10 rules for successful property investing

http://www.smartcompany.com.au/index.php
Author: *Michael Yardney* on 16 March 2012

If you wait for the perfect time to invest you'll never start.

There's little doubt that 2012 will be a year of economic crises around the world.
But what is certain in these times of uncertainty is that a group of successful property investors will be quietly growing their wealth by taking advantage of the opportunity the market is presenting them.

While many Australians will sit on the sidelines waiting for someone to ring the bell heralding the property market has bottomed, savvy investors will be out looking for and buying investment opportunities created by the current buyers' market.
So let's look at some of the time-tested rules these successful investors use to make their fortunes.

1. They invest, not speculate

Even though they think they are *investing*, many property investors are actually *speculating*. They buy a property emotionally, often near where they live, where they holiday or where they want to retire. Then they hope that the market will appreciate. This makes them dependent on outside market conditions to produce a profit.
Smart investors do it differently.
They make educated investment decisions based on research, buy a property below it's intrinsic value, in an area that has above average long term capital growth and then add value through renovations thereby "manufacturing" extra capital growth.

2. It's about the property

Wise investors never forget the age-old fundamental of buying the best property they can afford in proven locations and don't allow themselves to get sidetracked by glamorous finance or tax strategies.

3. Property is a high-growth, low-yield investment

While the argument about capital growth or cash flow will rage forever, savvy investors know that the fastest way to build a substantial property portfolio is through capital growth.

4. Land appreciates

While it's true that land appreciates in value, it's not really as simple as that. Not all land is made equal and not all land appreciates at the same rate.
There's lots of land (ample supply) in the outer suburbs of our cities, but much of the demand there comes from a small segment of the market - first home buyers (restricted demand). This keeps a lid on capital growth and makes these areas poor investment prospects.

Even worse…the land component, the bit that appreciates, usually only makes up around half of the total value of the property. However, in the inner suburbs the proportion of the land value to the total property price is usually considerably higher. Remember, it's the scarcity of land that causes property values in these locations to keep rising and, currently, there is strong demand from a wide range of owner-occupiers for inner suburban properties. This trend is likely to continue as more of us choose to live close to our workplaces in locations that offer better access to infrastructure like public transport, shopping and entertainment.
As demand looks set to outstrip supply in the inner and middle ring suburbs for many years to come, these areas are where successful investors will buy for long-term capital growth.

5. They buy properties that will be in continuous strong demand

Of course not every property in a given suburb will make a good investment or have similar capital growth. Savvy investors understand that investment grade properties are the type that will appeal to a wide range of owner-occupiers, since they make up the vast majority of buyers.
That's why they avoid studios, student accommodation, holiday accommodation and serviced apartments. After all, it's owner-occupiers, not tenant or investor demand, that push up property values in the long term.

6. Demographics hold the key

Long-term demographic trends - where and how people want to live - will determine the type of property that will be in demand in the future.
As our cities mature, there will be more one and two people households, meaning that secure medium-density apartments and townhouses will become the preferred style of living for more Australians as we swap our back yards for balconies.

7. They have a great team

If you are the smartest person in your team you're in trouble. Successful investors surround themselves with a team of top consultants and know how to discern an advisor - who is independent - from a salesperson.

8. They understand where the risk really lies

Most investors believe there is a direct relationship between risk and reward - the higher the reward, the more the risk must be. But that’s not really true.

While most investors think the risk lies in the property or the markets or factors outside their control, the biggest investment risk actually lies with the investor – their knowledge, their experience and their mindset.

9. The best defence is a good offence

Wise investors educate themselves and develop a level of financial fluency to make their investment journey as safe as houses.

Interestingly most successful investors don’t diversify: They specialize by becoming good at one thing, or an expert in one area or niche, thereby getting great results.

10. They understand the property market moves in cycles

During a boom everyone is an optimist and expects the good times to last forever, just as we lose our confidence during a downturn.

Truth is…our property market behaves cyclically and each boom sets us up for the next downturn, just as each downturn paved the way for the next boom — just as it is doing right now.