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10 tips for maximizing capital growth and yields

Empire chief executive **Chris Gray** provides a framework for creating wealth through property

Some buyers get so excited about buying a property they often make an emotional decision – which is usually a poor one – rather than a financial decision. First home owners and property investors don't realise they have made a poor property purchase until they go to sell or have issues tenating the property many years later. A poor purchase may result in little or no capital growth or rental income for months at a time, thereby leaving the property investor out of pocket. It's important to know the medium house price, capital growth rates and rental yields of your area if you are going to buy well – you must do your research. A purchase that will provide a capital growth of 7 – 10% and yields of about 5% is the key for investors that want to build long-term wealth. Here are 10 points that will help you achieve high capital growth and yields in your own property investments.

- 1. Do Your Research** - Look at as many properties as possible to get an idea about prices in your area, what adds value, which types appreciate faster, how to get a good deal (getting properties at much lower than market value) and what are the pitfalls of a too-good-to-be-true deal.
- 2. Get the property valued before you buy** – Even if you've viewed 100 properties in an area and checked what they sold for, their relative sizes and their aspects, buyers can still pay overinflated prices for properties. I've seen literally thousands of properties in my area over the last decade and I still pay for an independent valuation every time I buy. It ensures that I never overpay for a property and that I haven't accidentally missed something.
- 3. Get the property valued before you renovate** – One of the biggest

misconceptions investors have is that the more capital they spent on a property, the more profit they will make. This isn't always the case. A valuer can tell you what your home is worth now, what it will be worth after, and whether your \$30,000 kitchen renovation will actually add \$30,000 to your home's value.

- 4. Get a good property manager** – Having a good property manager is the best way to maximize your rental income and to ensure that it rises with the market. Most self-managed properties are under-rented as owners are often terrified about upsetting the tenant and then having a vacant property. Not only will a good property manager maximise your rental but he'll also get onto any arrears a lot quicker and will inspect your property to see that it's well maintained.

- 5. Location, Location, Location** - Look for areas with potential for high growth and yields. Important things to look for are proximity to public transport, leisure activities (parks, beaches and lakes) and proximity to work and schools. Pay for some independent research which will tell you what the highest-rated suburbs are. The better performing suburbs are often the best suburbs from decade to decade.

- 6. Buy "better" properties** – Physical factors to look for when researching properties are good-sized bedrooms, off-street parking, good positioning and a uniqueness that sets the property apart from others in the street. These will ensure the property grows in value and desirability. On top of that, if the property is median-priced most of the population can afford to buy or rent it, which means it will rarely be vacant and will sell fast if need be.

- 7. Buy blue chip** – Cheap properties are often cheap because they are not in great demand and there's plenty to choose from. It's often worth paying market value for a better property in a top suburb than it is to

get a discount for something that no one else really wants. Blue chip will mean different things in different areas and so that could mean two-bedroom units in some and four-bedroom houses in others.

- 8. Buy at, or below, market value** – There are ways to acquire good properties below market price. In a flatter market, for instance, clearance rates are around 50%, making properties harder to sell. Here, buyers have greater bargaining power. Unrenovated properties in good areas can fetch lower prices and provide good yields post-renovation. Another is buying an emergency sale when vendors are hard-pressed to sell to finance a recent buy or relocation.

- 9. Get a good mortgage broker** – As an investor that's trying to build a portfolio as fast as possible, a good broker is one of the most important professionals on my team. If I can borrow 80% of a property's value rather than 70%, it means my limited deposits go 50% further as I only need to put 20% down rather than 30%. It's not always about getting the cheapest rate and the more legwork the broker does for me the more time I can spend finding a better property.

- 10. Stick to your strategy.** Every investor requires their own strategy, as circumstances vary and everyone is risk adverse to a different level. Work out what works for you. Once you find the strategy, stick to it. You need to be aware of other opportunities and get other advice, but often these can be distractions. A good strategy doesn't have to be complicated – it's often the simple things that work. My own strategy is to buy and hold as to sell and re-buy takes most of your profits. The technique I use is to refinance my property yearly where possible and use part of the cash to cashflow my properties and part as deposits on costs on further properties to keep my portfolio growing. **W**