

Rental wise property buy

Margaret Lomas takes a look at the current market and shares some tips for investors in the property market.

WITH the world in economic meltdown, investors are asking themselves if it is now time to sell, buy, or hold.

While we wake up one day to the welcome news that the sharemarket has had its biggest ever one-day gain in 50 years, the next day inevitably reports the greatest loss in 60 years. Just like the big dipper gone horribly wrong, those who have put their hard-earned money into investments are facing the reality that retirement may need to be delayed, or at least their goals and dreams will need some sharp tempering.

The analysts can't agree on property. Some say to expect a 40 per cent fall in property prices in the coming years, as the fallout eventually hits Australia with a vengeance. Others claim our housing shortage, when combined with swift and evasive action from a government with a plethora of protection packages, will in some way protect us from at least a fall in value.

Me? I believe that areas where prices have been pushed up by emotional buying and unsustainable forces will fall markedly in value, while areas of the greatest

demand, with growing population and infrastructure, should hold and in some cases even gain a little in value.

If you are in the market, or want to get into this market, here are some pointers to ensure that all goes well for you.

Back to basics

Now is not the time to buy a villa by the sea or flash apartment in the inner city. Properties at the romantic end of the market always suffer first, and those who own them are always the first to offload them, often at prices lower than they paid. This makes for a falling market, and one you don't want to be in.

Basic homes in the lower third of the market always retain a buffer in their values. More people fall into this market as the cost of buying rises and during periods of unstable interest rates.

These types of properties are more attractive for both owner-occupiers and renters. These factors go some way to insulating the values against too much damage.

These properties cost less.

Set short-term leases

With housing affordability at an all-time low, rents are feeling the pressure. In many of the more populated areas, rents are rising on an almost monthly basis.

Respond to this market increase by increasing your own rent. However, you won't be able to do this if you lock in a tenant for the long term.

The number of people wanting to rent is increasing, which means there will be many good tenants. Set your leases at six months, or 12 months by building in an increase at the six-month mark. This way you will keep up with market rent and build in the increased capacity to repay your debt.

Increase your search area and consider a greater number of properties

There are going dozens of good areas in which to buy (and many you shouldn't buy in) in the coming months and years. Now is a prime opportunity to negotiate well.

Search in a number of areas and select six or so that you are prepared to buy. This gives you leverage to negotiate without emotion.

Take your time and always wait before counter offering. This will increase the chances of finding a vendor with more reason to sell.

Research

Staying unemotional is crucial in an uncertain economy. In past years you could buy property anywhere and be almost sure of doing well. These days only astute buyers will acquire the properties likely to withstand the years ahead.

A commercial approach to buying will separate successful investors from the unsuccessful ones.

Finally, be careful.

- Plan for interest rate rises, even as we are experiencing cuts.
- Buy property that has the greatest chance of high rental yield and short-term increases in rent returns, rather than for growth. You will have to wait some years for any real growth to occur.
- Be patient. It is not time to panic. The world recovered last time and it will recover again. Times like these are the when most wealth is made by those who can bear the battering.



INVESTING: Take a professional approach.