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# 10 questions you must ask before you invest

Investors,

Below is an extract from an article – from Your Investment Property magazine, http://www.yipmag.com.au/news/5870/default.aspx that I thought contains some important questions to consider when you are looking at the next investment property.

It is a good guide to start with.

For clients of Reid Consultants, we can provide market research on specific properties, either a Residex Comparative Market Analysis Report and Suburb/Postcode reports for Victorian properties/suburbs or APM Valuer and Research reports for other states, just send me an e-mail with details and we will normally respond within 24 hours.

Be a little cautious of point #5 below, while this is a broad guide, the choice and mix of capital growth/rent yield is very dependent on individual circumstances and goals. The question would be better phrased, what do you need to buy so you can obtain finance for the next investment property to continue building your property portfolio? That is where we provide a specialised service to investors, showing you the numbers so you can see what is required.

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## Due diligence is essential before you invest in a rental property. Make sure you don’t miss a trick with these savvy questions.

**1. What’s being built nearby?**
New infrastructure projects can be beneficial or detrimental to your investment property. Find out what’s being planned and when it’s due for completion by logging onto www.infrastructureaustralia.gov.au. This has links to all state infrastructure planning departments.

**2. What’s it worth?**
A property’s selling price doesn’t mean it’s worth it. Invest in a property valuation – usually starting at around $350 – to assess the property’s true worth and then use that to negotiate on the price.

**3. What’s happening in the local market?**
What’s happening in the local area can directly impact the property market – either negatively or positively. The best way to find out? Get out there yourself. “I’m a great believer in getting out there and see what’s going on for yourself,” says Angus Raine of Raine and Horne. “Go to the local retail strip, look for the standard and style of retailers there and assess whether gentrification has taken place or is about to.”

It’s also wise to look at local demographics, crime rates and employment drivers in the area – take a look on the Australian Bureau of Statistics’ websites, www.abs.com.au.

**4. What’s the rental potential?**
Just because an agent says a property will earn $400 a week in rent, doesn’t mean it will. Use

property portals such as www.domain.com.au and www.realestate.com.au to get a realistic idea of rents on comparably properties and ask an independent company to do a rental appraisal.

**5. Capital gains or rental return?**
Investors need to consider whether they are chasing rental returns or capital gain and in the case of multiple investments, it should be the latter. “The rental income will help you hold the property but it won’t help you buy again,” says Century 21 owner Charles Tarbey. “Capital gain should be, in the early stages of investment, top of your list because it will allow you to buy your second and third property. If you look at high rental return and low capital growth, you’ll be sitting there a long time before you have any equity to do something else.”

**6. Is there competition?**
A market saturated with investors will reduce your chances of successful rental returns. “There are some parts of capital cities where there are a high level of investors in one street,” says Tarbey. “This will create issues around capital appreciation.”

Tarbey advises investors to contact the local council to find out what percentage of homes are owner occupied and exercise caution in big apartment blocks.

**7. What’s included in the title search?**
Don’t assume everything is included in the sale. Make sure you identify what’s for sale – including parking spaces and storage facilities – and ensure this is reflected in the title search. “It can be quite a problem,” says Gambaro. “Sometimes developers don’t update things and if this happens, it can crash a contract and you could lose a lot of money. The best way to avoid this is to ask for a Community Management Statement, which tells you the allotment of the car parks and storage and ask your conveyancer or solicitor to include it in the contract.”

**8. What’s the state of the accounts?**
Properties on strata plans incur a monthly maintenance charge, which is deposited into a sinking fund and used to pay for the lifts, grounds and carpets. Ask to see the Body Corporate Disclosure (it’s a legal right), which outlines exactly what’s been spent and what works are planned.

**9. Who’s your target market?**
It’s essential you identify your potential tenants and know what they would be looking for in a rental property. If you’re looking at a property in a university town, you should be looking at a multiple occupancy homes near transport and amenities. If, on the other hand, you’re going for the family market, look for a large home, with a garden and spacious communal area.

**10. How much work is it for you?**
A potential rental property should be good to go – taking on one in need of renovation will only delay the time its get to market. At the most, allow for paint work and furnishing and steer well clear of homes in need of structural improvements – you’re likely to lose a months rent before you even have tenants. Small, paved gardens make for easier maintenance and make sure you factor in the cost of a management company to take care of day to day running.

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If you have any questions about any of these topics, give me a call.

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