NO PLACE FOR EMOTION

Four experts give their tips for choosing the right investment

1 MAKING AN EMOTIONAL PURCHASE

Chris Gray, YourEmpire.com.au

The more an investor tries to make money quickly, the more likely they are to fall for the classic "emotional purchase" mistake. This occurs when investors concentrate on one or two beneficial aspects of an investment and take their focus off other important underlying factors.

Common factors that can cause investors to make an emotional purchase mistake include:

Cheaper price point. Just because an investment is cheap doesn't mean it has a better chance of growing. A cheaper price point often means an investment is located in an outer area with more supply and little demand.

Higher rent. Some properties attract higher rental yields and this could be because they are specialised investments (for example, with furnished or holiday letting located in an outer area or mining town). But chances are that such investments are only attractive to 10%-20% of the market rather than 80% and any change in that specialised area could decrease rent to zero.

Hotspot. Even the best experts struggle to pick the highs and lows of certain suburbs with pinpoint accuracy. Beware of investing in a hotspot and ending up with a lemon that doesn't rise for a decade.

Depreciation benefit. New properties have depreciation benefits that are great for reducing your tax but not if you have to pay a premium for the property.

Mining town. Despite the warnings, many investors have lost double their fortune investing in mining towns as they failed to get out before the downturn.

To help avoid the emotional purchase mistake, I'd recommend investors get a full, independent valuation report done. This will almost guarantee you never overpay for a property and will highlight any risk. It's also very hard to go too far wrong by buying secondhand, median-priced, inner-city (just outside CBD) properties.

Would-be investors with the lotto mentality can be left with nothing

2 BELIEVING THAT YOU HAVE THE SKILLS AND KNOWLEDGE TO BUY PROPERTY JUST BECAUSE YOU LIVE IN ONE

Margaret Lomas, Destiny Financial Solutions

After more than 22 years of helping people to successfully invest in property, the biggest mistake that I see most investors make is believing that they somehow automatically possess the skills and knowledge to pick a good investment.

To be adept in almost any career it's important to undertake the correct training and most people do this through university or college or with on-the-job training provided by skilled mentors. Yet when it comes to property, too many investors rely on a gut feeling, subsequently adding poorly performing property to their portfolio and ultimately feeling regret at having invested at all.

Without knowing the characteristics that drive growth over time, an investor is literally using pot luck to choose an investment. Generally they will choose a property based on a misapprehension that they are in some way familiar with an area and it seems like a "good" area, with no thought as to whether the characteristics that make it good can translate over time into better than average price growth.

Without understanding the property type that suits the demographics, the investor risks buying a property with little demand from renters and equally little demand from potential future buyers. This will affect occupancy and the final value, since demand is always what drives growth.

As with any occupation, investors must see what they are doing as a serious wealth-creation strategy, and make step one the undertaking of a comprehensive training program offered by someone who is not trying to sell property and has no other vested interest than providing skills and knowledge to improve investing outcomes.

3 SPENDING YEARS LOOKING FOR ONE BIG DEAL RATHER THAN DOING LOTS OF SMALL SUCCESSFUL PURCHASES

Patrick Bright, EPS Property Search

I often speak with want-to-be investors who are looking for the perfect property deal to set them up for the future. But nothing is ever quite right so they sit on the sideline thinking their patience will pay off eventually.

Unfortunately, while they are waiting the market is inevitably rising and unless they are able to have their savings keep pace with a bullish market, which can be incredibly difficult to do when it's really on the run, they risk being priced out of the market altogether.

I call it the lotto mentality – if the lotto deal never eventuates then you're left with nothing. I advise them to forget waiting for the lotto deal as they rarely, if ever, eventuate. They are better off entering the market as soon as possible. They should focus on doing several deals over several years to build up their asset base rather than rolling the dice on one, as experience is the most expensive teacher.

So start off small. Investing in a range of deals also reduces your overall risk and allows you to make increasingly better decisions for future investments as you learn from your experiences.

My recommendation is to have a 20% deposit and be able to comfortably meet mortgage repayments if rates rise a few percentage points or if the property is vacant for any length of time.

Always secure finance pre-approval so that you don't waste your time looking at properties that are outside your budget.

A carefully planned and structured property portfolio will give you financial security for the future while also allowing you to sleep at night.

4 PICKING A LEMON

Ben Kingsley, Empower Wealth

When investing in property, just as with investing in anything, you are trying to achieve a great return. In Australia there are well over 15,000 suburbs that have over 9.7 million dwellings and this figure is growing at around 160,000 new properties every year. As investors we are spoilt for choice. With so many locations and properties, you'd think many investors would be put off by the challenge of picking an outperforming property. But, interestingly, that's not the case.

In Australia we are now close to having over 2 million property investors and many more who think bricks and mortar are a sound investment. But the statistics indicate that well over half of them aren't doing a good job. In fact, what they have done is buy an underperforming property that is delivering little if any capital growth and the rental returns are being swallowed up by fees and holding costs – yes, a lemon!

So to avoid buying a lemon, you must at the very least open yourself up to markets outside your local area and maybe even your own city. Your research must be so much more than just looking at properties and believing what the real estate agent or property marketeer are telling you because their views are purely for self-interest.

Investment-grade properties are ones that are in high demand but low supply. They are properties that are attractive to owner-occupiers rather than investors. Why? Because owner-occupiers represent 70% of the marketplace and they are the market segment that purchases emotionally, hence they push up the prices over time. Locations offering great lifestyle amenities, close proximity to good employment, convenience and limited property supply are the areas that offer the best investment-grade properties to buy for a result that will outperform. If you aren't sure how to research all this, talk to an independent property investment adviser. **M**