5 Steps to Finding a Winning Property Investment

Step 1: Choose a suburb that suits your strategy

Depending on what strategy you adopt, you could be looking for a ‘pay check’ property (high cashflow) a ‘buy and gold” (long term blue chip) or momentum (fast equity deal).

Your strategy will guide you as to what sort of property you need.

You can develop a strategy with your property coach - or at your 3 Day Portfolio Builders Conference.

Step 2: Research the suburb

Researching a suburb involves extensive due diligence so you can obtain the required information to make an informed decision as to whether to invest in a particular suburb.

Extensive checklists have been provided below to guide you through finding the right suburb.

Step 3: Find the right property

This involves choosing the right property in your chosen suburb to invest in. Once again, this also requires extensive research. A checklist has been provided to help you 'pinpoint' the right property.

Step 4: Get your deal reviewed

Assuming the deal 'ticks' all the boxes and in the checklists below, send your research and strategy through to a property coach and get your deal reviewed

Step 5: Negotiate the best deal possible

Now that you have found the right property in the right suburb and your coach has given the tick of approval the deal, you need to be able to negotiate the best deal possible, which fulfills the purpose of your strategy.

Remember that it's all about the numbers so don't get tied emotionally to the property.

STEP 1: FIND A SUBURB THAT SUITS YOUR STRATEGY

A great place to start is to ask your coach for the latest research on high growth potential/high yielding areas.

That's because our research team is constantly researching which are the areas with maximum growth potential, and they can give you the latest research from RP-Data etc.

Another great tool to assistant you is DSR scoring (Demand Supply Ratio)

FIND OUT MORE: http://www.yourinvestmentpropertymag.com.au/dsr-score-for-property-investment/

STEP 2: RESEARCH THE SUBURB

When we are finding a suburb in which to invest, what we need to ask is:

"**Why is this area a good place to live for people - and why is it going to continue to grow in *desirability* into the future"**

The Australian Property market is largely driven by owner-occupiers - those who want to make a home for themselves.

So we want to be investing in real estate with that target market in mind, in the majority of cases.

The following questions will help you work out whether an area fulfils this outcome now and into the future.

And, also whether it has the potential to fulfil the requirements of your strategy.

Here are some great questions to ask about a suburb before investing:

1. What are the major state and national economic forces that are either impacting this area (either positively or negatively)?

2. What are the factors, which are currently driving the market?

3. What is the state government or local governments plan for the area? (hint look on local council websites along with the state government infrastructure plans) e.g. https://infrastructure.gov.au

4. Is the council 'pro-growth' and ''pro-development'? And in what way? And is that conducive to increase demand and property prices?

5. Are there major infrastructure changes coming to the suburb that could boost prices?

Consider the following types of infrastructure?

- Transport Infrastructure – (new railway, road, etc.)?
- Community – parks, lifestyle
- Facilities – schools, hospitals
- Industry – employment nodes
- Lifestyle – café's and culture

6. Is the population in the suburb growing? What is driving this?

7. What are the major employment hubs in the area? Where are most people employed?

8. Is the suburb undergoing 'gentrification'- i.e.? A previously lower-socio-economic suburb that's becoming fashionable and trendy (like Redfern in Sydney or for example).

9. What is the school zoning? Are the school's desirable for families?

10. Is the area convenient? What is the travel time from this suburb to the CBD? Is there traffic congestion? What are the transport choices residents can take?

11. What do online reviews say about this suburb? (For example, on www.homely.com.au)

12. What is crime rate in the area?

13. Does the suburb boast water (e.g. lakes or beach) or parklands? Both of these increase desirability

Extra Tip: Are there any 'Big Players' meaning big companies such as Westfield, Bunnings, Ikea, Woolworths or Coles, Stockland, Lendlease etc. in the area (or with committed plans to develop in the area).

We call these companies 'market movers' as when they move into an area you know they have spent a lot of money on research before making the move.

And when they do move into an area, it typically drives owner occupier demand.

Where is the value proposition?

As an investor we are always looking at our Return on Investment (ROI) from a deal.

One of our key metrics to consider is when we can recycle our cash in and out of a deal. This means if we invest $100k into a deal through deposits and costs of purchase how can we get it back out again via an increase in value of the property itself.

One way to realise this value is on adding value, where as another is finding the value in the area itself and realising through buying well and buying into future value growth.

Here are some questions to help you determine this:

1. What is the current median price for the suburb?

2. Is this suburb currently “undervalued” as compared to nearby suburbs?

3. Is there an opportunity for sub-divisions and other developments in the area?

4. Are there any plans for rezoning in the area?

Is continued growth viable?

Affordability is a key indicator in future potential price growth.

People already living in the area and wanting to move into the area will only be able to afford so much for any particular property.

And in a normal balanced market, at some point further price growth just isn’t in alignment with wage growth - and an area begins to become unaffordable.

At this time, we see demand decreasing and a property market cooling.

There are of course exceptions to this with economic anomalies or major interest from overseas investors in certain areas.

So like all due diligence, we look at a multitude of factors before making conclusions.

1. What is the unemployment rate?

2. What is the average income in the area?

3. Based on median household incomes and median property price, is the area considered to be affordable? Does the wages growth allow for future price growth?

4. Ask: Are current housing prices bearable and equitable for locals to afford? Then ask, is further growth sustainable and to what price level?

   Perhaps higher income people are seeing ‘value’ in the suburb and moving there, as other areas get ‘too expensive’.

5. Is there diversity in industry in the area and employment? Or is it very reliant upon one particular industry, thus making it vulnerable.

6. Are there any factors, which you can see which could significantly impact these factors – either positive and negative?

Strength of the market

When assessing the strength of the market, what we are trying to understand here is who is in control right now - Buyers or sellers? Or are we experiencing a 'balanced' market?

The reason this is important is that we two fold:

1. So we can see and identify the growth drivers of the area and begin to formulate an idea of immediate potential growth

And…

2. It gives us an understanding of how we should approach our negotiation strategy.

In a strong market, trying to secure a big discount more than likely will get you laughed off the phone. But at the same time you may enjoy natural capital growth upswings quite quickly.

Whereas in a weaker market, investors are in a strong buyer's position so discount buying and negotiating favourable contract terms becomes a possibility.

1. **What is the current 'days on market'**? How many days before a property is sold? Less than 40 days will tend to indicate a strong market. 40-90 days = balanced market. More than 90 days = flat market.

2. **What is the auction clearance rate?** (This is not to be used as an indicator on its own but in conjunction with other indicators as some areas are more prone to auction sales than others.

3. What is the 'discounting below list price' for properties sold?

4. What is the vacancy rate in the suburb?

   Go here for free analysis of a suburbs vacancy rate:

   http://www.sqmresearch.com.au/free-statistics.php

5. How much housing stock is on the market? And of what type? Houses, units or townhouses?

Go here to find out how much stock is on the market in any suburb:

http://www.sqmresearch.com.au/free-statistics.php

STEP 3: FIND THE RIGHT PROPERTY IN THAT SUBURB

When you buy a property you need to have who you can sell it to or rent it to in mind.

It's not about what you think is desirable or nice or pretty. Think from the perspective of your future 'customer'.

Remember, you are running a property business and our primary outcome is to make a profit.

So we want to invest in a product which is most in demand to the local market as that is where the demand is coming from.

Here's some things to find out to help you do that:

1. What types of properties are in most demand with local residents and tenants? (Ask a local real estate agent and property manager)

2. Which parts of the suburb are most desirable and which are least desirable and why?

3. Which streets are most desirable and why?

4. What is the demographic of renters and owner-occupiers in this suburb?

After you do your research, you should be able to visualise who ideal end buyers or tenants are, what they do for work, how the family looks if there is one, what they do on the weekends and what they find important in their own home.

5. Are there any major estates that are 'gold standard' projects and more desirable (e.g. great amenities, water and parkland, and strong building code)? If so what stage are you able to buy in at? (The earlier the stage the better)

The ultimate question is….

What do tenants in the area **WANT**! The best person to ask about this, is a **property manager** as they deal with tenants each and every day, are likely to give you an unbiased answer (as they may assume they will be the one managing it)

Also, ask…. **who will the ultimate buyer of this property be?** And what price range can you envisage them buying it for at the end of the next market cycle (5-10 years).

12 Questions to Ask a Property Manager Before Buying in an Area

1. How many people are currently applying to rent each property?
2. What is the current vacancy rate?
3. What sort of features do the best tenants want?
4. What is the average rent for the different types of properties in this area?
5. What is the average age of tenants in this area?
6. What type of property rents best in an area? (E.g. Apartment, townhouses, houses etc.)
7. What is the best number of bedrooms for maximum rental desirability?
8. Do tenants prefer a backyard, courtyard, or no yard?
9. How much more rent will I get for a renovated property?
10. How long is the average lease?
11. What can I do to get maximum rent?
12. Are there any areas of the suburb I should avoid?
13. How long is the average vacancy period?
14. Any other tips?

Hot Tip – Speak to a council planner and ask about sub-division potential in various areas of the suburb.

Pinpointing a Specific Property in that Suburb

1. What is the asking price?
2. What price are you willing to spend?
3. How long has this property been on the market?
4. How many beds and bathrooms?

5. What features does the property have?
6. What are the expected expenses on the property? (Council rates, water rates, body corporate etc. plus general maintenance upkeep).
7. Is the property freehold or leasehold?
8. What is the rental history of the property (if any)?
9. Does the kitchen and bathroom need updating?
10. Has it been renovated?
11. Are there any areas that will need fixing right away?
12. How much value can be added to this property with a simple cosmetic Reno?
13. What renovations can I do which will make it the most desirable to another buyer? What is going to add the most value?
14. How much do you think is required to complete these works and what type of value will they add at the end?
15. Is there sub-division, granny flat opportunity on this property?
16. How far is it to shops, parks, and schools?

STEP 4: GET YOUR DEAL REVIEWED

Once you have put a property through this criterion and it ‘ticks all the boxes’ send the deal through to customerservice@freedom360.com.au to arrange for a property coach to review it, and then….

STEP 5: NEGOTIATE THE BEST PRICE POSSIBLE

If the property has passed through all your due diligence with ‘flying colours’, then the next step is negotiating the best price.

Know what yield you need on the property to suit your strategy. Then make sure the price you pay gets you the yield you need.

Get to know the market and if possible, aim to purchase a property at least 10% below market value, however this will depend on the strength of the market in which you are buying.

Build relationships with real estate agents in the area and let them know what you’re looking for.

Put your criteria in writing and give it to local real estate agents. Let them know you can move quickly for a property at the right price and be prepared to do so if an opportunity is given to you.

It is also important to know what tools you have to negotiate with:

Here are the 3 main common ones:

Timeframes: Some vendors want a quick settlement. Or they may be more than happy with an extended settlement, which may be more beneficial to you.

Terms: These are special conditions you can add into the contract, which can tweak a deal in your favor.

There are certainly some very creative ones out there which if added can be of major benefit to you and save you a decent sum of money or stress or time.

Speak to a good conveyancer for some examples of these.

Money: This is of course the one most focus on, however you can use it in both ways depending on your strategy

Sometimes you might aim just go get the lowest price, while other times you may offer a slightly higher price in order to secure more favorable settlement terms - which may be of a greater benefit to you.

The followings questions are designed to help you find our how negotiable the seller is in order to put together a strong offer to purchase:

1. How old is the property?
2. Why is the vendor selling? Are they a motivated vendor (e.g. death, divorce, debt, unemployment etc.?)
3. How long has the property been on the market for? What is the average time for a property to be on the market in the area?
4. What do you think the owners would accept?
5. Have they had any offers so far?
6. What are similar properties in the area selling for at this point in time?
7. If there is a developer involved, what is their background and experience?

Final thoughts…

In my experience, most property investors might only ask 10% of these questions about a property or suburb before investing.

So, while the future is always uncertain, by going through this due diligence process, I believe you are giving yourself a much higher probability of maximum return on your investing

Bonus Tip! – Speak to a council planner and ask about subdivision potential in various areas of the suburb

Helpful Referral Resources

http://www.yourinvestmentpropertymag.com.au/dsr-score-for-property-investment/

https://dsrdata.com.au/

https://www.propertyvalue.com.au/

www.onthehouse.com.au/

www.ripehouse.com.au

http://www.sqmresearch.com.au/free-statistics.php

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