The Advisor blog

July blog

7 Steps to Property Prosperity - understanding that free advice isn't free

In last months blog I talked about how investors can buy to outperform the market and the 7 steps they should follow to achieve this outcome.

This month, I will explain the first step - understanding that free advice isn't free!

"As the property sector is not regulated by a national governing body such as ASIC (Australian Security and Investments Commission), there is no requirement for people involved in the property sector to have a minimum qualification to provide 'property advice'. Therefore there are an abundance of property spruikers, selling agents, wholesale marketers, 'experts', project marketers, seminar presenters, investor clubs, developers, builders, 'mum and dad' experts, property institutes, 'one–stop-shop' specialists and some financial planners, accountants and mortgage brokers who are all *selling property* based on the *free education, strategy and advice* they provide. This education often takes the buyer down the path of buying whatever property or strategy the 'expert' has to sell (the exception is those who offer genuine independent and unbiased Buyer Advocacy services)."

Warning Signs

Much of the property sold in Australia is sold on the basis of buyers being provided with "free advice". That in itself should act as a warning to buyers, who need to learn more about who they are dealing with, by asking better questions.
"The people selling property to them aren't required to (and aren't going to) volunteer answers to questions investors don't know to ask, because it may kill their deal and, if they are commission sales agents, they need to eat!"

'Free' services and how they are really paid

"There are numerous clever and innovative ways of selling property in the marketplace today, including memberships, referrers, research houses, telemarketing/in-home visits, clubs, mentoring/coaching and property 'experts'. Urgency and exclusivity are often used in many of these sales methods to put pressure on buyers to make fast decisions, without allowing them time to seek independent advice on the basis that they will miss out.
Often these methods educate their clients to buy their product, but they may not provide holistic advice."

Let's review a couple of methods;

Memberships

"One method is offering memberships to investors' groups, project marketing firms or clubs for *exclusive access* to *special deals* that have been sourced by specialist acquisition teams who negotiate amazing deals on behalf of their members/buyers.

Sound familiar? DON'T BE FOOLED. In its simplest form this is sales and marketing 'smoke and mirrors' to hide the fact that they are real estate sales agents/project marketers/property spruikers/wholesalers of property. While they might sound like they are working for you and your interests, they are actually being paid by a vendor/seller/developer and are seeking the highest sale price possible. They are acting in the Vendor's best interests at all times, not yours!

Research Houses

"Research Houses are often licensed real estate agencies marketing themselves as 'research' houses, or having specialist property research or acquisitions teams within their firm, who source or assess developments presented to them. They determine whether these developments meet particular criteria required for them to be willing to sell them to their clients or referral partners/business partners. On the plus side, some of these firms are being more selective with the property they are selling that the average project marketer, but they are still selling from the limited selection that they have, and not from the total marketplace.

By understanding the methods in which property is sold and the underlying intent behind the 'free' advice provided, investors have the greatest chance possible of asking the right questions to ensure they are buying the right property to meet their needs and not the vendors needs.

Next month, I will address the next step towards property prosperity, which is understanding personal and property risk profiles. Until then, go forth and prosper!

*Article content is extracted from the book **Property Prosperity** – 7 Steps to Buying Like an Expert by Miriam Sandkuhler © 2013, with the authors permission

About Miriam

Miriam Sandkuhler is the founder of Property Mavens - a specialist property advisory firm based in Melbourne. Unlike most 'Property Advisors', Miriam is an Accredited Property Investment Advisor (PIAA), Licensed Estate Agent and REIV member and award nominated Buyer Agent, with fourteen years of real estate experience in two states. She is also the author of the book Property Prosperity.

Miriam excels at identifying high-performing property and strategically building a client's portfolio with high capital and income growth assets, while protecting them in the process. She is also a passionate advocate of fair play for all and complete accountability and transparency in the real estate industry. She has a strong track record helping investors and home buyers and believes unbiased education is the key to empowering people on their journey to achieving their goals.

August blog

7 Steps to Property Prosperity - personal risk profiles.

Following on from my previous blogs - how investors can buy to outperform the market and understanding that free advice isn't free - this month I will explain the second step – understand your personal risk profiles.

Risk is the extent to which you are willing to expose yourself to loss, in return for a particular gain.

Most home buyers and property investors wouldn't consider risk as part of the process of buying property, be it personal risk or even property risk for that matter.

"In movies and the media, people are applauded for taking big risks. They scale mountains, topple governments, reveal conspiracies, get the guy (or girl) and live happily ever after.
In property investment, not so much. When establishing or growing a property portfolio, you and your client's need to treat all investments as a business and consider risk as if you or they were a business owner. Otherwise everyone is simply gambling.

In my roles as an Accredited Property Investment Advisor and a Buyer Agent, I frequently come across clients who inform me that they have a low to moderate risk profile, but they want to get into property development. However, they don't understand that property development is a high risk strategy. While the potential returns of developing appeal, the risk often doesn't, so they rightfully end up revising their investment strategy to match their personal risk profile.

It is essential to understand the relevance of risk during the establishment or growth of your property portfolio as a means of managing and/or mitigating it. At a minimum, it will enable you to make more informed and appropriate investment decisions from the outset and at best it will save you from losing tens or hundreds of thousands of your hard earned equity or savings"

Given the different types of property, and the fact that their varied risk levels aren't suitable for everyone, it is important to assess your personal risk, just as you would when discussing investing in managed funds or shares with a financial planner.

In addition, property is most often an investor's most expensive purchase. It is the one they rely on the most to leverage, and to succeed in creating financial prosperity for themselves and their family. It would be remiss to not understand your risk profile when purchasing property – this ensures you have the best opportunity for your investment to succeed, as well as keeping your stress levels to a minimum.

Risk profiles can range from conservative, cautious and prudent to assertive and aggressive.

Desired level of involvement in the buying process can also vary from passive to Active. If your involvement level is passive then it is imperative that you engage the services of a professional that can provide evidence of their expertise in the area in which you need their assistance, and if it is active, then you need to ensure you do *a lot* of due diligence yourself when investing to mitigate risk.

Passive – engage professionals to do the work for you
Medium – engage professionals to do the work with you
Active – do the work yourself and use professionals to check your work

A word of warning (and some sage relationship advice): When investing, do it according to the person in the relationship with the lowest or most cautious risk profile. That way you can both sleep at night, sustain your relationship and avoid fighting over the financial stresses that occur in many relationships when each partner has a different investment and risk profiles and the more conservative partner is pushed past their comfort

Property Usage

Residential, Commercial, Industrial and Short Stay property types all have varying risk associated with their usage (zoning). It's important that once a property investor has determined their personal risk profile, that they research the property type that appeals to them and they understand the risk associated with the property type or associated 'strategy' being presented.

Aside from seeking out tailored advice, so many of the different property-related investment 'strategies' in the market place are aligned with developers, property spruikers, wholesale distribution channels and selling agents. This can make it knowing which way to go and what's right for you seem overwhelming."*

As always it's important to ask the questions that are going to deliver the answers you need to assess if the property being presented matches your risk profile(s) and ticks the 'sleep at night' boxes required when investing.

Next month, I will address the third step towards property prosperity, which is developing a documented strategy. Until then, go forth and prosper!

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September blog

7 Steps to Property Prosperity - develop a strategy

"When building a house, it always starts with a set of plans. Building a property portfolio is no different – it needs to start with a plan and an end goal in mind, so that you can work backwards from there. To determine this you need to know your expenses and cost of living now (or the annual dollar amount you would to retire on in today's dollars) and you need to determine the size of the asset base required to generate this level of passive income. Ideally you will review this annually in conjunction with the value of your portfolio, to see if you are on target and so that you can modify your strategy as and when required and subject to circumstances at the time.

If you have a short timeframe that is potentially unrealistic, e.g. you want to retire in 10 years on $100,000 per annum and you don't currently own any property, the options are:

1. Ignore your risk profile and follow a strategy that is higher risk for a higher return to meet your short time frame (at the expense of not sleeping at night) OR
2. Readjust your expectations to a longer timeframe, especially if your income and means are limited.

It's always better to overestimate the income you will need and underestimate the return on the asset pool to allow a margin of safety.
In addition, as we live much longer nowadays, you may need to consider assets that will generate an income for 30 – 40 years, especially if you want to retire younger than the now standard 67 years of age.

Entry, hold and exit strategies

Entry

This is your ability to enter the property investment market. You need to take into account your budget, cash flow, income, borrowing capacity, job stability and debt serviceability. This, in conjunction with your goals, will determine how to set up your strategy and how often you should review it along the way.

The main thing to take into consideration is to make sure that whatever path you go down, that you reduce risk! **Always** have income protection and a buffer of money to fall back on in the event of an emergency.

Hold

Most investors can buy something – the greater challenge lies with holding it until your goals have been achieved!
You must hold a property long enough to enable capital growth to develop, especially if you are looking at medium to long timeframes.
In shorter timeframes, you still need consider your ability to meet debt repayments whilst implementing your strategy.

Tricks such as fixing loans, having savings buffers, not biting off more than you can chew, having appropriate and multiple insurances in place, getting proper tax and accounting advice, reviewing rental returns regularly and maintaining your property will all contribute to your ability to hold over the short and long terms.
Other methods to assist holding over the long term include executive rentals, short stay/holiday rental of your property (subject to zoning), renting the property fully furnished or renting rooms out individually and at a premium compared to as a whole.

Knowing the available options if your situation changes is also really important, as selling property isn't always the best option in the first instance. These options may include refinancing your debt, taking a repayment holiday, changing to interest only if you haven't already financed on that basis, analysing your portfolio and selling properties that aren't performing at the level required to achieve your goals, earning a higher income, or tapping into your savings buffer.

Exit

There are three principal methods of exiting your property portfolio. Depending on how many properties you have bought, how old you are and how long you need to fund your retirement, these will influence the steps you take to exit your properties. These steps should be determined with your accountant and/or financial planner, who can advise on superannuation, tax and superannuation regulations and implications.
Your exit strategy will determine how many properties you may need."*

Next month, I will address the fourth step towards property prosperity, which is engaging experts. Until then, go forth and prosper!

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