

5 Steps to Successful Property Investment **by Tim Wright**

When looking to invest in property it's always important to take a structured approach to ensure you get only what you are looking for. Over the years I've developed the following structure and I'll always stick to it so that I know I have done all the homework necessary to make a sound investment and reduce any potential risk to a level I'm comfortable with.

Step 1 – Research, Research, Research

This is possibly the most important aspect of any investment decision. When I talk about 'researching' a potential investment, what I mean is to do all the necessary homework to find out if the investment is right for you and if it will provide the return you're looking for. Sometimes it is tempting to overlook research and maybe follow a tip from a friend on a potential investment. Many people also don't do research because they don't know where to find the required information and so they may make a blind investment, hoping on good returns. Even worse, they may put off making the decision (to invest or not to invest) and stay stuck in procrastination while the asset starts to show strong growth.

So what needs to be researched before investing in property?

- **Location** - such things as the population, main industry, main employers, future investment in infrastructure, tourism, local universities.
- **Property Prices** - average, median, recent sales, potential rental returns, previous and predicted growth.
- **Tax and Ownership Laws** – county and state laws, occupier/investor tax rates.

There may be more areas you need to research depending on your situation but the main objective here is to carry out the research to a level you are comfortable with. You can never do too much research. Thorough research will give you peace of mind to make confident investment decisions. Whatever you are trying to achieve, someone has already done it before and the information is out there. It may be in books, newspapers, special reports, published on the Internet or available from real estate agents. You can find the information you need to make a confident investment decision.

Step 2 - Know Your Numbers

Note: This step primarily deals with rental returns and does not take a property's annual appreciation or depreciation into account.

Before investing in property it's important to do the numbers to know:

- What you can afford to purchase
- Purchase and ongoing upkeep costs
- Potential rental returns
- Monthly cash surplus or deficit

Once you know all of these figures you can then decide how much you can afford to spend within your budget, what rental return you're looking for and whether you will gain a monthly cash surplus or if you will need to contribute towards its monthly upkeep.

So what are the common numbers to know and calculate?

- **The Purchase Price**
- **Purchasing Costs** – items such as Stamp Duty, legal fees, real estate agents' commission, legal fees.
- **Rental Income** – If the property is rented to tenants, how much rent can you charge? Ongoing Costs – Management Fees, mortgage repayments, repairs and maintenance, letting fees, Municipal or Council rates.
- **Net Return** – this is the end result once you have accounted for all of the income and expenditure and it will show if you will have a cash surplus or deficit.

The more properties you calculate returns on, the better idea you will have of what is available in the market to suit your requirements. You'll also protect yourself from any surprise costs. It's wise to be conservative with your calculations and maybe add in a contingency amount. Please remember, there may be more costs you need to factor into your calculations according to your situation.

Step 3 - Create your Criteria

Before you go shopping for your investment property it's important to know exactly what you're looking for so that you buy a place that suits your requirements. The best way to do this is to create a list of certain criteria that a potential property must meet. You may choose to be stringent on some of the criteria such as a set limit for the purchase price but then you may be a little more flexible on other criteria like accepting \$10 less than the expected weekly rent.

So what would you include in your criteria? Here are a few suggestions:

- Town population no lower than 10,000
- Expected rent at least 7% of the purchase price
- Brick house on land, no more than 10 years old
- Initial repairs to cost no more than \$1,000

Whatever criteria you choose is up to you but it gives you control over what you buy and will certainly decrease the time you spend looking for a property. From carrying out your research and working out the numbers you should find it easy to create your criteria. Now you can go and buy the property that's right for you.

Step 4 - Property Insurance and Management

Like any investment, we always look to minimize the risk of loss or damage and it's no different when it comes to property. There are a number of ways to do this including taking out a suitable insurance policy and finding the right property manager.

Whether you buy a property to live in or rent, it is potentially at risk for various reasons and so you can insure the property against these risks. Insurance policies can cover you for loss in the case of structural damage, theft, flooding and many other instances.

Landlord insurance policies are also available for extra cover of instances such as malicious damage, legal fees, loss of rent etc. So, shop around for the policy that's right for you.

If you are buying a holiday home or a rental property you might consider employing the services of a Property Manager. The role of a Property Manager is wide and varied and a good one can save you a lot of time and money. They can find new tenants, arrange to have your property cleaned, collect rent, keep an eye on your property, pay your bills out of incoming rent and much, much more.

Finding the right Property Manager will pay off rather than choosing someone who won't look after your property the way you want them to. It's important to shop around to seek out the best Property Manager and you can do this by asking the right questions. A good Property Manager will communicate regularly with you and be available to address any concerns you might have.

Additional measures to secure your investment include the local neighborhood watch, security alarms, window locks and smoke alarms.

Step 5 - Tracking your Investment

Once you've invested your hard earned cash you'll want to know how it's performing and what sort of return you're getting. Again, we're only going to look at rental returns rather than growth as the growth is only speculative. Every month you should keep all receipts of income and expenditure concerning the property. This includes:

- Statements from the Property Manager Bank
- Mortgage statements
- Receipts for repairs
- Payment receipts for Municipality or Council rates
- Any correspondence regarding the property

All we are doing here is tracking the income and expenditure so we can see what the return is. By tracking the figures regularly you can see how your investment is performing and this information can then be filed with your annual tax accounts. Your accountant will be able to advise you on what extra records to keep ensuring you get the best annual deductions.

And that's the final step to Successful Property Investment. All it takes is one step at a time to become familiar with the process and although there are many other ways and processes advocated by many other investors the end result is ultimately to leave you empowered to make the correct investment choices.

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