Financial Advisers

ten GOLDEN RULES of buying property



ten GOLDEN RULES of buying property

Buying a property is easy, but buying a great property is not.

There are no small mistakes when it comes to property investing, only expensive lessons.

In theory, achieving long term success in the property market is straightforward; secure a superior home that is in demand now, likely to be in demand in the future, in a great location and within a quality suburb… all for the right price. In practice, identifying the right property is much harder than it sounds.

By teaming up with a professional Buyers' Agency, EPS Property Search, whose agents examine hundreds of properties each week and have expert knowledge of individual suburbs, Stanford Brown provides a unique offering in which we assist clients in identifying and purchasing a property that best suits their requirements.

EPS Property Search's founder, Patrick Bright, has written four best-selling books on buying and investing in property, and is regularly interviewed by the media for his insightful and expert commentary. Patrick and his team at EPS Property Search are alerted to fresh new listings ahead of regular buyers, allowing you to side-step the queue entirely and have VIP level access to the best properties before they hit the public market. When a property that suits your requirements becomes available, EPS Property Search conducts comprehensive research to ascertain the current fair-market value of that property. They can then negotiate on your behalf and do ‘whatever it takes’ to exchange contracts first so that you don’t lose the property – a critical approach in the current market environment.

As with all major financial decisions, it is important to seek advice to ensure that you are on the right path to meeting your goals and objectives. Your Stanford Brown adviser will help analyse the impact of property ownership on your financial position, including the impact on your cash flow, personal insurance needs, as well as where property fits as part of your overall investment strategy. We will help you evaluate the level of risk you should take, your borrowing capacity and the taxation implications of your decisions.

To help you out, we proudly present our *10 Golden Rules of Buying Property*. We hope you enjoy this publication.

"Sure, the nose requires some attention but if it's entry to the afterlife that you're after then, trust me, this is the place for you."

RULE 1

Have a strategy

Successful investors always know why they are buying.

Before buying a property, you need to be clear about your investment strategy. Is it purely for an investment, or do you plan to use it yourself? Do you want to buy, renovate and sell for a quick profit, or do you want to hold onto it for long-term capital growth? Are you investing to build wealth and improve your cash flow, or build equity to draw on in the future?

For many, property investing for retirement is the main goal.

Selecting a particular investment strategy depends on your personal circumstances and goals. We look forward to discussing the pros and cons of the various options available to you.

Edith was beginning to worry that after all these years, Bruce was taking the "Buy and Hold" approach too seriously..

RULE 2

Buy & hold trumps buy & sell

If you're not comfortable holding a property for more than a decade, then why are you buying it?

Unfortunately, there is no 'one size fits all' strategy when it comes to property investment. Too often time-poor investors don't consider the end goal before buying, leaving them vulnerable to financial risk. Regardless of the strategy you choose, it's important to comprehend the risks involved.

Firstly, you need to understand the costs associated with a 'buy and sell' strategy. The process of buying property incurs considerable expenses, which can easily add up to around 7-8% of the purchase price. It is important to get this right.

The wisest and wealthiest investors tend to hold on to their investment properties over the long term. This allows the capital growth to compound the property's value whilst the tenant helps repay the mortgage. The wise investor only sells when special circumstances arise - such as receiving an offer too good to refuse, or to fund retirement. This is a tried and tested investment strategy, where it's relatively easy to build wealth - provided, of course, you're buying the right type of property in the right locations, and at the right price.

"Well the real estate agent did say it was a beachfront.."

RULE 3

Do your homework or delegate

You need to know what kind of property is in demand, or is going to be in demand, in different areas.

It's important to be fully aware of what you're buying into. The property may be termite infested, the construction may be shoddy or the wiring and plumbing faulty. Any of these major faults will cost significant amounts to fix, and these expenses need to be factored into the equation when working out your maximum purchase price.

Don't be delusional - buying a quality property at a fair price takes a lot of time, energy and determination. You need to have viewed around 100 comparable properties within a three month period to truly determine the current market value of any particular property. Your negotiation skills also need to be honed to match it with real estate selling agents, who practice every day and have enormous experience in this area. If you don't have the time, experience or confidence to do the job properly, engage an experienced Buyer's Agent to do the work on your behalf.

Remember, buying a property is likely to be one of the most significant decisions you will ever undertake, and it will be very expensive if you get it wrong.

If you do choose to do it yourself, be very careful from whom you take advice. If you're not directly paying someone for their advice, then someone else will be paying them. This may influence you into buying what they are selling, whether it's in your best interests or not. The bottom line is that you're not going to receive independent, unbiased guidance from anyone you haven't retained.

"Now Karen, I know you heard this is a hot spot, but this is just ridiculous."

RULE 4

Look for suburbs with 'upside'

The trick is to spot and create value.

Some suburbs have better potential for capital growth or 'upside' than others. New transport links such as express ways, car tunnels and railway lines are compelling factors that can lead to above average capital growth. New shopping complexes, cinemas, hospitals and schools add convenience to a location and boost real estate value.

Any location that is desirable - but has a limited supply of real estate - also has upside. If a property has a great view or is close to the inner city, beaches, waterways, parks or sought after schools, then it's generally on track for superior capital growth.

Too often, a surge in property prices gives rise to a surge in investors who fear missing out on the latest 'hot spot'. Unfortunately, as soon as a suburb has been dubbed a 'hot spot', the horse has already well and truly bolted and most of the quality deals have been done. There are no short cuts to purchasing quality property, and the selection process is vital. Buyers who skip the research and believe the hot spot rumours do so at great risk.

"We offer three tiered options to suit the needs of you and your flock.."

RULE 5

Never buy off-the-plan

Old is generally better than new.

There is nothing wrong with buying a new property if purchased in the right location, and provided you have factored in the risk/return equation that accounts for the risk of deposit loss or negative equity upon settlement.

If you're buying new because of the tax depreciation benefits, then there's a fair chance that without these benefits the property purchase would not be an ideal one. Never buy a property for the depreciation or tax benefits; buy because it's a good property to buy. Any tax benefits are a bonus. Likewise, if you see a property that comes with a rental guarantee, you should run in the other direction. A quality property doesn't need a rental guarantee.

Off-the-plan properties are built as investment products for developers to sell quickly with a high margin, facilitating an inflated 'hot spot' frenzy. Contracts heavily favour developers and it can be very easy for inexperienced buyers to be caught out. In comparison, existing property is there for all to see, it's history is documented and building flaws can be identified when undertaking pest and building inspections. Apartments built in the 60s to 90s are generally in better locations and have more focus on space and outlook. Established blocks also tend to have higher ceilings, fewer common walls and better floor plans, whilst more recent developments seem to be more focused on cramming in the maximum number of units at the expense of living space.

RULE 6

Remain calm under pressure

Losing your cool could cost you big dollars.

Whether you're bidding at auction or looking to purchase a priced property, you have to remain calm. There is no question that you will be experiencing some kind of pressure during the buying process. Some people will have time pressures, having already sold before securing a new property and consequently trying to avoid renting in the interim. Others will feel the pressure applied to them by the sales agents during the negotiations, be it at auction or with a property with an asking price.

It's much easier to remain calm and achieve your objectives if you have a plan and a strategy to guide you. Too often, emotions lead to poor decision making and financial missteps. Sales agents know this, and they will put you under as much pressure as they feel they need in order to get you to react the way they want you to. The problem is that unless you're a highly experienced and skilled negotiator (like they are), you won't notice them doing it until it's too late.

"I think you'll find this is closer to your price range than the actual house.. and it comes with a toilet!"

RULE 7

Pay the lowest price possible

You make your first profit when you buy.

Don't look for cheap buys - look for a quality property that can be purchased at a good price. If it's cheap, there is usually a good reason why. Instead, concentrate on negotiating the right price and the most favourable terms on a property worth buying. Statistics suggest that the average person buys one or two properties in a lifetime. Selling agents sell dozens of homes every year. Going head to head with an experienced real estate negotiator can be tough, especially for the novice investor. Whether you want to admit it or not, you're more than likely to come off second best.

To level the playing field, you must gather information. Ideally, view 100+ comparable properties within a three month period, so that you truly understand current market values. Being able to identify a good deal and (act quickly when you see it) is crucial to buying well. The deal of the decade does come along every few weeks, but it only lasts 24 hours. When making an offer, always put it in writing and attach a 10% deposit cheque to a signed contract. This provides an extremely powerful incentive for a reluctant vendor to accept.

"Nothing a lick of fresh paint can't fix, love!"

RULE 8

Understand how to create capital growth

Even in a hot market, it's still possible to create capital growth through renovation.

If you don't include renovating as part of your property investment strategy, you're probably not maximising your potential returns. You can use it to fast track the growth of your portfolio, improve its income stream, or a combination of the two.

By conducting well thought-out, cost effective cosmetic renovations you can effectively manufacture capital value. Rather than just sitting back and waiting for the market to deliver capital growth over time, you accelerate the process by renovating and creating your own capital growth. This allows you to build wealth faster, without relying solely on market increases.

As an added bonus, renovating can also increase your cash flow via the higher rent you can achieve for the renovated property. So, you have two ways to profit: capital gains and increased cash flow. In most cases (provided you're clever about it), the increased rental income you generate will cover the costs of financing the renovation. In effect, you increase both capital gain and cash flow at the same time. Killing two proverbial birds with one proverbial stone.


GO
8/15 BLUE ST,
NORTH SYDNEY
15 GROSVENOR ST,
NEUTRAL BAY

RULE 9

Reduce your downside

Don't risk your financial future by not being properly insured.

Two often overlooked insurance policies are landlord insurance and income protection. One of the quickest ways to lose your home or property portfolio is through unforeseen events that limit your ability to earn an income. Buying property is likely to be the largest investment you make in your lifetime, but we're constantly surprised by how few people protect their assets and themselves (the people who pay for the assets). While most of us think more about insuring against a natural disaster, we don't seem to think as much about getting seriously sick over a prolonged period of time, or even dying. Property investors and home buyers need to be aware that protecting their financial position with personal insurance is just as important as home and contents insurance.

In contrast, one insurance policy that you should avoid is Lenders' Mortgage Insurance. This is an insurance policy that protects the bank – not you! There are numerous smart ways to get around this pernicious tax.

Expect the best, but plan for the worst.

"Now that the house was done the only thing left for Greg to do was organise insurance, but it could wait.."

RULE 10

Five things buyers should never do

i) **Never disclose your budget to the selling agent** - Sure you will be giving them a rough guide based on the types of properties you're inspecting, but once they know your real budget a selling agent will do everything they can to extract every cent out of you.

ii) **Never let the selling agent see you fall in love with the property** - Never talk about the property while you're inspecting it within earshot of the agent. Avoid the selling agent's questions by instead asking them a question each time they ask you one. And if you fall in love with the home, don't let them see, as they will use it to their advantage when it comes time to negotiate.

iii) **Never make a silly low offer** - You can make a low offer, but don't make it a silly one. If you come in too low with your first offer and have too many conditions, you risk alienating the vendor and selling agent. Always attach comparables to justify the offer and reduce the chance of turning off the vendor.

iv) **Never let the agent know if you are motivated to buy** - Always play the indifferent buyer, and never let them know your motivation to buy. If you're buying property with your partner, let one person do all of the talking and have all the communication with the agent, otherwise the agent will easily play one of you against the other in order to draw out more information.

v) **Never make a fed-up purchase** - After looking for a property for a couple of months, frustration naturally sets in. Some people get so fed up that they end up buying a property they never would have a few weeks earlier. A very expensive mistake.

Important Disclaimer:

Stanford Brown and EPS Property Search work together to bring great property solutions to our clients.

Stanford Brown and its representatives are not authorised to provide direct property advice and are limited to providing strategic advice only. All property buying services are provided under the Real Estate License of EPS Property Search taking into account your individual financial circumstances and property objectives.

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