Property Investment

from single units to larger property developments

Some say: invest your money in bricks and mortar - it will be safe as houses. Buildings do stand the test of time and there are plenty around that were built before most of us were born. I'll deal with heritage structures later; for the moment I'd like to focus on existing residences that fall into the price-range of ordinary people who don't have a fortune to invest. They can be found advertised in the classified sections of newspapers, particularly the private listings. Houses and cottages being sold by the owners rather than via a real-estate agency tend to be cheaper than others in their area; cheaper still if they are in need of "a little TLC". That, however, could mean anything from a lick of paint to major renovations. No-one with any sense would buy into something that is a money-eater, not unless there is a better-than-even chance of recouping expenses and eventually making some cash on top. So, when you believe you've discovered the one for you, the first question to ask yourself is: how will this investment turn a profit? And the second, being even more important: can I make it happen?

If the idea is to buy the property, do it up then sell it off, current prices of similar residences in the locality will dictate whether this would be viable. Another consideration is the market trend, particularly in the wider region. Towns can lose popularity, people move away and businesses close or downsize. The last means fewer jobs and less money going back into the community, especially with regard to local amenities. What might once have been a nice place to live can quickly take on the appearance of a ghost-town in the making. Properties in these places will be cheaper as a consequence; but unless there are plans for a major upgrade that will bring the area back to its glory days or better, buyers beware! Even having inside knowledge of a future re-development doesn't guarantee that it will ever be more than a pipe dream, especially when governments are the prime investors. Some of these projects that are eventually constructed turn into white elephants that take years to become anywhere near the realisation of the original dream, if ever. Others, however, do manage to prove an instant success for anyone who was canny enough to buy in before the rush. These are the considerations that should govern an investor's decision to commit.

The same rules also apply to prospective builders. It's fine if a new construction is to be on spare land at the back of a property owned by the investor who might be expected to have local knowledge; but buying a block, then building in a relatively unknown locality can be risky. Research into where and when to buy is essential. Intuition also plays a big part in making the right choice for the right reasons. Whether the intention is to improve then sell, or start into the rental market, predicting the future prosperity of specific locations will determine the outcome. Occasionally the opportunity arises to snatch a bargain when prices are on a downward trend. That definitely is the way to a decent profit, or a relatively steady income if the property is to be rented out; but the investment may take time to reach its expected potential. Worse still - the downward trend might continue. Those who like a gamble and can afford to take the occasional loss could be better off in the long run than more-cautious investors. It is my belief, however, that most prefer the less-adventurous and safer road.

For both conservative investors and risk-takers alike, money is the guiding factor. So, where is it coming from? Having the cash for an outright purchase is one way, provided there is sufficient left over for any renovations required. In general, many potential investors have enough for the deposit, but have to negotiate a loan for the rest. Banks require surety for any loan, and that may well be the family home. When considering an extended loan on this, bear in mind the word "Family". Should the deal go belly-up and the bank decides to foreclose, the one who instigated it will be private enemy number one! So, investors with this much to lose should think of everyone, not just themselves. On the positive side, a well-conceived, well-executed investment plan can provide future comforts and security for all concerned. Which brings us back to money. There has to be enough of it with plenty spare; and existing financial liabilities need to be factored in; so only those who are relatively debt-free, or at least have the capacity for clearing their current liabilities, should contemplate this type of investment.

I heard tell of a young, unattached lady starting out small and ending up quite rich by normal standards. She already had her own home which she had been paying off for some time. Had she sold it at current market value, her equity after the loan residual was paid out could have been enough to purchase a smaller abode almost outright. She chose instead to approach the bank for an extended loan to buy a second property, using her existing house as surety. She then moved to a small apartment and rented out the two houses. The sum she received from these not only covered her apartment rental, plus the new loan repayment, but also left her with a modest, regular income. Still not satisfied with the achievement, this canny lady continued to work at her normal job until she had saved sufficient for a more-than-adequate deposit on another house. So, it was back to the bank which, based on her past performance, was more than happy to set up a new loan to seal the deal. All three properties were, in effect, owned by the bank, but that seemed irrelevant. The lady repeated the method of her success until she had five homes, the last bought specifically for her to live in, rent free. Despite there being no need for her to work any longer, she did anyway. I have heard no more about her, but I imagine she is a very wealthy property owner, undoubtedly in the millionaire bracket by now.

Residential is not the only way to go. Small businesses are always on the lookout for premises and it is common practice to lease rather than buy. In the larger established light-industrial areas rents are likely to be high and many small concerns will be looking elsewhere. An astute investor with starting capital and access to a reasonable loan can benefit from this situation. Occasionally, factory units for sale can be found in streets off the main highways and these are ideal for repair shops and small manufacturing companies. Needless to say, the area and local authorities will dictate the kind of business that can be conducted; but provided this is not too restrictive, there should be plenty of interest from prospective lessees. It is, of course, possible that the opposite may be true and no-one will want to set up there. This is a risk that can be avoided with prior research into the district's current status and previous track-record; plus the recent history of any property being considered. If clients keep moving in and out too frequently, you would have to wonder why.

It is also essential to think laterally. What I mean by that is to consider the potential of the intended purchase outside of its present or past usage. As an example, my brother-in-law purchased a block of units that were originally squash courts. He used two of these himself for a print shop and an automobile gas-conversion workshop; the rest - three I believe - he rented out. It seemed a good idea, and was for a while; but he eventually had to sell, learning in hindsight two hard and important lessons from his venture: if you don't intend to manage a business yourself, put someone in charge who is trustworthy and financially experienced; and never, never let your tenants fall behind with their rent. This kind of investment is similar to the share market in that you can't set it up, then walk away and hope it looks after itself. One last piece of advice: before signing up to purchase, be very sure that the property will continue to be desirable to buyers, should you have to sell later.

A popular hobby these days is the acquisition of very old buildings, especially those which would be heritage-listed if they weren't so dilapidated. People buy these for a number of reasons, very often personal ranging from the lifelong dream to own such a place, to the love-at-first-sight scenario. Restoration of these abodes of yesteryear is likely to be expensive and time-consuming, particularly when trying to return them to their original designs and authenticity. The passionate don't care; a business investor intending to sell once the work is completed has to. These properties are much like any antiques - they are only worth what someone is prepared to pay for them in the current market; and if that is below the total of costs to date, the outcome is obvious.

There certainly is money in bricks and mortar; also in colour-bond steel, aluminium and even mud. Any building with an expected lifespan of 50-60 years should turn an investment profit eventually. The thing is to research before buying, and not to get swept away with initial success. Treat each new prospect with the same caution that was applied to the first; don't try to go too far too fast; and keep your own finger on the button. You may not become a property tycoon that way; but it won't hurt as much if you do fall.

A Season of Happiness - helping you towards a better lifestyle

For a look at some more informative articles on a variety of subjects just return to the web page