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Four Common Mistakes Made By First Time Property Investors

When it comes to property, there's no shortage of information available about what investors should do in order to succeed. But perhaps, more importantly, are the pitfalls to avoid so you don't become a statistic of the property game. Here are some ideas on how to avoid the most common mistakes.

1. Failing to think long term

Many people get into property investment hoping to become overnight millionaires. But expecting a 'get rich quick' scenario may steer you towards unwise investment options. And there are no shortages of property development spruikers who will happily tell you of the overnight success you're likely to achieve flipping a property you buy off the plan. Many would-be property investors have been caught-out by this kind of scenario, only to find themselves stuck with a property they're unable to sell, and a mortgage they didn't plan to have for very long. As a property investor, the safer option is to look at securing a property in an area that's proven to be high performing, and that will grow consistently over the long term. Do your research, and determine a wish list for the ideal investment property – keep in mind, much of this list will be features and attributes that need to appeal to a wide range of potential tenants, it's not about finding the ideal property for your personal tastes. Discuss your requirements with your real estate agent who can help you find investment properties in your desired location that fit your criteria.

2. Not understanding the property market

Understanding property markets takes time and getting to grips with the cyclical nature of real estate is something that even eludes many experts. You need to know the neighbourhood you intend to invest in like the back of your hand. Make yourself familiar with any given area by pounding the pavement and talking to the locals, real estate agents and property managers. Find out all about the amenities, vacancy rates and historical values of properties in the area. Attending open homes and auctions of the properties in your area can be a great way to get a feel for the neighbourhood and the prices of the property your desired area commands. These days, a lot of this information can also be found online, and for a nominal fee an even greater, detailed amount of neighbourhood and property data can be found. You can never know too much about your potential investment area!

3. Poor cash flow management

Understanding all of the costs involved in acquiring and holding property can be difficult. You need to make sure that you can afford to hold onto any property you buy, including times when you might be left without tenants, or when interest rates increase. In other words, how much income will your investment generate and will it be enough to cover your expenses? If not, can you manage any shortfall? Don't forget to account for any unforeseen situations, such as extended vacancy periods, unexpected maintenance costs, higher insurance premiums, or possible upgrades requested by your tenant.

4. Getting the wrong financial advice

When it comes to financing your investment property, seek help from a qualified, professional mortgage broker. Going it alone can be daunting and time-consuming and obtaining the right type of finance can save you thousands in the long run.

Article taken from Mortgage Express

Government strengthens residential tenancy laws

- All rental properties must be insulated by July 2019, though exemptions apply to properties where it is physically impractical to retrofit insulation.
- Smoke alarms must be installed in all rentals from July 2016, but tenants will be responsible for replacing batteries and notifying landlords of defects.
- New powers to prosecute landlords for breaking tenancy regulations, particularly where there is risk to tenants' health and safety.
- The changes also ensure tenants can take concerns to the Tenancy Tribunal without fear of retaliatory evictions.

Latest Harcourts Sales Statistics (June and July 2015 Sales)

- **68% of properties sold for more than RV**
- **The average sale price was 13% over RV**
- **Highest sale price over RV was 38%**

Buying an Apartment as an Investment

Apartments can be a great option for property investors. However there are a number of things that are unique to apartment investing.

Body Corporate…what is it?

Body corporate manages the day to day running of the apartment complex and is financed by a levy on the owners. The body corporate fee includes a professional building manager who often lives onsite and whose duties are the daily management of the complex. The body corporate fee also provides for the building maintenance; such as washing the building, painting the outside and common areas, replacement of carpet and other fittings in the common areas, electricity and cleaning in common areas, regular lift maintenance, fire protection, and upkeep of any extra facilities like a gymnasium or swimming pool. Essentially anything to do with the building, other than what's inside your apartment, the body corporate fee takes care of. People are often put off investing in apartment because of the body corporate fee however when you look at what is included the fee is not as costly as you may have initially thought.

Insurance

The building insurance is covered by the body corporate charge. In some cases the body corporate insurance also includes an amount to cover chattels within the individual apartment (but you have to check this out). If this isn't in the case, chattels insurance is about $200 - $250 per annum.

Water

This is often included in the body corporate levy. Sometimes hot water is also included. Tenants are responsible to pay for water so if water is included you can charge a higher rent to reflect this. If water is not included in the levy then each apartment will have a separate water meter and the tenants will pay their water directly.

Furnishing

It is very common for apartments to be fully furnished. The better the standard of furnishing, the more rent that can be charged. Also, if it's furnished to a high standard they are usually easier to rent and you will generally get a better tenant. As an example, spending $4,000 - $5,000 on furniture will give you up to $50 per week extra in rent. This can be up to 50% return on your investment.

Maintenance

Generally this expense is minimal because all of the building costs are taken care of by the body corporate. The investor only has to maintain the inside of their apartment. To do a full renovation on an apartment, including paint, carpet, replacing white wear and furniture, is under $12,000. Just to paint the inside and outside of a house will cost you close to that. Under the new Unit Titles Act each body corporate must have a Long Term Maintenance Plan which outlines what maintenance needs to be carried out in the apartment building over a minimum time period of 10 years. There must be a provision within the annual body corporate levy to set aside money to carry out this plan. This is great as even though it makes your annual levy higher there shouldn't be any extra money needed for maintenance.

Water Tightness

There have been issues with water tightness in apartments like there have been in many houses. Many apartment buildings have been around long enough for the issues to be known. Under the Unit Titles Act 2010 a document called a Pre-contract Disclosure Statement must be given to a purchaser. This document is required by law to disclose whether or not any claim has been made under the Weathertight Homes Resolution Services Act 2006. The body corporate minutes also outline any discussion at an AGM (Annual General Meeting) regarding possible problems regarding a building.

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