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The Critical Steps to Consider When Buying Property

Everyone wants a home to live in that is comfortable, close to amenities and close to transport, but investing in property has questions to answer before taking the plunge:

1. How could I profit from this investment?
2. How could I lose from this investment?
3. What is the worst case scenario?
4. What form of protection can I put in place?
5. Do I want someone else to take/share the risk?
6. How can I improve the profit potential?
7. What is the probability of loss versus the probability of profit?
8. Exit strategy - at what point will I cut my losses?
9. How will I collect the profit from this investment?
10. Does this investment fit into my plan?
11. Is this investment balancing my portfolio?
12. Will it enhance my life?
13. Compared to other opportunities, does this investment provide the best return for effort?

This is by no means a comprehensive check list but is designed to cover most of the issues which arise in property investing. For sure, each investment opportunity and each individual has their own unique circumstances but a check list offers first time investors an opportunity to consider issues which can make the difference between success and failure in property investing. Property investing will not always deliver the anticipated profits, particularly if you're new to it.

New investors will look at the past performance of property and see the obvious attraction of buying. It is too naïve to assume that you can put a small deposit down and simply reap the rewards of capital appreciation and a high yield over time. There are periods of time when property prices languish and even decline. That should not deter us in moving forward.

People's circumstances can force them to divest of property – usually at the most inconvenient time. What looked on paper as a good opportunity turns into a lemon and leaves you poorer for the experience. Indeed in the early part of the last boom from 2000-2004, many investors buying at the (then) peak of the market lost their deposits. This was particularly evidenced in some Melbourne high rise, off-the-plan investment 'opportunities'.

Investment is about managing the process of investing and ensuring that all the factors that can contribute to a loss or a risk investment are mitigated against and dealt with.

Profit Management

We buy into property in order to increase our wealth. Wealth building comes from growing equity. Equity growth comes from capital appreciation of the property and the capacity to leverage your equity into other property investments. The actual process of generating wealth involves generating profits. Property investing in this respect is no different to any other business activity. Profit is the difference between the revenue and the cost of generating that revenue.

Profit comes from:

- Cash flow
- Equity
- Lump sum cash

Cash flow arises when income exceeds your investment outgoings.

Investing is a learning experience. Each investment experience, whether researching or actually buying and owning the property teaches us valuable lessons which we can use to further our skills as investors and to enrich our lives. There is much to learn in property investing and like many other investment activities such as share investing and business building, each experience is folded into the next to make us better at what we do.

Property investing can be a deeply satisfying experience. There is great security in wealth building around bricks and mortar. We intuitively trust property. . . we can see and touch it. This is very different to shares where we have little control over the underlying performance of the business. In property, we can influence our outcomes through careful research and buying well and adding value.

These are powerful lessons for us and each lesson can be even more powerfully applied to future actions. Profit can also be in the form of knowledge, experience, network contacts, and opportunity for further investments. One of my very favourite quotes is: *'knowledge pays the best rate of interest'*.

Take care and great investing.