

Property buyers can learn from the experts

Real estate amateurs can still take a professional approach



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FINANCIAL planning is meant to take a lot of the risk out of investing and building wealth. But what if you want a long-term property investment? The key question has to be: is there an equivalent approach to direct property investment?

History shows that financial planners are keen to get you into financial products where they can either make a trailing commission or charge 1 per cent on the total investment.

This might be acceptable if you want your financial products monitored, portfolios rebalanced and assets reviewed on a regular basis.

But financial planners are not property monitors and

they can't recommend properties to buy unless they have a real estate licence.

Even then it could be a risky ploy given how ASIC can be a tough regulator on planners who get their advice wrong.

But hang on, who needs an adviser for property? We're all experts, aren't we?

Given how we commit to borrowing amounts ranging from \$300,000 into the millions of dollars and the fact banks trust our judgements about ourselves with a

cursory risk assessment, we must be property experts.

Of course I am being facetious and the banks' interest to take a punt on our real estate prowess is more a belief in the asset than it is in the competence of the borrower.

Margaret Lomas, author of *The Truth About Positive Cash Flow Property*, thinks safe property investing should start the same way as financial planning, with two important steps.

"Firstly, you must understand your own risk profile, so that you know the level of risk you can tolerate," she insists. "Then you must learn that different types of property carry different levels of risk."

Matching your appetite for risk with the right kind of property is vital if you are going to advise yourself.

For a property investor, Lomas defines the low-risk property: "It includes residential property with a demonstrated tenancy history, in areas with a growing population close to or in a city or large regional area.

"It will be the type of property that attracts long-term renters and is most probably in the lower third of the market in terms of value."

These tend to be easy to sell and lease.

Medium-risk properties would be residential in towns with itinerant populations around one main industry, or tourism towns with high returns in the main season.

High-risk property, according to Lomas, is industrial, commercial and retail properties. These can be ravaged by a savage downturn in the business cycle.

Sydney-based Rich Harvey is a licensed real estate buyers' agent. As a professional buyer Harvey, also an economist, has systemised the way he looks at property.

"We carefully assess capital growth and yield projections for a property," he says. "You need to look at the macro factors on why an area is likely to grow — infrastructure, lifestyle, demographics. Then you have to drill down to the specifics of the types of properties that are most in demand for that area."

To understand the difference between an amateur and a professional property buyer, note Harvey's approach.

"Investors need to complete lots of research, such as review around 100 properties and then shortlist 10 and then do intensive evaluations on three," he says. "We screen properties using our Top 20 Criteria." (This is downloadable at www.propertybuyer.com.au)

Harvey listed seven big mistakes amateurs make when they buy property: inadequate research; poor negotiation skills and paying over market price; the frustrated purchase (buying because you're sick of searching and making an emotional decision; not understanding property cycles; buying for tax deductions instead of capital gain; poor investment analysis; and procrastination, or fear of moving forward.

Lomas is staggered by the low number of property investors who use quantity surveyors to establish their allowable tax deductions. The tax office website — www.ato.gov.au — lists the typical deductions but the experts have a better understanding of what is claimable.

In recent years the calibre of information available to property investors has improved substantially. Companies such as Residex can prepare statements on potential properties that make the investment decision based more on objective data rather than gut feel.

The *Best Rent Report* provides tips on the top 100 suburbs for rental returns and capital growth.

Other products provide history and value estimates based on sales history, as well as a list of sales and value estimate based on recent local sales.

On where to access objective advice, Harvey accepts

real estate agents often have great local knowledge, but he thinks many don't understand property cycles and they have a major problem for investors.

"Selling agents by law must work for the vendor to achieve the best result and price," he says. "Therefore there is an inherent conflict of interest if they also act as an adviser."

Companies such as Australian Property Monitors and Residex can give long-term, average capital gains, which can only be used as a guide. As all good financial planners will warn: past performance is no guide to future performance.

However, some suburbs have, like some great investment and super funds, been great performers.

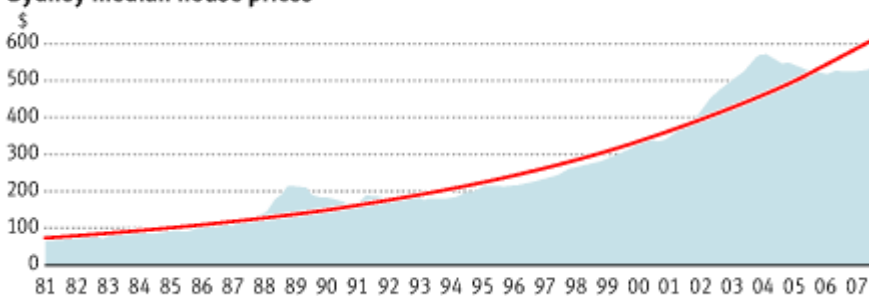
Peter Blomfield, who has been a real estate agent in Sydney's Paddington/Woolahra area since 1967, thinks his patch has had great capital gain.

"Some 10 years ago we used to quote figures which said that Paddington returned 16 per cent a year for 30 years," he says. Latest figures for the past 10-years put the suburb around 13 per cent.

Peter Switzer is the founder of Switzer Financial Services www.switzer.com.au;

SYDNEY SLOWS

Sydney median house prices



Source: REIA September 2007