



PROPERTY

# Avoiding the nightmare...

Destiny Financial Solutions founder and *Moneymakers* host **Margaret Lomas** has seen investors make some bad decisions – here is a quick guide to avoiding them

I have been involved with property investing for many years now and helped others to invest for just as many. Over the years I have seen many successes, but also many failures. What I have realised, however, is that property rarely fails people, but people fail property all the time and most of those who come to me with stories of woe with their property investing usually ran into trouble because of something they did, or did not do, during the process of buying.

Here follows just some of the stories of property investing woe and how they may have otherwise been avoided.

*June and Steve were buying their very first property investment. A friend referred them to a "property investment adviser" who came to their home for a meeting. The adviser showed them artists' impressions of a lovely property to be built and proceeded to outline the positive features of the investment, including forecast future returns. As the opportunity was extremely limited and a discount was offered to anyone who signed in the next week, June and Steve went ahead – it all looked pretty good so what could go wrong?*

*That was 11 years ago. The property, purchased for \$185,000, is today worth \$210,000. Vacancy has been an issue since day one. They have not been able to sell this property as, until recently, it has been worth much less than they paid and has a poor rental history. What went wrong?*

1. They allowed the meeting to take place in their own home and subsequently had nowhere to retire to, to make a decision alone.
2. No independent research was done to confirm the facts being provided by the seller.
3. No risks were outlined at the meeting and so June and Steve assumed there were none.
4. They did not look for alternative offers, research rental history of the area, or confirm that the property was at market value.
5. They did not ask about commissions and would have discovered that \$20,000 was built into the purchase price to pay the marketer.
6. The discount lured them into making a decision before they were ready.

Property should never be purchased as an on-the-spot decision and without the requisite amount of independent research and fact checking. Investors must give the process the requisite amount of time and take care to verify all information.

*Lance invested in a property through a company structure. Just after settlement, the house burnt down and the bank would not defer mortgage payments as they were in a company name. Despite the fire-fighters and the police claiming an electrical fault caused the fire, the insurance company investigated the issue for six months, which involved searching through every telephone account, Lance's personal expense accounts and personal records. This was eventually settled and Lance sold the land. The sale incurred full capital gains tax as he did not qualify for the discount. How could this have been avoided?*

1. Company structures may seem to carry tax benefits, but the underlying structure also carries a range of responsibilities which may add thousands to the costs of investing and remove some important benefits that investing in your own name can provide
2. Your personal circumstances must be considered prior to accepting any unusual structure and all possible contingencies explored.

*Sue and Gary committed to buy an off-the-plan luxury apartment for \$1.6 million. Finance was approved and the investors secured the property with a deposit bond. They were given a verbal completion date of three years and advised that the value would double in that time. A year after construction had started the builder finished the property – two years early. He demanded settlement. At that time, interest rates had soared and the luxury apartment market was suffering from a massive oversupply. The purchasers contacted the approving bank to finalise their loan, but their file could not be located. They were invited to apply again, but this time, due to the change in rates, they failed to satisfy serviceability criteria and were declined.*

*The property was on a company title and so those banks which would consider taking the property as security would only provide a low loan to valuation ratio and accept standard residential rent rather than the higher holiday rental amount. The investors contacted a local property manager to discover that their property would lease for \$600 a week on the open market. Add to that astronomical body corporate fees and high maintenance costs and the yield begins to look quite bad.*

*They did seek legal advice before going into this agreement but were told by their solicitor that the contract was airtight. What did they do wrong?*

1. Buying off the plan to sell prior to settlement is risky and speculative. It relies on growing markets and this is a naive expectation.
2. They should have asked for the soonest possible completion date and inserted a clause into the contract preventing a request for early settlement. Investors need to know that they are free to request any additional clauses in a contract that they want.
3. Finance approval must be in writing and contain clauses which relate to the length of time till settlement if buying off the plan.
4. Niche market property such as this should only ever be bought if there is a viable second end use – that is, if buying say, a tourism property, you could switch to standard residential leasing and still remain viable. **W**

## How to avoid common traps

You can go a long way toward protecting yourself in any property deal by following a few simple rules:

1. Only take advice from those with formal qualifications to give it.
2. Be wary of those selling you a property – they will not be providing you with independent advice.
3. Fully explore any alternative structures being suggested to you, such as companies or trusts, for all contingencies.
4. Check all income forecasts against current market rent and future planned supply.
5. Verify all facts provided by the seller in relation to the area and its future prognosis – ask the local council, check stats and survey local property managers.
6. Buy only that type of property which suits your own personal risk profile.
7. When buying off-the-plan ensure you have the capacity to complete the deal before signing a contract.
8. Take full responsibility for the due diligence yourself – check facts, then check again.
9. Never sign until you have completed all 8 steps above and after you have given yourself suitable time to consider – there will always be another deal around the corner if you miss out.

Bad investments are obvious even before you buy them. It is usually those people who do not take the time to become fully informed who end up being burned by a dodgy deal. Take your time, do lots of research and consider more than one opportunity at a time and you will remain protected and make better investing decisions.