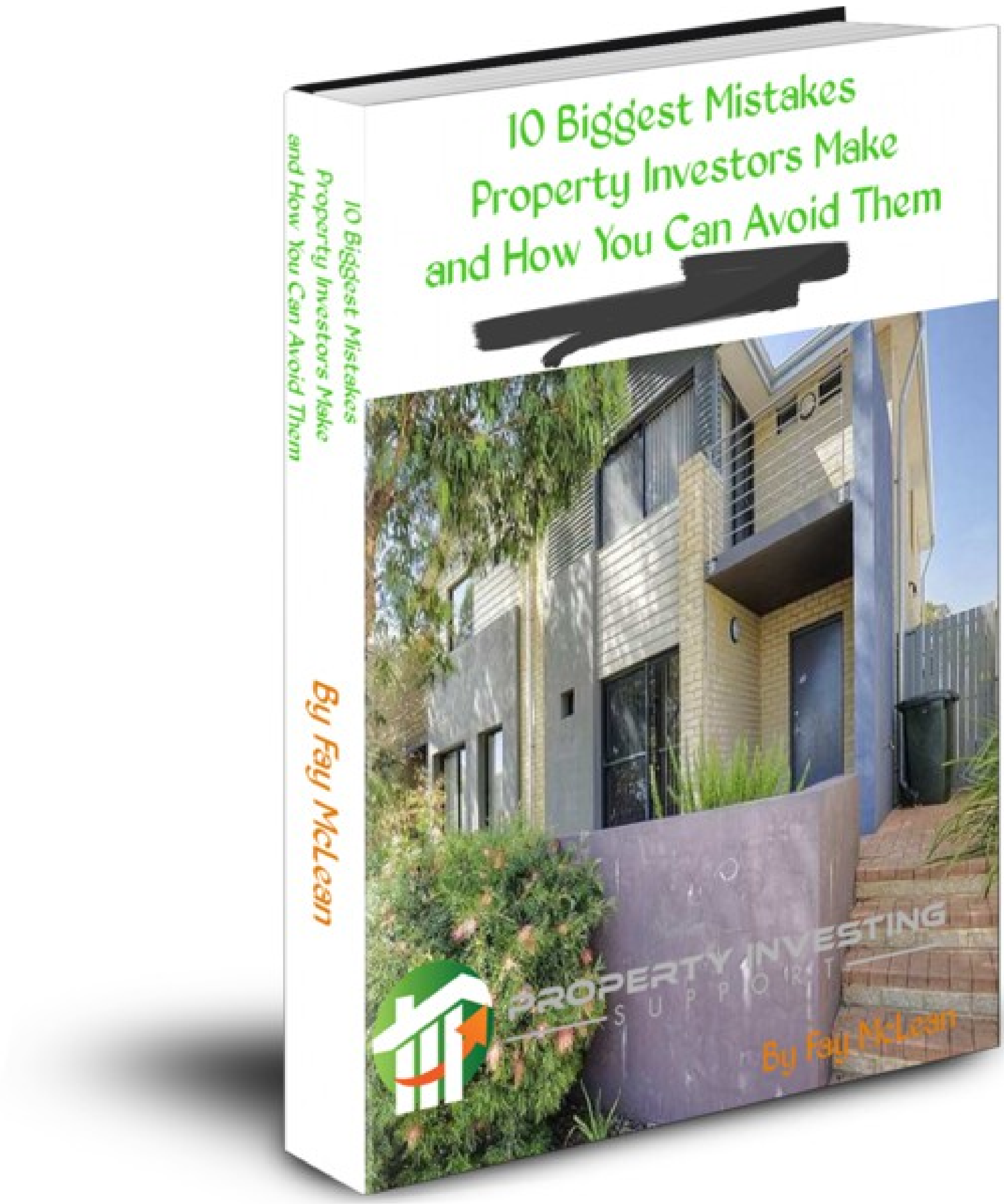
The 10 Biggest Mistakes Property Investors Make And How To Avoid Them



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The 10 Biggest Mistakes Property Investors Make

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Introduction: There is no end to the amount of information you will find when it comes to property investing and what enthusiastic investors should do in order to succeed. Having built a multi-million dollar property portfolio and helped hundreds of other people on their investing journey, I've seen a handful of common mistakes both new and even experienced investors make.

Making any one of these **Top 10 Mistakes** could bring you crashing to the ground before you even start your investing journey. At the very least, it will reduce the profitability and wealth creation opportunities you have. Because these mistakes are SO common, only a very small number of investors will ever accumulate more than one property or create real wealth and passive income from their investments.

After all, that is what you want isn't it??

To accumulate enough property to return you a regular income that allows you a lifestyle of choice.

Don't let me scare you off, and I don't want you thinking you need to be someone who buys 10, 20, 30 or 50 properties. You don't! Just a couple of well chosen and high performing investments can be enough to give you the passive income you want. There is a specific calculation for the value of property that is needed and you can read about it here.

Making wise and profitable investment decisions will maximize the profits you make when you invest in property. And that's what the Property Investing Support community is all about – helping you make well informed investment decisions that maximize your property profits and help you create financial freedom as soon as possible.

I love property! I love what it has allowed us to experience as a family and I want ti see others benefit from our experiences.

So, let's get started and spread these **Top 10 Mistakes** out on the table so you can avoid making any of them from day one☺

Please know I'm always here to help, and wishing you every success!

Fay McLean

Oh, and by the way, if you haven't already – be sure to connect with me in other places too where we have lively discussions and talk about property☺

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1. FAILING TO SET YOUR GOALS AND OBJECTIVES

This seems a bit of a boring topic when you're all fired up and you've made the decision you actually want to use property as your vehicle to create more wealth and income. The first thing most people do is start scanning the web or papers for a property they like. STOP!!!

Even before you start scanning 'For Sale' notices, you must list out what goals you want to achieve from your investing. What kind of income do you want your portfolio to produce, and by when?

Be sure to read this blog post that explains how to do this in more detail.

WHY do YOU want to invest in property, or are you just going along with what all your mates are doing?

When you are clear on your goals and objectives, this will help you determine the best investment strategy to achieve your goals.

2. LACK OF RESEARCH

Don't invest in a property location that you have little or no knowledge about. Sufficient time must be spent researching the area, suburb, the development (if applicable). Select just two or three suburbs you are interested in and look over as many properties in that area as possible. Visit and document everything you can about the area. Some of the considerations are:

- Average rental yield
- Future expected growth statistics
- Demographics of the population
- Supply and demand of properties in the area
- New schools, hospitals or industry in the area
- Past sales and days on the market of properties that have sold
- Access to public transport systems
- Any planned changes in zoning

This research can be time consuming but it will be well worth it. Whether you do it yourself or get someone else to do it on your behalf – it must be done. After all – the numbers don't lie and it will help you to keep the emotion out of your buying decision.

Which brings us on to Mistake number 3….

3. EMOTION

If you include emotion in your buying there is a high likelihood that your decision won't be a great one. Trust me, I have personal experience on this one! Let me share part of our story….

We love to holiday in a nearby seaside town every year and in 2008 decided that it would be a good idea to buy an investment property there. Heck, we loved the place so what a great idea!! We even thought it might be nice to move there as we got older. We took the next few days to visit properties we liked that were currently listed on the market and ended up placing an offer on a 3x2 Townhouse. We soon became its proud owners. We had run the numbers over for each of the properties we saw, but we failed to do any of the other historical or forecasting research because we were caught up in the excitement of buying in this gorgeous spot.

The end result was the property took a nosedive over the next few years to where it was valued at over $100,000 less than what we paid for it. We were buying **purely on emotion** and it cost us big time!! So, DON'T make this same mistake.

The moral of this story is not to let your emotion cloud your judgement and lead you to lose sight of your real objectives.

Here are some of the biggest emotional triggers when it comes to buying a property:

- For the children to live in
- To someday live in it yourself
- To use as a holiday house
- Because you just love the kitchen or backyard
- It's in an area that is close enough that you can keep an eye on it

Any of these or other emotionally attached reasons for your purchase **will** reduce the chances of that property being a high performer in your portfolio. You need to understand and be prepared for the consequences if you make an emotional buy ☺

The reasons for buying a property to live in can be very different than if you are buying as an investment. Be sure of what your criteria are for your type of purchase and use it as a checklist to stay focused on your buying decision.

4. GETTING STUNG AT HIGH PRESSURE SALES EVENTS

Many property companies offer large property investing seminars that are very skilfully marketed. Behind all the smoke and mirrors often lie high pressured salesmen with offers that are 'only available today'. There's lots of pressure to put down a deposit, or allow them to make a visit to your home where you can feel intimidated to take action you would not normally do. Despite what most people think – if you miss out on a great deal today – there WILL be another one tomorrow (or very soon ☺).

If you find yourself at one of these pressure type of events, check on what clauses are included that allow you to exit the deal at any time you feel uncomfortable.

Don't be afraid to take a little bit of quiet time to reflect on what you've seen or the information you have in front of you before you make any substantial commitment.

5. GET YOUR FINANCE IN ORDER

Spend time with an accountant, solicitor and finance broker **before** you commit to any property purchase.

Properties can be bought in different entities (partnerships, Trusts etc) and you should be clear about what is the best strategy for your situation. If you need any structures such as a Trust set up, this should be done before you go house hunting.

You must also have a good idea of what your borrowing capacity is so you don't waste time looking at properties that are outside your budget. A good mortgage broker will request some basic figures from you and give you a 'borrowing estimate' to start with. This is sufficient to go looking for a property to buy.

Once you've selected a property and after you've placed an offer or expression of interest on a property you can apply for finance approval to close the deal. You should include in your offer, a clause that allows you to exit the deal if you are unable to obtain finance to your satisfaction.

Some people prefer to get full finance approval before they select their property. This is good too. You just need to remember that finance approvals have a limited lifespan, so if you have not located the property you want before your approval expires, you'll have to do it all over again.

If you are considering applying for an investment loan, some important things that can affect your borrowing capacity are:

- The number of dependant children you have
- How long you have been in your current employment (banks don't like you to change jobs just before you apply for a loan)
- How much your credit card limit is. Even if you have 3 cards that each have a limit of $10,000 on them, you will be deemed as having $30,000 debt – whether you use the cards at all or not.

There are borrowing calculators that you can use from home as a first step to gain an idea of your capacity to borrow funds.

Go into your search for an investment property well informed as to what your financial situation is by talking with a mortgage broker before you hit the road. Obtaining the right type of finance and set up can save you thousands in the long term.

6. NOT KNOWING YOUR NUMBERS

I don't care whether you are on the bones of your bum scraping together every cent you have every week to save for your investment property, or whether you are in a high paying job where spending chunks of cash on whatever you feel like is comfortable. Once you decide to invest in a property, you need to know your numbers BEFORE you sign any commitment to buy.

Some sales pitches are focussed on a property having a high rental yield which can look super attractive. A property can appear to have a 'positive' cashflow based on rental yield only. It might only be <u>after</u> you take possession and start receiving your invoices that you realize the property has really high rates, taxes, strata fees or other associated expenses.

Buying a property is not just about rent in and interest payments out. There are other expenses you must be aware of. More importantly, you need to be sure you can cover these expenses even in a personal downturn.

The sort of expenses I'm talking about include but are not limited to:

- Property management fees
- Strata Fees
- Inspection Fees
- Rates and Taxes
- General repairs and maintenance
- Time without a tenant
- Interest rate increases

All of these known expenses should be included in a calculation that then gives you an average net cost to keep your property each week. A few companies that provide property support will provide this type of calculation for you although most won't.

Right now there are many bargains available for would-be-buyers because so many people have overcommitted financially to keep properties that they simply cannot afford over the long term. Don't repeat their mistakes.

7. INSPECT WHAT YOU BUY

Even if a property is located some distance from where you live, either you or someone on your behalf should inspect the property before purchase is finalized. Look for problems with a fine tooth comb!
Solicitors tell me that only about 30-40% of their clients obtain all the necessary inspections which is really crazy!

Most people hesitate to spend money on inspections and searches. They don't see the point of spending money on something that they might not go through with. Or, as Australian's tend to do, they have the 'she'll be right mate' kind of attitude.

Termite inspections, sub-standard wiring or workmanship are potential problems in a property that you may not pick up. An experienced building inspector will know exactly what and where to look for any defects that are present.

If defects are discovered during an inspection phase, you can choose to either withdraw from the purchase, or use the defects as a negotiating tool to decrease the purchase price. Even finding termites is not the end of the world. They are actually easily treated and removed. You just actually need to be aware of their presence in the first place. You should also secure a good reduction on purchase price for their presence ☺

You also need to be aware of searches that are required to detect flood levels, underground works etc.

All of these inspections and searches can cost you a couple of hundred dollars. If search and inspection results mean you decide to withdraw from a purchase, you will have saved yourself thousands of dollars in potential repairs or damaged property down the track. It is money well spent.

8. LISTENING TO TOO MANY PEOPLE

I love it how everyone seems to consider themself an expert when it comes to buying property. Aunt Mary bought a place years back that didn't do so well. Uncle Joe had lousy tenants and sold his property after just a year or two. The accountant who knows just how to invest wisely is 67 years of age and still working three days a week to pay the bills….

Family, friends and many others will offer up advice as soon as they know you are thinking of buying a property. The only way to be sure you are on the right track is to speak to or work alongside someone who has already achieved what it is you want.

Spend the necessary hours to learn how to research and dissect numbers, statistics and research. If you don't have the time (and many don't), then I recommend you find a mentor or buyers agent to do this work for you. They will become a trusted resource and an important part of your team.

9. DO IT YOURSELF (DIY)

I'm sure you've seen some tv shows where they do a story on how bad tenants have trashed a property and the landlord is devastated. Almost 100% of these stories are a result of the property owner trying a DIY.

Many investors get all excited once their property settles and think they'll save some money by managing the property themselves. Here are some the tasks that would involve:

- Finding good tenants;
- Collecting rent monies;
- Acting as a property manager and inspecting the property regularly;
- Dealing with maintenance;
- Representing yourself at tribunal if required
- Be on call 24/7 for your tenants.

In my opinion, this is just a bad idea all round!

Dealing with your tenants personally can make life much more difficult for you than what it needs to be.
Paying a professional to manage your property will give both parties a much better outcome. It really is a small price to pay. Currently management fees are generally between 8-10% and can often be negotiated.

Build a good relationship with your property manager and it will serve you well. They are there to make your investment work well for you. I recommend requesting photographs be included in your management reports. I also suggest you inspect the property personally every 12-18 months, to ensure you and your property manager have the same level of standards. An area of the property marked ‘good’ in their opinion, may be different to ‘good’ in your opinion.

The time it would take you to manage your properties can be much better spent…. finding other great deals or generating more income to move forward again.

10. DASH OR DAWDLE

Many investors never reach their ultimate investing goals. It’s often one of two very common characteristics that prevent them from either getting their first property, or going beyond the first and building a larger portfolio.

Characteristic One: Treating the property journey as if it’s a race or dash.

They make the decision to invest. They see a property that spikes their interest and think they ‘know it all’. Without doing due diligence, before they know it, they are settling on something that is far less than ideal. It’s costly and soon, the property is back on the market. Once burned twice shy – and they never look to invest again.

Characteristic Two: Dawdle and NEVER making a decision.

Often seen as the person who feels they haven’t learned enough yet! Even with stacks of investing books on their bookshelves, attended loads of seminars, watched hours of webinars and had many good opportunities passed to them, this investor is just never ready to take the final step. Whether they know it or not, they are paralysed with fear.

This is a hard place to get out from, and it's unlikely this person ever will.

Investing is a journey. It is a big step. Thousands have done it before you and thousands will do it after you. Thousands have created more wealth in their life – and you can too! The best place you can be in is in the middle – read, listen and learn. But know that you will never stop learning and you'll never know it all. Leverage the lessons of others and surround yourself with a group of likeminded people who can support your journey.

Knowledge without action is useless.

There is one more big mistake people make and I just couldn't leave it out, so here is a bonus – number 11…

BONUS!!

11. RICH QUICK

Many people see property investing as a 'get rich quick' journey. While it is true that you can do a sub-division or renovation and make a good chunk of cash fairly quickly – if your goal is to build long term wealth and passive income, then this will take time.

History says that properties double in their value every 10 years and you need to allow the economic factors to have their rise and falls to see this outcome. One of the reasons why property is such a solid investment vehicle is that it's a proven commodity that we all need. It has historical data to prove its steady, long term gains.

Using the power of leverage helps to speed the purchasing journey. You can use other people's money (the tenant, the tax man and the bank) to help you fund the purchase of your properties. This is something you cannot do as successfully with any other investment commodity.

If you set your goals and objectives for your property investing as long term and go about achieving them in a positive and steady way, you see greater success and wealth accumulation, than if you constantly try to guess the next best shiny object.

Good, solid high performing property that grows over the long term is a great way to progressively achieve a well performing property portfolio that will repay you handsomely ☺

Here's to your success!

Fay McLean

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