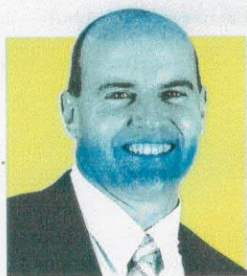


THE EXP A

What would an expert do in my situation you ask? To help you seal the best deals possible, *Smart Property Investment* puts four property professionals to the test, with five key questions about buying in today's often challenging market

ERTS' PPROACH



Rich HARVEY
managing director
Propertybuyer



Steve WATERS
director
Right Property Group



Philippe BRACH
CEO, Multifocus Properties
and Finance



Zoran SOLANO
buyer's agent
Hot Property Specialists

Q1

Q2

METRO OR REGIONAL – WHAT ARE YOU RECOMMENDING TO YOUR CLIENTS TODAY?

RICH

It depends on each investor's end goals. We are recommending both and for different reasons. Typically you will find stronger and more consistent capital growth in metro areas (the inner and middle ring suburbs) whereas you will find higher yields in regional areas. However, there are always exceptions to the rule, where both can be found, and these are the 'golden nugget' areas that investors want to buy in!

ZORAN

We base our recommendations on our buyers' own property goals. Regional areas we consider in Queensland are generally lower budget areas that have their own industry and infrastructure but are also benefiting from our booming mining sector, like Toowoomba and Bundaberg. Metro areas to consider include Brisbane outer areas in growth corridors, like Logan, and close to the Brisbane CBD, like Coorparoo, Cannon Hill, Wavell Heights and Virginia.

PHILIPPE

Selected locations in both areas offer great opportunities today. To me, regional locations worth consideration are secondary cities with over 80,000 inhabitants with positive net migration, multiple economies and a solid capital growth track record. Metro markets tend to be more expensive, so borrowing capacity may influence the target location choice. The client's risk profile will also influence their choice. Some investors also have a psychological barrier, for example, to investing \$700,000 on a two bedroom apartment in a blue chip Sydney suburb, despite attractive capital growth and rental yields. They would prefer a large house and land, which tends to be located in more regional areas. And lastly, if an investor wishes to invest in several properties, then the obvious answer is to spread properties between metro and regional.

STEVE

We're recommending a mixture of both. I don't think you can put yourself in either box A or box B as an investor; you need to have a combined, balanced portfolio, a [mix] of cash flow and growth. You've got to be very careful, if you do go regional, that you don't go shopping in a town that is purely reliant on one or two industries. It has to be self-sufficient.

WHAT PRICE BRACKET WOULD YOU RECOMMEND BUYING IN RIGHT NOW – AND WHY?

PHILIPPE

Back in the early 2000s an average investor - psychologically - was looking for a target price of about \$200,000 to \$250,000 and this has gradually increased over time. Today it is more like \$400,000 and finding good stock at \$350,000 and \$400,000 is becoming a challenge. Of course this is a broad generalisation and the price bracket will largely depend on the location, but I always recommend properties that are in the median price for a given suburb. This ensures there is a maximum number of potential buyers for the properties, i.e. the investment is as 'liquid' as can be. Properties at the edge of a suburb's demographic profile (very expensive or very cheap) are not recommended.

STEVE

We are recommending the \$300,000 mark and below, purely because that's where the affordability is. It's the mortgage belt for a reason - that's where most mortgages are because that is what's affordable. When the economy gets a little tough everybody downgrades, and you can't downgrade any lower than the \$300,000 market in metropolitan areas.

ZORAN

All investors have different needs and budgets but the thing to remember is to buy the best possible property for the budget and property goals, whether you have \$200,000 or \$1 million. Across Queensland, in the \$450,000 and under price range, the market is holding its own and there is good buying. The best way to describe this market is that you can purchase properties at pricing of 12 months ago. For a budget of \$450,000 to \$900,000 we are finding demand is lower than a year ago which means there are properties that are on the market for longer and the prices have dropped by only about three per cent in some cases. The high-end properties are where we are seeing prices dropping by 10 to 15 per cent. This equals fantastic buying and historically these properties will bounce back with growth within the next two years. What does all this mean? Buying property now is the right time no matter what budget range you are in.

RICH

Affordable price brackets, i.e. close to median price, because this will always be in consistent demand from both home buyers and tenants. In Sydney, for example, that's two bedroom apartments in the Inner West for between \$450,000 and \$600,000. In the Eastern Suburbs, units are a bit more, with the buying range from \$550,000 to \$750,000. On the Northern Beaches you're looking at between \$600,000 and \$700,000. For houses, it again depends on location in inner, middle or outer rings.

Q3

WHAT'S THE SECRET TO SUCCESSFUL BUYING AT AUCTION – AND WHERE DO INVESTORS GO WRONG?

ZORAN

Study the auctioneer, know what the property is worth in today's market, know when to walk away and plan your timing in terms of when to place a bid and when to stand back. The most common mistakes are continuing to bid when you should stand back, and bidding with your heart not your head. Do not push the price up for yourself.

STEVE

There are several parts to this; one is to have a reserve. Set your own limits, do your diligence beforehand and create a budget that is your upper limit – not one cent more. Be totally non-emotive, it's purely a business transaction. Know the auctioneer and how he works. We often suggest finding out what other houses that auctioneer is auctioning and going to see how he operates. This is extremely important. Also introduce yourself to him so he looks out for you. Where do investors go wrong? They break their limit; they become emotional and get caught up in the competition. An auctioneer will always use phrases to drive competition and that can play with many people's egos. Let that go and be totally professional. Be yourself and be professional.

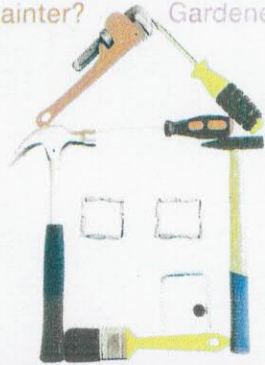
RICH

Buyers go wrong because they buy with their heart not their head. They let emotion cloud their judgement and the loud voice of the auctioneer steer them way over their budget! It's about sticking to the limit and knowing how to bid to win. Be confident and firm with bids and make sure others know you are there to buy!

PHILIPPE

Buying at auction requires a good deal of preparation and discipline. Firstly, the investor needs to know the area's key numbers and be satisfied that it is a good target location. Secondly, the target property needs to be fully investigated and inspected. Thirdly, finance needs to be pre-approved. And finally a bidding strategy needs to be defined and this will depend on the number of registered bidders and the price point of the property. Defining a maximum bid price is also paramount. Things can go wrong at an auction when investors do not stick to their pre-defined strategy and get caught up in the heat of the moment. They get nervous and start bidding too early or they overshoot their budget because of the thrill of winning. I can understand emotion creeping in when buying a home, but not when it is an investment property. A cool head is the key!

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Debt collector?
Painter? Gardener?



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Q4

WHAT IS THE SECRET TO SNIFFING OUT GENUINE BELOW-MARKET BUYS?

STEVE

It comes down to knowing your stuff – knowing your figures and your suburbs and your criteria and just as importantly, having relationships with agents. The agents are the ones who are going to be able to feed you these purchases. Every agent has a top 10 buyers list: people they can go to if they get a vendor who needs to sell for whatever reason, be it mortgage stress or a divorce, and they might tell the agent they're willing to drop \$50,000 if they can get a buyer today. You want to be the first person on their top 10 list.

ZORAN

Have a list that outlines your property criteria clearly, that has the style of property, what you must have in the property and what you would like but could live without. Be on top of the market and treat buying property as a fulltime job. This way, you will know when the right property presents itself and you can inspect the property as soon as it's listed, not a week later at the open home because this can be too late. When spending, let's say \$500,000, this is a lot of money and investors who can only commit to it part time should pay a buyer's agent to look fulltime for them – this is an investment, not a new car.

PHILIPPE

In three words – research, networking and readiness. Below-market buys do not come along every day and do not last long. So speed is of the essence. You need to target your research to areas you become familiar with so that when an opportunity comes up you can spot it straight away. Also, make sure that you surround yourself with property professionals you trust (real estate agents, valuers, lawyers etc.) – people who can tip you off in your target areas. Finally, you need to be ready to pounce on a bargain, i.e. have your finances ready so that you can make a decision quickly. The ideal position to be in is to have a line of credit or a redraw facility on an existing loan with enough funds available for the transaction so that you can sign a contract on the spot. A motivated vendor will be eager to sign with the first investor who can commit himself financially, even if the price offered is lower than expected.

RICH

It's all about research and having an excellent network of contacts. As buyers' agents we have an extensive agent database of contacts and regularly get presented with fabulous deals for our clients to have first option to buy. It's about knowing the market intimately and knowing how to pounce when you spot a genuine deal. Research is king – and it's not just internet searching. The personal contacts are also key here.

Q5

WHAT'S THE MINIMUM PERCENTAGE RENTAL RETURN INVESTORS SHOULD CONSIDER AND WHY?

STEVE

I suggest that whatever your mortgage rate is, this is bare minimum. But there are disclaimers all around that of course. At the end of the day, investing is not fun if it's not affordable. Your yield is all about affordability and with investing you need affordability and growth. So the minimum percentage should be anywhere between 6.5 and seven per cent. But if I had to take a five per cent yield because a property was \$100,000 under market value I'd jump on it.

RICH

Again, it depends on the individual investor's goals and circumstances. There is no one perfect set of criteria that fits all investors. As a generic guide, for houses you would want a minimum of four per cent and units more than 4.5 per cent. We are regularly getting over 4.5 per cent for high-quality and well-located houses, and over five per cent for units. In some areas of Sydney we are achieving 10 per cent-plus yields for houses with a granny flat.

PHILIPPE

The key to investing successfully in property is to balance capital growth and ongoing cash flow requirements. For investors who intend to build a portfolio, managing ongoing cash flow is critical. If one property costs \$50 per week in holding costs, then can an investor cope with five properties costing \$250 in aggregate? From my experience, I find that most investors need to target a gross rental return of five per cent for a property generating seven per cent annual capital growth. The trend is that if you aim at properties generating 10 per cent return, then the rental yield tends to be lower, so you need more cash flow capabilities. Conversely, if your property yields 10 per cent rent, chances are that capital growth is going to be weak.

ZORAN

This is a hard question because each investor has different requirements. If you are looking for growth and tax deductions then your rental returns may be lower than an investor who is looking only for the yearly return of the property and not concerned about growth. The key is to ensure you buy based on what your accountant says you need from a taxation point of view, and make sure you buy for the area in which you are purchasing. Investors who are looking for a [certain] return, let's say five per cent, need to make sure they are they talking gross or net, and if net, have they really taken into consideration all of the costs to have a true net percentage? We have seen investors so worried about the gross percentage return, for example, they say it must have a seven per cent gross return, but when we explain all of the outlays then it drops down to four per cent net. ■