CRAVE PROPERTY
ADVISORY

10 property pitfalls to dodge

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It's exciting when you receive that notification from the bank that you're 'good to go' for finance. Before you dash out to make your purchase, remember to take heed of current trends and also give some thought to the pitfalls you'll need to avoid.

This year's top pitfalls list includes some regular traps as well as issues that (like trends) are emerging specifically this year.

1. **Buying in pockets of oversupply** – very suburb specific and not only relating to units. Watch areas close to the capital cities, and 'new' suburbs in outer rings and regional centres. The over-supply issue can sometimes be quite tricky to detect, because it's not as simple as just avoiding high rise units. For example, some suburbs have such latent demand and great transport, demographic trends for higher density living will deliver good returns. Extra due diligence is required.

2. **Believe everything you read in the media** – nothing new with this trap but it seems media noise is getting louder, right along with the scare mongering. Try to remember stories are usually based around high level numbers with useless decision making detail – for example – 'Sydney has a $1,000,000 median' . . um so what? You can still buy in some suburbs for under $400,000. Alternatively, they'll focus on one random folklore event that may never happen again (eg – 'Family combines with neighbours to sell for $40,000,000'). The other issue is that some commentators have no idea what they are talking about and no property experience. Check the facts and focus on details relating to each suburb / property type.

3. **Get all your advice from the one service provider** – a potentially dangerous trend with financial advice, finance broking, and 'property' under the one roof. It might seem like it will be a no fuss way to build a portfolio, but people will be lulled into trusting just one voice for their investing. Typically, this type of service will <u>say</u> they will find you existing property, but <u>actually</u> only provide new property because it's "better for depreciation". Mmm . .and better for their bottom line, not yours. All those unsuspecting SMSF buyers need to take heed of this trap. The other issue to be wary of is your service provider's background – ask about their experience with property. If it's not well rounded, guess what? Bad advice coming your way.

4. **Filling your portfolio with new property only** – we can't say this enough . . the issue isn't about whether a property is new or existing, please also compare your purchase with whatever else is available in your target area. This is commonly known as an 'opportunity cost' approach and you need to take a longer term view than just the next 12 months. If someone is trying to sell you new property, check the numbers for existing property before making decisions.

5.**Over reliance on negative gearing** – this issue is currently very topical. Setting aside any potential legislative changes, we now know that over doing your gearing is not the smart way to run a portfolio. Managed well, negative gearing suits some investors for the short term, but the aim should be to own your portfolio at some point. Smart investors have an understanding of their end game, even if this needs to be altered with each purchase. You can also refer to our guide ***'How to build a portfolio'*** (located from our blog selection) as a reference point.

6. **Believing property always goes up** – sure, if you select well your property should increase in value. Just don't expect it to be a smooth, consistent increase each year and don't shave your numbers so close that your purchases collapse (or your buffer runs out) if your capital growth targets are not met each year. The best defence against this trap is to build a balanced portfolio with some great cash generators in the mix. Even better, aim to build a portfolio that will pay for itself with capital growth as a bonus.

7. **Chasing old hot spots** – or any hot spot. With the increasing accessibility to data, we are experiencing an increase in 'location selection' reports. Some investors think they can just blindly chase the latest location and buy anything. This is a big trap for a number of reasons. Firstly, most 'location pickers' rely on historic data for their selections. This data is usually (at best) a few months old. Secondly, be clear about buying the right type of property in any location. Suburb demand is built by demographic influences, so you need to follow this before you follow sales data.

8. **Waiting for the perfect property** – sad but true fact of life. Just like waiting for a partner, no property is totally perfect and it is almost impossible to achieve everything on your wish list. To be successful you will need to take action, so set a plan and make your move. Don't get stuck over analyzing the numbers or constantly re-adjusting your criteria. Make the best selection from those available, and then adjust where necessary. For example, buy a one bathroom property with an obvious opportunity to add another bathroom. No garage but room for one, so build one. I know you get the picture.

9. **Taking on projects that are too big for you** – this is a pitfall we are really starting to see much more often. It is driven by an increasing number of people awakening to the benefits of renovations and infill developments. There's two key parts to this trap. Firstly, whether you're thinking about a renovation or a development, just be realistic about the numbers – not only the costs, but the time a project might take as well as hidden costs such as holding costs, council fees, and the end result such as sale price. Realistic feasibilities are your friend. Secondly, practice on a manageable project – at least for your first one – or get someone else to manage the project for you. If you try to go too big too fast, you could crash right out and then we will have lost you as a developer forever. We are in such a great phase of growth at the moment, there's opportunities for everyone so just relax and be sensible.

10. **Set and forget approach** – another big pitfall this year. There is quite a bit of fluidity particularly around serviceability and lending limits, let alone the variance between lenders' interest rates and benefits. If you haven't checked your interest rate for a while, it's time to review it to ensure you're getting the best deal. You may find it's time to release previously tied properties and re-structure to either focus on paying down a few extra properties or re-mixing your portfolio. Ensure also that you have reviewed rents, insurance and property managers' performance. When we conduct reviews for our clients, we also review zoning. Often we have found properties have been re-zoned or zoning regulations have changed, which then opens up another range of opportunities. If reviewing or managing your properties is not your strongest point, there's quite a few systems that can automate this for you, or engage a service provider to set it all up so it's easier for you to manage.

So there you have it. Pitfalls to avoid as we see it from the frontline. As mentioned earlier, combine this information with the trends we included in our portfolio guide and you will have a baseline for a quality plan this year. Of course, feel free to run any questions by us if you would like clarification. Let us know if there's any extra items we should cover next time.

About Crave

Crave Property Advisory will help you buy property you crave. Drawing upon our skills and systems, we will help you confidently purchase property and build a successful portfolio Australia-wide.

As buyers agents and property strategists, our services extend to home, investment and commercial purchases, and include advice on adding value to maximise your purchase.

The Crave difference

The Crave difference flows from tailoring and actioning a plan that meets your needs. We source property that fits any key strategy including capital growth, cash flow, high yield, adding value or a combination of all four.
This means you're not limited to following just one approach, and can adjust your strategy as your skill, confidence and equity builds.

Depending on your requirements, we can recommend a range of professionals to build your personal property team. This includes financiers, accountants, legal professional through to town planners, painters and plumbers.

Lead the market

Using the range of Crave Property Advisory services, you will have the ability to lead the market, rather than have the market lead you.