A joint publication of Edwards Windsor & Ryder Property Research

Getting Started

First Steps to Becoming a Property Investor

2019 Edition

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INDEX

Part 1: Strategy

Part 2 : Research

Part 3 : Buying

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Part 1: Strategy

Know what you want to achieve

It's difficult to create a property portfolio if you don't know your objectives.

Unless you have a clear goal and a strategy to achieve it, you won't know what to buy and where to buy it.

Some investors are clear on their goals in property investment: they want to create a portfolio of positive-cash-flow investments which will fund their future years and help the kids as they grow towards adulthood.

They want properties where the income is sufficient to cover the costs of ownership.

And they want them to be in locations that have identifiable drivers of capital growth.

Both are achievable if you know what to look for.

But many people approach property investment without first sorting out this most fundamental issue: **what am I trying to achieve?**

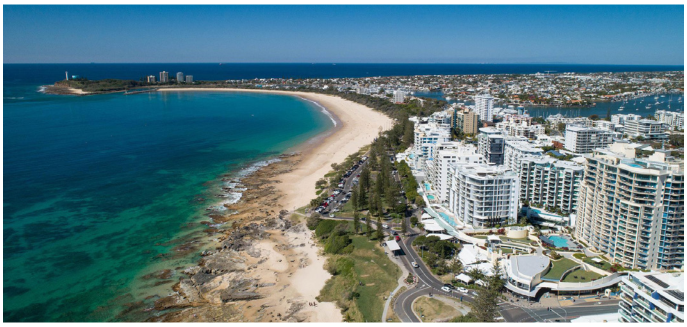
If you don't know the answer to this question, it's difficult to know what you want to buy and where you want to buy it.

You must ...

1. Have a goal.
2. Have a plan for reaching that goal.
3. Understand your risk profile.
4. Know your borrowing capacity.
5. Be willing to do some work.
6. Know where to access good information.
7. Know who to believe and who not to believe.
8. Have a strong constitution and the resolve to persist.

Equally as important as having a clear goal and strategy is having a goal and strategy based on quality information.

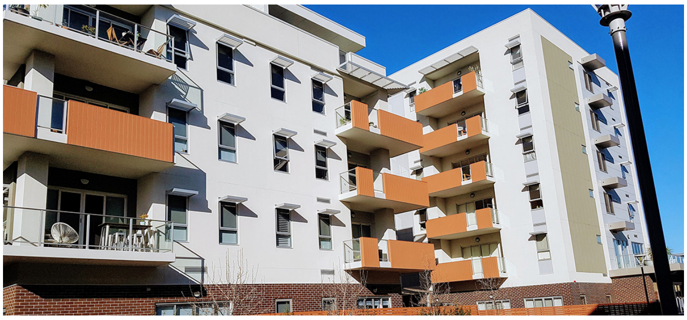
How will you decide?



SEA CHANGE TOWN?

CITY SUBURB?

HOUSE?



APARTMENT?

Know your financial capacity

You can't start a search for properties to buy until you know your financial capacity.

How much can you borrow and how much can you afford to pay for property?

There's little point in scouting around for properties in areas where typical houses cost $600,000 if your financial situation allows you to buy properties worth only half as much.

Fortunately there are plenty of options available on the Internet to help you to settle this question before you waste too much time in the market.

These include the **Mortgage & Finance Association of Australia.**

This is the body that regulates mortgage brokers in Australia. Its website (www.mfaa.com.au) is full of useful information and online tools for people who haven't applied for a loan before and are thinking of using a mortgage broker.

The MFAA website has a range of calculators that can be useful. It also has a website ***mortgageandfinancehelp.com.au*** that provides helpful information.

ASIC has a Money Smart website with lots of cool tools for budgeting and mortgage calculators:

https://www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/mortgage-calculator

Even if you're applying directly to a bank or other lender this website can provide the right questions you need to be asking when you have your interview with the lender.

It can help with issues such as:-

- How much can I borrow?
- Can I use equity in my home for investment?
- What areas will banks lend or not lend in?
- What is the process involved in applying for a loan?
- What information will I be required to give to the lender?
- Why do they require the information they ask for?
- Why should I use a mortgage broker?
- How do I protect myself from fraud or scams?
- What is a credit reference report?
- What is Mortgage Insurance and why do I have to pay the premium?

How much can I borrow?

It's not difficult to find on-line mortgage calculators that can give you an estimate of how much you can borrow to buy residential property. These calculators will ask you to input basic information about your financial position, such as income and living expenses, to provide an idea of how much you can borrow.

The Aussie Home Loans website www.aussie.com.au is one of many with mortgage calculators.

Another can be found on the Mortgage Choice website, www.mortgagechoice.com.au

Every lender will have its own methods of assessing borrowing capacity so please use these online tools as a guide only. A lender will examine your monthly expenses as well as your income when it assesses your borrowing capacity.

What is Mortgage Insurance and why do I have to pay for it?

Lenders Mortgage Insurance is required mainly when you borrow more than 80% of the value of the property. In some cases it is required for the whole loan, depending on which financial institution you are using.

There are two main mortgage insurance companies in Australia (although some banks have their own internal insurance).

QBE LMI AUSTRALIA

www.qbelmi.com/pg-Online-Business-Tools.seo

Location Wizard will tell you whether or not the insurer will cover a property or not, and if so what the maximum Loan to Value Ratio (LVR) will be.

www.qbelmi.com/pg-Location-Wizard.seo

GENWORTH FINANCIAL

www.genworth.com.au

Location Guide

https://www.genworth.com.au/lenders/lmi-tools/security-location-guide/

Avoiding common mistakes

Financial comparison website RateCity provides the following tips on how to avoid common mistakes by borrowers.

1. **Choosing the wrong home loan**

   - Many property buyers are persuaded by their bank, broker or friends and family to choose a particular home loan or lender but you shouldn't rely on their information. You need to spend some time to do your own research and understand the mortgage market.
   - For instance, buyers could try to find the cheapest deal possible such as an introductory rate home loan and not realise how much more it will cost them over the loan term.

2. **Over-borrowing**

   - One of the main reasons property buyers experience financial hardship is that they over-borrow on their mortgage. This means they stretch their budgets and don't leave enough of a buffer for unforeseen circumstances such as time off work or higher interest rates. The best way to avoid this is a slightly higher deposit – which takes time and discipline – but this can substantially reduce the cost and stress associated with a mortgage.
   - Most lenders expect you to be able to afford a buffer of a 2% interest rate rise so make sure you include this and stick to your budget to avoid getting yourself in trouble. For instance, for a $300,000 mortgage over 30 years, using an interest rate of 4.64% means monthly repayments of $1,545 – so you would need an extra $378 per month in case rates reach 6.64%.(using the *aussie.com.au* calculator)

3. **Paying for features you don't use**

   - There are plenty of different features with the many home loans on the market including offset facility, mortgage portability, construction loan and additional repayments. But you may not need all of the features available and opt for a loan with a higher rate that's loaded with extras you don't need.
   - When you're doing your research make sure you read the different types of features available and write a list of what you will need and what you won't.
   - Some buyers don't read the product disclosure statement and contract thoroughly and waste money paying fees they didn't realise existed. Before you sign on the dotted line make sure you read the PDS carefully.

Understand your risk profile

A case study

Would you choose to buy in Moranbah or in Toowoomba? Right now it appears a fairly easy choice between the two Queensland centres, but 6-7 years ago it was a very different scenario.

The central Queensland mining town of Moranbah remains our greatest example of a boom-bust scenario. Until 2012, it was the national leader for long-term price growth, having averaged 30% a year over 10 years. Its median price reached $750,000 and tenants were typically paying $1,800 per week.

At the same time, the regional city of Toowoomba was a very moderate performer. In 2012 house prices were in decline in the Toowoomba market and growth averages over the previous five years were low, around 3-4% per year for many suburbs.

Toowoomba house rents were generally in the range from $250 to $290 per week, and rental yields around 5.5%. It was a solid market but not a particularly compelling one.

The choice then was straightforward and investors piled into the Moranbah market, seeking those high rental returns and hoping for a continuation of the price growth of the previous 5-10 years.

Then Moranbah became a victim of its own success. Key miner BMA refused to pay those rents and moved to 100% FIFO workforces and workers camps. Projects were deferred or downsized in response to falling coal prices.

Vacancies rose sharply in 2013, reaching 10%. (More recently they have reduced and reached a benchmark figure of 3% in September 2017 and dropped to 1.2% in August 2018.)

Prices also dropped sharply, with an average decrease of 28% per year for 2014 to 2017. The median price started to bounce back from its basement of $150,000 in early 2017, up 17% to $188,000 in mid 2018 - however this is still lower than prices 10 years ago and well below the peak of $750,000.

So the Moranbah market, once the darling of investors across Australia, dropped to very low levels, causing many mortgagee-in-possession sales.

Meanwhile, the Toowoomba market rose strongly.

In the five years to the end of 2015, many Toowoomba suburbs recorded growth averaging more than 10% per year.

Toowoomba, a substantial regional city with a strong and diverse economy boosted by major spending on infrastructure, continues to be a steady market which experiences periods of strong growth - and seldom records price decline.

Whether you would have chosen in 2012 to buy in Toowoomba or in locations like Moranbah would have depended on how you perceived risk.

Those who do not like high risk should not buy in mining towns or regional centres that are largely dependent on the resources sector.

Investors of that kind are better off focusing on locations with lower levels of risk - often relating to economic diversity and lack of reliance on any one sector for prosperity.

One technique for rating yourself

A person's Risk Profile depends on a number of factors, including ...

Age (a young adult might be willing to take more risks than someone nearing retirement)

Family situation (single people may be less concerned about risk than people with kids)

Investment experience (those with more knowledge/ experience can handle higher risk)

Investment goals (e.g. capital growth or income returns)

Time frame for achieving investment goals (not necessarily dictated by age)

Understand your risk profile

Here's our adaptation of a Risk Profile rating system for property investors:-

Profile Rating	Description
Defensive	You are prepared to accept lower returns with lower levels of risk in order to preserve capital. Investments are obtained to achieve modest capital growth over a medium-to-long-term investment horizon.
Conservative	You want to protect your wealth and are prepared to accept only a low level of risk. You invest to achieve moderate capital growth over a medium-to-long-term investment horizon. You may be inclined to focus on capital city suburbs with solid track records on capital growth.
Moderate	You want to invest in a balance of good income and capital growth. Investments are obtained to achieve steady growth over a medium-term investment horizon. Strong regional centres may suit you.
Growth	You are comfortable with moderate risk and higher volatility in the value of investments to achieve higher growth. Investments are obtained to achieve steady capital growth over a long-term investment horizon. Regional centres that benefit from the resources sector are an option when it's rising, but introduce an element of risk.
Aggressive	You are comfortable with a higher level of risk in order to achieve potentially high returns. Investments are obtained to achieve high capital growth, sometimes with a short-term view. You are more willing to buy in high-risk high-return locations such as mining towns and speculative markets like the Gold Coast high-rise sector, or undertake development.

A Rating Tool for Locations

In terms of choosing a location for property investment, this is how we would classify the various types of locations in terms of their risk. Keep in mind that this is very general in nature and the classifications do not apply universally.

The scale runs from **1 to 5,** with **1** being lowest risk and **5** being highest risk. This is a very general overview and specific locations may not always fit the general category.

Risk rating 1

- Outer suburbs of capital cities with identifiable growth factors and a good track record
- Middle-ring suburbs of capital cities with identifiable growth factors and a good track record
- Major regional centres with diverse economies, identifiable growth factors and a good track record.

Risk rating 2

- Minor regional centres with identifiable growth factors
- Inner-city suburbs

Risk rating 3

- Master-planned communities
- Suburbs which lack identifiable growth factors.

Risk rating 4

- Country towns with short-term boosts from major industrial projects
- Iconic Sea Change locations such as the Gold Coast and Byron Bay
- Regional centres with some reliance of the resources sector

Risk rating 5

- City suburbs with major impediments (e.g. noxious industry or waste dumps)
- Mining towns
- Towns affected by long-term drought

Understand that investing is a long-term business

Tell anyone property is a long-term business and they'll nod sagely and agree wholeheartedly. Then they'll ask what's "hot" right now.

Suggest to someone they should stop stressing about short-term economic issues and focus on the future, the standard response will be: "Yes, I understand that, but …"

The "but" means they don't understand.

Few people do. You could present a crowded room with a panel of 12 property experts, all agreeing that real estate investment must be approached from a big-picture perspective, and the next comment from the audience will be concern about the RBA's next interest rate decision or the impact of an upcoming election.

Many consumers think a property market report is out of date if it was written last month.

It's true that individual events can impact on a property market. But not this week. Nor this month. Nor this year. The events that matter will impact for five years, or 10, or more.

If you're not approaching property from that standpoint, you're not an investor, you're a speculator.

Research published by agency PRDnationwide suggests many property owners spend money on improvements and then place the property on the market. They expect a handsome profit on the upgrade spending.

Such people are speculators, not investors. And they're likely to be disappointed ones. The research suggests few people recoup the cost of the renovations in the re-sale price. This is short-term thinking based on scant knowledge. There have been many warnings over the years about property owners over-capitalising on renovations.

Genuine property investors should have been busy in 2009, in the wake of the GFC. Pick any location in the country. Nothing had changed in the fundamentals of the place. There was a short-term change in the international economic climate.

Anyone with a long-term view would have been unperturbed and would have been an active buyer. With prices and interest rates down, there were many opportunities to buy well in locations with good future prospects.

But investors stayed away in droves, awaiting some mythical signal that the market had bottomed and was rising again. Such an approach was not founded in logic and showed a failure to grasp the fundamentals of property investment. Those who delayed action missed substantial capital growth in 2009 and 2010.

Warren Buffett, consistently ranked among the richest two or three people on the planet, buys with the attitude of holding long-term.

We saw similar scenarios in Sydney in 2014 and 2015. The smart money was buying in Sydney in 2013, ahead of the boom. But most buyers piled in after they read that prices were soaring.

US billionaire Warren Buffet, who knows a thing or two about investing, said: "I buy on the assumption that they could close the market the next day and not reopen it for five years." This means he would not be able to sell. People should approach real estate the same way. If you're planning a quick re-sale you've missed the point.

"Profit from folly, rather than participate in it."

Warren Buffet

George Soros, global financier and philanthropist, reckons that if you find investing entertaining, you're probably not making any money. "Good investing is boring," he says.

Very true. Good property investing is boring. It's about buying real estate in locations with growth prospects and putting them away in your portfolio.

All the successful property investors are accumulators. They seldom sell.

They just keep buying, whether the market appears good or bad. They don't care about GFC's or RBA meetings or the next ABS release of unemployment data – the stuff that excites economists and fills newspapers, but ultimately changes nothing.

It brings to mind the panic-driven illogic that dominated debate about the impact of global financial upheaval in 2008. Amid all the chatter, the occasional voice of reason was heard. One such is Grant King, managing director of Origin Energy, which was embarking on a $10 billion deal with US energy giant Conoco Phillips to develop coal seam gas assets.

Making such a commitment at such a time astounded those who believed the world was about to end. But King said: "I think it's important to recognize, in these more challenging times, that not all of the sectors of the economy are in distress."

He also said: "We make investment decisions in assets that have economic lives of 30 years or more. And so cycles that play out over a year or two are basically irrelevant. We're fundamentally driven by the long-term view."

King was talking about resources but his comments applied equally to real estate. Property investment is a long-term strategy. This was forgotten by the fearful investors who contacted advisers with questions such as: "Should I sell my house in Moonee Ponds? Everyone says values will fall and I want to get out before it's too late."

Real estate blogs were full of comments like that from crazed property owners.

Anyone with a strategy, a long-term plan, would have regarded the short-term economic turmoil as irrelevant – other than the opportunities it presented. As legendary US billionaire Warren Buffett said: "Profit from folly, rather than participate in it."

Hindsight has shown us the worst imaginings of economists who predicted recession and 10% unemployment never happened.

Those who allowed the chattering economists to talk them out of investment decisions missed opportunities to prosper. Those who sold in a panic missed the price growth of 2009 and beyond.

The best analogy we can give prospective investors is this:

The most-watched athletics events at any Olympics are the sprints. They're excitement-plus, particularly when they feature athletes with star quality like "world's fastest man" Usain Bolt.

The long-distance contests have their followers but are boring by comparison. Only diehard watchers sit through the two hours-plus of the marathon – people who admire grit and stamina more than flashy skills. You should have a similar attitude to real estate.

Many investors and developers go for the sprinters of real estate. The mining towns and the places with star quality like the Gold Coast attract many of property's spectators and speculators.

But, in real estate, there's a lot to be said for being boring. Many of the best performers are the unglamorous contestants. While the sprinters of real estate pull up lame or go down with cramp, the long-distance runners just keep on chugging along.

Investors love an excuse to avoid making decisions. When an election is called, everything stops. When the outcome is a hung Parliament, it's a brilliant excuse to do nothing.

Media reporting of the property market in August /September 2010 centred on the uncertainty in federal politics and its impact in stifling property market activity.

Election casts a shadow, cried the *Sydney Morning Herald,* followed by these words: "As a cloud of uncertainty hangs over Canberra, agents will be wringing their hands hoping we have a stable government as soon as possible. There's nothing like a federal election to slow the market.

The daily rhetoric and posturing of political leaders is largely irrelevant for property investors.

So when Julia Gillard took us to the polls before spring, property insiders were giving thanks that the whole show would be done before the biggest sales season of the year arrived ..."

Of course, the indecisive outcome of the vote meant the uncertainty lingered.

And in 2013 Julia Gillard's early announcement of a distant election date – and her subsequent loss of the leadership to Kevin Rudd – created additional reasons for hesitation.

The curious thing, though, is that people allow these events to affect the decisions they make and the actions they take. The reality is that nothing happening in federal politics changes the fundamentals of real estate investment. It's largely irrelevant whether Labor or Liberal runs the country.

Be willing to make decisions and take action

But consumers like to delay decisions. An impending interest rates decision, an upcoming State Election, nervous signals from major overseas economies, the outcome of the AFL grand final - anything will do, really. They can blame uncertainty and that lets them off the hook.

But genuine property investors don't react that way. If they're serious about investing, they know it's a long-term strategy and short-term events in the economy or in politics don't matter.

If they're genuine investors, they will have a plan and they will implement it, undistracted by the background static of politics, economics and media speculation.

Over the two years to June 2010 we had the Global Financial Crisis, a rise in unemployment, forecasts of a recession (later proven incorrect), property values in some areas falling then rising, interest rates falling sharply then rising rapidly, the demise of the elected Prime Minister, predictions that our home values would fall 20%, 30% or 40% (also proven incorrect) and a host of other upheavals in politics and the economy.

Throughout it all, nothing changed in the implementation of sensible property investment strategies.

For those who believed the Australian economy then was fundamentally strong, that residential real estate was a solid long-term investment and that their chief mission was to find the right locations in which to buy, taking a long-term view, it was business as usual. Nothing has changed since.

This is for financial security, not ego

A question frequently asked is: how many properties do you own? People who ask that question have failed to grasp the fundamentals.

At a Get Rich Quick seminar run by a notorious spruiker a few years ago, attendees seemed engaged in a competition of "who owns the most properties". It was more about ego than sensible investing.

Anyone with fewer than ten properties was scorned. One speaker on stage was derided by the audience because he owned only four properties. The fact that each was a $1 million-plus property with little debt was not considered relevant – it was all about how many properties you owned.

More relevant questions are:-

- Is the value of your portfolio growing?
- Does it provide income or does it cost you money?
- Is your property portfolio helping you to achieve your goals?

More important than the number of properties owned is the nature of them and how they are performing in helping you to achieve your objectives.

It makes more sense to own five cashflow-positive properties than ten negatively-geared ones.

Extract Emotion

You're not going to live there

Buying a home can be an emotional business. Witness the collective tizz we saw from buyers in the ritzy suburbs of Melbourne and Sydney from 2013 o 2017 when people became caught up in the hype and euphoria of auction fever.

Buying for investment is a different process. Logic replaces emotion as the key driver.

Or it should.

More important than the number of properties you own is the nature of them and how they are performing in helping you to achieve your objectives.

Extract Emotion

This is the mistake some investors make: they bring the same emotions and process to an investment as they do to buying their home. They buy things they shouldn't and overlook the best options because they're in downmarket areas or are dwellings they wouldn't choose to live in themselves.

Some investors treat properties as trophies to be paraded before friends and colleagues. They'll enjoy a brief ego massage but will never achieve wealth through property investment.

Many of the communities dotted along the NSW coast are camera candy. The towns of the Port Stephens region have stunning settings, with houses perched beside wonderful beaches. There's evidence of vibrant communities with happy residents.

Many people would be happy to live there. But you shouldn't necessarily buy an investment property there. The long-term capital growth record of many of these places is below-par and there are few economic pistons to generate out-performance.

This is an issue for Sea Change locations along the NSW coastline. There are so many of them and little to distinguish one from another in investment terms. It's only the few with specific growth drivers like improved transport infrastructure that command investor attention.

Inland from some of those appealing NSW coastal towns are regional centres with less visual appeal but, often, greater economic credentials and solidity as long-term investments. They include strong regional cities like Dubbo, Orange, Tamworth and Wagga Wagga. There are diverse drivers of economic activity there and that translates into housing demand, which in turn generates price growth.

You probably won't be suggesting a family holiday in Dubbo but it should be on a list of possibilities for property investment, as a strong and diverse regional economy with good growth prospects.

The population is growing and the property is affordable.

Peripheral issues don't matter – e.g. interest rates speculation

History shows that lifting interest rates does little to quell a rising market.

There's no evidence that lifting interest rates correlates to a fall in dwelling prices. We started 2007 with the official interest rate at 6.25%. In August that year, and again in November, the RBA lifted rates. In February and March 2008 it lifted them twice more. That meant an increase from 6.25% to 7.25% in six months (compared to 1.5% in January 2019).

But dwelling prices kept on rising. Indeed, the rate of price growth throughout 2007 and into the first half of 2008 kept increasing. The more the RBA lifted rates, the faster the rate of price growth. It was only the onset of the GFC that finally slowed the property market – and only temporarily.

Over the 18 months from the start of 2007 to the middle of 2008, a period of rising interest rates with most families paying over 9% on their mortgages, Darwin's median price rose 15%. Canberra's went up 18% and Adelaide's increased 23%.

Conversely, interest rate cuts do not generate booms. In 2014, 2015 and 2016, during a period of record low interest rates, only Sydney among the major cities experienced a genuine property boom – an up-cycle generated by the strength of the New South Wales economy, not the level of interest rates.

Later Melbourne joined Sydney's boom, thanks to the strength of the Victorian economy, but "record low interest rates" failed to generate booms in Brisbane, Adelaide, Canberra, Darwin or Perth.

The evidence goes back well beyond the past decade. A Residex article written in 2000 began with: "Do rising interest rates mean decreasing property prices? If history is any guide, not at all.

In fact, analysis of our data reveals that interest rates have no effect on the capital growth of property at all."

Extract Emotion

The article presented data on periods of rising interest rates in the Seventies and Eighties which "were followed by accelerating or steady house price inflation".

Price trends correlate more with the level of public confidence than the level of interest rates.

There's no evidence that rising interest rates correlate to a fall in house prices – or that falling interest rates create booms.

If anything, rising interest rates have a positive impact on confidence, because they depict an improving economy.

Prices finally stopped rising in the latter part of 2008 because confidence fell as media gave us a daily battering of negative news about the GFC, the impending Australian recession (which never arrived) and the prospect of high unemployment (which didn't happen either). Confidence, and price growth, revived in the latter part of 2009 as the emphasis switched to news of recovery, falling rates of unemployment and a resurgent resources sector.

Both factors eased in mid-2010 with the calling of a federal election, an indecisive result and endless media speculation about rising interest rates and the prospect of prices collapsing because of the mythical "bubble".

The message here is that investors need to avoid becoming emotionally impacted by peripheral issues like interest rates and media speculation about them.

Peripheral issues don't matter - headline-hunting negativity

It's easy for property investors to be distracted and discouraged by negativity generated in the media by organizations pursuing political objectives, personal agendas or simply seeking publicity by making sensationalist comments. It's important not to let these peripheral issues scuttle an investment plan.

The biggest mistake a real estate consumer can make is to be a newspaper reader. Investment adviser and author Noel Whittaker says anyone who seeks success in real estate needs to stop reading mainstream media - and I agree.

Anyone who conducts research through absorbing media sound bytes and headlines (few people take the time to read the detail) will be filling their heading with negativity and misinformation.

There are few real estate experts working for our big newspapers. The journalists who do are primarily re-cycling press releases from companies with a vested interest in the message. Often the vested interest is getting free publicity - and most know the short-cut to easy profile is to say something sensationally negative about real estate.

The problem is compounded by the reality that most of our major media emanates from Sydney and far too many writers are overly-influenced by local events. When Sydney was booming, media told us we had a national property boom (we didn't) and now we're being told we have a national downturn, with prices falling across Australia (that's also a lie).

Because journalists are naturally attracted to negatives rather than positives, publicity-seeking commentators who make dire forecasts about house prices are getting most of the media attention. Those with moderate forecasts are being ignored.

This was the case in the latter part of 2018, as prices generally decreased in Sydney and some publicity-seekers were forecasting major market decline.

Our day-to-day research revealed that there were far more commentators suggesting a soft landing for Sydney and Melbourne, than there are those predicting massive price decline.

Most analysts also noted that the other capital cities, as well as key regional markets, had more buoyant markets. But these calm, rationale forecasts were not being reported by print media - or by the ABC, which has a strong anti-real estate bias.

The lack of accuracy, objectivity, balance and fairness in mainstream media is sad and concerning.

Early in December 2018, one of the nation's major data sources Domain published its forecasts for capital city markets in 2019 and 2020. It predicted that the price decline in Sydney and Melbourne was likely to bottom out in mid-2019 and bring a return to gradual price growth, while it expected the other capital cities to record moderate price growth in 2019. In 2020 it foresaw solid growth in most cities.

There were few reports in mainstream media about these forecasts, while non-expert observers with a clear motivation in generating cheap publicity, like UBS, were constantly featured with their irrational forecasts of collapsing markets.

Many other reputable analysts made forecasts that suggested moderate outcomes for the two biggest cities and better results in smaller capitals, but they too were largely ignored.

A number of leading economists spoke out publicly against the predictions - by a small number of people, including some of the usual suspects like academic Steve Keen who hasn't been right any time in the past 10 years - of 40% declines in prices.

They include CommSec's Craig James who said: "As both the RBA and the IMF indicate, there is no oversupply, affordability to make debt repayments remains strong and net worth or wealth is at record highs. Also, the good news is that government debt is low and the Budget is near balance."

Others who publicly disagreed with the doomsday scenario included Sarah Hunter, chief economist at BIS Oxford Economics, and AMP Capital's Shane Oliver.

Oliver, who noted it's not all about Sydney and Melbourne, commented that Adelaide, Brisbane, Canberra and Hobart, as well as many regional centres, "are likely to perform a lot better".

One of the nation's most respected analysts Paul Bloxham, chief economist for HSBC, noted that the downturn in the two biggest cities had been orderly and quite moderate, with no evidence of panic or forced sales. He predicted a soft landing in Sydney and Melbourne and noted there were more positive things occurring in the other capital cities.

Westpac CEO Brian Hertzer has a similar analysis, saying: "We view it as an orderly slowdown in Sydney and Melbourne. So we think prices will come down a little bit more from here, but we don't expect a big drop in house prices."

Don't insist on buying locally

One of the biggest mistakes new investors make is clinging to the notion that they should buy in their own backyard. Many potential investors work on the assumption that it's smart to buy in the area in which they live. It usually isn't.

Some buyers seek to invest locally because they want to be able to drive past and keep an eye on it. Others think it makes sense because they understand their own market.

Still others reason that if you buy close to home they can self-manage it and save some money.

And there are many who believe that you must personally inspect any property you buy and therefore you should buy locally for the sake of convenience.

None of these arguments stands up to scrutiny.

The key point is this: when you buy an investment property you want to make the best purchase you can get your hands on.

It's highly unlikely that the best buy in Australia will be found in your local area.

Your best chance of buying well in an area that delivers the rental returns and/or capital growth that you're seeking is to consider the whole nation as your market.

Many people believe they know their local property market well. If you're one of those people, ask yourself these questions. Do you know the median price for a four-bedroom house in your home suburb? Do you know what percentage of households rent in your suburb? Do you know the local rate of unemployment? Do you know the vacancy rate for two-bedroom apartments in your suburb? Do you know which industry sector in the biggest provider of jobs in your local area?

Few people know the answer to any one of those questions, much less the answers to all of them.

The notion of saving money by self-managing is a serious mistake and a classic case of false economy. Unless you're independently wealthy and have a lot of time on your hands, you do not want the hassles of property management in your life. Find yourself a good manager and pay them to handle if for you. Then you are free to buy anywhere in Australia.

The belief that you need to personally inspect any property you plan to buy is also a furphy and one that limits your options as an investor. Buyers can protect themselves by engaging suitable professionals – such as valuers, building inspectors, pest inspectors and property managers – to check out the property for them.

Part 2 : Research

You must be prepared to work – and persist

It's surprising how little work investors are prepared to do before committing hundreds of thousands of dollars to a property purchase.

It's the reason so many consumers are duped and lose money in the hands of spruikers who promise they can convert everyday wage earners into property millionaires. The underlying motivation that causes consumers to fall into traps is the desire to achieve windfall wealth without any effort.

Many prospective investors appear to want someone else to do all the work for them – but are unwilling to pay for it. Even a simple Google search seems too much trouble for some.

The reality is that no one ever became a successful property investor without putting in some hard yards. Investors need to research the target areas to be sure they will show growth.

Property investors need to show resilience and persistence. It can take time to identify the right property to buy and to successfully negotiate a contract and settle a sale. Often the first attempt to buy a suitable property in a chosen location is unsuccessful. Even more often, the financial institution providing the loan will create problems and introduce delays.

No one ever became a successful property investor without putting in some hard yards

Here is one investor's story:

"Recently I settled the purchase of a rental property in NSW for a self-managed super fund. It took 18 months from beginning the search process to settlement.

"The first property I targeted did not result in a sale because the vendors, at the 11th hour, changed their minds about wanting to sell. The second property I chose did not result in a sale either because the vendor would not reduce his price, which my research indicated was too high.

"The third property did finally result in a purchase, but only after four months of delays caused by National Australia Bank, which took that length of time to approve the loan application. The settlement date had to be deferred twice because of the time taken by the bank to analyse and approve the deal.

"As one example of the frustrations and delays, the bank had the trust deeds relating to the super fund for four months before deciding, three days before settlement, that it did not like the wording of the document and wanted it changed."

These kinds of glitches are common in property investment and demand patience and persistence from the investor.

Why due diligence is so important

Buying property "in the path of progress" – well-situated for a new road link, for example – is one way to make capital gains. But being ***directly*** "in the path of progress" is one of the great nightmares for property owners. The discovery that your property is potentially doomed because of a proposed infrastructure development can destroy an investment plan.

One situation is where a home is definitely targeted for resumption – the owner at least has some certainty (but faces the prospect of battling for fair value from a government authority). Considerably worse is the situation where a property ***may*** be required for a government project. Years of uncertainty can make the property un-sellable and damage its value.

The ***Sydney Morning Herald*** reported the uncertainty for home owners near Eveleigh rail yards in Newtown. Over 30 owners discovered their homes "could be" marked for compulsory acquisition. Uncertainty with a capital U marked this situation.

The ***SMH*** reported that carpenter Peter Cannon bought a cottage in a heritage conservation area, with a plan to renovate it as a retirement project. But two weeks after he began demolition and signed a $60,000 contract for excavation, he learnt the State Government had other plans. "His house and up to 33 others are on land identified in government documents as a possible site for the north Eveleigh 'dive', an access point that would link a second rail tunnel to be built under the CBD to the planned Western Express route to carry services from Penrith and Richmond.

"Mr Cannon was gutted when he and other residents learnt that their homes could be marked for compulsory acquisition. The first communication residents had was a flyer from Transport NSW in letterboxes which said no final decision had been made and that 'extensive' community consultation would occur first. On legal advice, Mr Cannon suspended work. With water seeping into a major excavation and the house partly demolished, he is in limbo, awaiting the government's decision. He is also $100,000 poorer, with a mortgage on a house he can't live in.

"More galling is the fact that RailCorp explicitly approved his development application in November. He had to comply with RailCorp's stringent requirements to get development consent for work so close to the train lines. *When exactly were they going to tell us?* he asked. *We never would have started if we'd known. The place was liveable before. What's its market value now?"*

This report provided a striking example of why due diligence is so important for property buyers.

Another example, from 2018, shows why investors need to conduct thorough due diligence.

Due Diligence Saved This Investor

A Melbourne investor identified a property in a suburb of Adelaide that appeared to tick all the boxes according to his buying criteria:

- It was with his price range.
- The existing rental situation provided a positive cashflow rental return.
- The zoning and land size allowed future re-development with multiple dwellings.
- A visual inspection suggested the house was solid and structurally sound.

However, the investor did what all buyers should do before committing to a purchase: he organised a building and pest inspection. This revealed that the building was riddled with termite damage - and he was able to avoid making a costly mistake.

There may be no way out for owners who discover their property is earmarked for resumption to build new rail infrastructure.

Gathering information

Know where to find good information

You can't invest sensibly without good information.

Investors need to read good information sources and tap into the vast resources offered by the Internet.

But busy people can't spend half of every day on the computer or plowing through piles of research documents.

So here are some suggestions:-

You can visit onlinenewspapers.com. From there you can find the website of every major newspaper in the country, and many minor newspapers as well.

There isn't time to look at all of them – there are hundreds – but you can look at the newspapers from the eight capital cities and other key locations. If a new freeway has been announced by government, there will be an article on it. If a new rail line is planned, or a major new mine is proposed, or there is movement of significance in a local property market, chances are it'll be covered by the city newspaper.

But avoid market commentary and information about price growth levels, which is often misleading and misinformed.

You can use Google Alerts to create daily bulletins of significant events, using a variety of subject headings such as "median prices", "stamp duty" and "transport infrastructure".

A good venue for free info about suburbs is the domain.com.au website where you can access profiles of locations across Australia, including data on real estate prices. The sqmresearch.com.au website has useful data on locations around Australia, including vacancy rates and demographics, provided free of charge.

The website profile.id.com.au is a good source of statistical information about specific areas, including population growth, building approvals and demographic profiles.

Some of these services are free; others cost money, but not a lot of money.

There are many websites with background information about towns, suburbs and regions. If you're interested in investing in a particular location, key in the place name in Google and it'll bring up a smorgasbord of websites with all sorts of information on an area.

As a property investor, you want to know about population data, business activity, the local tourism industry and major projects happening in the area (because these provide employment and a source of tenants for investment properties). Often the website of the local council has good information of this kind.

Another information source that's primarily free is provided by the various state Real Estate Institutes. Some of these have useful information about prices and other data relevant to real estate.

You should treat some of the market commentary from the real estate institutes with caution, as they have a vested interest in talking up the market. Some of them publish very bullish (sometimes misleading) information about auction clearance rates to create the impression of a strong market.

You also need to treat median price statistics with caution because they can be very misleading. That's not because of any attempt at deception, but because median prices by their nature can be full of distortions.

An upmarket housing estate released to the market in a particular quarter can provide a distortion by lifting the overall median price for the suburb and giving the impression that values have risen sharply. There's a similar impact when a major new high-rise apartment building is marketed.

People feed bulk data on sales into a computer and the computer spits out median price data - and often the result is nonsense.

Sometimes it's a case of "garbage in, garbage out".

You should be aware that price growth figures from one source are often contradicted by data from another source. It's not uncommon for one research source to declare that a particular city's market is rising strongly, while another source claims that the same market is falling.

If you're looking for examples of properties for sale in an area, it's hard to go past domain.com.au and realestate.com.au.

There's a lot more an investor can do to be informed. But those are some of the research possibilities.

Gathering information

Be aware of misleading medians

Experienced property analyst Michael Matusik has, over the years, conducted a thorough analysis of re-sales of homes in 24 locations throughout South-East Queensland. He presented the results as a more accurate depiction of the movement in property values than was provided by median prices.

Median prices are very much abused and mis-used by journalists, who present changes in median prices as evidence of equivalent changes in property values. An example was the Melbourne newspaper which claimed that the typical house in the city had increased in value by $98,000 in the previous 12 months because the city's median house price had increased by that amount. This showed an alarming lack of understanding of how medians work.

If you list all house sales in a suburb in a particular month from the most expensive to the cheapest, the sale in the middle of that list is the median. If 15 houses sell in a particular suburb this month at these prices ...

$610,000 $605,000 $580,000 $565,000 $530,000
$530,000 **$525,000** $520,000 $510,000 $485,000
$475,000 $450,000 $435,000 $415,000 $410,000

... the median price is the sale in the middle of that list - **$525,000.**

A year later, if sales in the same area were at these prices ...

$650,000 $645,000 $645,000 $615,000 $595,000

$580,000 $580,000 **$575,000** $530,000 $515,000

$475,000 $450,000 $435,000 $415,000 $410,000

... the median price is **$575,000.** Does that mean values have risen 10.5% in 12 months - the difference between the median last year ($520,000) and this year ($575,000) being $55,000 or 10.5%?

Often it does not mean that at all – simply that the top end of the market has been more active and more high-priced houses have sold this year compared to last year, when the mid-to-bottom end of the market was firing.

This shows how median prices can be very deceptive. The Matusik 24 study illustrated the point well by examining re-sales of properties within selected areas. It showed that while median prices rose 22% in Brisbane's inner-ring suburbs, values actually rose only 9%.

By contrast, while the median price of the outer ring suburbs increased only 4%, values rose almost 9%.

Matusik described the logic behind his report like this ...

Too often, and with increasing frequency, our contemporaries release long lists outlining the performance of residential property by individual suburbs. Based mostly on changes in median price, these sales are not cleaned. As a result, the findings produced are often next to useless. Worse still, they are misleading ... We have selected 24 benchmark suburbs across the south-east corner of Queensland. The suburbs chosen typify a range of geographic locations. We have cleaned up the data pertaining to each ... We had to remove, on average, 18% of sales across the 24 selected suburbs from our price-related calculations this year, because they were extraordinary transactions such as divorce sales and so forth ... Median house values across the inner Brisbane sample suburbs rose 22% over the last 12 months. But when using actual re-sales and selecting those that have not undergone any substantial improvements between sales, we find that detached house values rose just 9% over the last 12 months across our inner Brisbane sample suburbs.

The median price for Minyama on the Sunshine Coast rose 48% in one12 month period, but values as depicted by re-sales increased only 8.8%. At Coolum Beach the median house price fell 5% but values rose 8.7% over 12 months.

At Sunnybank in Brisbane's middle ring, the median house price rose only 1% but values rose almost 10%. At Palm Beach on the Gold Coast, the median house price fell 3% but values as measured by re-sales rose 6.6%.

Median prices can be useful for investors as long as they understand their limitations. When there is a large sample of sales over a long time frame – e.g. five or ten years – they may show something worthy of credence.

But be aware that the median price listed by one source may be different from another source.

In particular the growth in prices in a specific location can vary, depending on the source of the data. Four research companies can provide four different growth numbers, because they all use different methodologies.

In 2018, according to one big-name data source, Darwin house prices **rose** 5%; but two other sources said they **fell** 4% while a fourth research firm said Darwin house prices **fell** 12%.

Gathering information

Question everything, believe no one

Australians are duped out of tens of millions of dollars in scams each year.

The ACCC Targeting Scams Report says that in 2017 government organisations including the ACCC, Australian Cybercrime Online Reporting Network (ACORN) and the Australian Taxation Office received over 200,000 scam reports.

The reported losses exceeded $340 million, an increase of $40 million over 2016 losses.

The ACCC received over 161,500 scam reports with $91 million in financial losses which represents an eight per cent increase in reported losses over 2016.

One of the most concerning trends of 2017 was the significant money Australians reported lost to investment scams. Losses to investment scams reported to ACORN and the ACCC exceeded $64 million in 2017.

Investment scam losses reported to the ACCC increased 33% from $23.6 million in 2016 to $31.3 in 2017.

The most commonly-reported scams to the ACCC in 2017 were phishing, identity theft and false billing scams.

The ACCC received over 55,000 reports of these kinds of scams in 2017 and there is little doubt that many more were encountered but not reported.

The ACCC received reports of scammers creating convincing copies of the websites and account log-in pages of many major retailers and service providers hoping to trick consumers into entering their account or banking information.

From here, scammers hacked bank accounts, email addresses and even engaged in mobile number porting to get around two-step authentication processes. These reports serve as a reminder that personal and business information is a target for scammers and a gateway to our money and should be defended with robust and vigilant information security practices.

Real estate is a breeding ground for scams, too. Most state and territories have enacted legislation in the past decade to stamp out the worst property practices. Common tactics - such as under-quoting in auction ads and dummy bidding - still abound, despite those laws.

Recently we've seen a new kind of real estate scam: misinformation. Lobby groups seek to further their political objectives through propaganda dressed up as research. Companies seeking publicity know "research" that supports a sensational negative claim will generate headlines.

As in war, the first casualty is the truth. This is a problem for investors because good information is the foundation of sound investment decisions. Given the proliferation of lies, damned lies and statistics, how can investors decide between good information and bad?

My first rule as a property investor is: Question everything, believe no one. Even ethical people speaking from the heart need to be questioned, because their position represents the views of one person – and others may disagree.

When a lie becomes accepted as fact

It's scary the speed with which a lie becomes accepted as a fact across Australia. It has become accepted as "fact", repeated regularly by media across the nation, that Australia has a housing price "bubble".

It's nonsense – but many newspaper stories on real estate in recent years have had "bubble" in the headline. Over the past 6-7 years, many commentators and talking-head economists, in an effort to appear informed on real estate, have referred to this "bubble". It's become hip to say bubble.

This has been the case since the start of the 21st Century. On most days since 2000, media somewhere in Australia has run a bubble story, implying that property values will collapse. To date, it has not happened.

Bubble stories increased in 2009 and thereafter, all based on a lie. It came from a speech by Reserve Bank Governor Glenn Stevens on 28 July 2009 in Sydney. Having seen the coverage given his speech, he probably wishes he never stood up. According to media reports at the time, Stevens was worried about a housing bubble.

But he never said that. At no stage did he use the word bubble. The text of his speech and the audio recording of it, including the question-and-answer session afterwards, shows that nothing he said could be construed as reference to a bubble.

Here's what he did say: "A very real challenge is: how do we turn ready availability and low cost of housing finance into more dwellings and not just higher prices.

Gathering information

This ought to be a time when we can add to the dwelling stock without a major run-up in prices. If we fail to do that – if all we end up with is higher prices and not many more dwellings, then it will be very disappointing." He did not say he was concerned about the current price levels. He said only that prices were "tending" to rise.

While there was some increase in median house prices across Australia at the time, it was minor. According to Australian Property Monitors, median prices rose about 3% nationally in the June Quarter of 2009. The Australian Bureau of Statistics' House Price Indexes for the June Quarter 2009 found that the weighted average across the eight capital cities was a rise of about 4% - but prices remained lower than mid-2008 levels.

So where did this concept of a bubble come from? It arose out of ignorance and the peculiar beat-up mentality that pervades media. The original lie (that Stevens spoke of a price bubble) was compounded by the shallowness in Australian journalism. Many people who commented on the "bubble" after that did so because they read it somewhere – it became a cheap-and-easy headline to repeat it. No one bothered to check.

Lost in the fog of misinformation was the reality that Stevens' speech was devoted to a fairly positive review of Australian economic performance and the challenges that lay ahead. But after July 2009 there were countless references in media to the RBA's concern about the "bubble". The RBA went to considerable lengths, with media releases and speeches in various forums, to make it clear it did not believe that a bubble existed. But the lie continued to be accepted as fact. Fast-forward to 2018-19 and bubble stories continue to abound in Australian media.

OECD Assessment Misrepresented

In 2018, as the boom in Sydney and Melbourne wound down, mainstream media indulged a feeding frenzy of negative articles which converted the decline in big city prices into a national downturn.

Major newspapers ran daily articles describing the "collapse" of Australian property prices. In their drive to create negative sensation, journalists found ways to turn positive reports into ones that focused primarily on perceived negatives.

One striking example came from a report in December 2018 from the Organization for Economic Co-operation and Development.

The report said that Australia's long span of economic growth, 27 consecutive years, was likely to continue and that the Sydney and Melbourne housing markets were "on track for a soft landing".

In its Australian economic survey, the OECD said: "Life is good, with high levels of well-being, including health, and education. Robust economic growth is set to continue."

"New capacity coming on stream in the resource sector will support exports and business investment will pick up.

"Growth of wages and prices will rise gradually, while the unemployment rate will edge lower.

"Output growth will moderate slightly in 2020 as capacity constraints tighten, export-market growth slows and households become less willing to draw down savings to fuel consumption"

It said the most likely outcome for the housing market in the biggest cities was a soft landing and that a housing crash was unlikely. But it said the housing market could pose a risk to the nation's economic growth going forward.

"Financial supervisors and bank regulators should be prepared in the event of a hard landing in the housing market," the report said.

Media coverage focused exclusively on the reference to the possibility of a "hard landing" and dishonestly portrayed this as being the core message of the OECD report.

Glenn Stevens:

Something he did NOT say became accepted as fact by media.

Part 3 : Buying

Units or Houses: which suits your strategy best?

The dominant paradigm of Australian real estate has been that houses show better capital growth rates than apartments. The standard argument has been that houses have greater land content than apartments and that while land parcels appreciate, dwelling structures depreciate.

But this is rather simplistic. More pertinent perhaps is the underlying cultural attitude of Australians. The so-called Great Australian Dream of "a home of your own" is based primarily on the image of a house on a block of land.

Gradually that is changing. For many years households have been getting smaller while houses have been getting larger and more expensive. Increasingly buyers are opting for apartments for affordability and lifestyle reasons.

The market share of apartments is rising steadily. In 2009, 30% of new dwellings were apartments; by 2012 this had risen to 38%. In February 2015, new building approvals were split 50-50 between houses and apartments. In January 2017, 45% of new dwelling approvals were apartments.

Apartments increasingly are challenging that old paradigm about houses delivering superior capital growth, as more people opt for apartments.

As far back as 2010, RP Data figures suggested apartments showed better capital growth in Sydney, Brisbane, Perth and Darwin, and similar growth rates in Melbourne and Canberra. APM recorded stronger growth for units in Perth, Darwin and Hobart, but inferior growth rates than houses in Sydney, Melbourne, Brisbane, Adelaide and Canberra.

RP Data also suggested apartments had performed a little better than houses over five years. Units recorded average annual value growth of 7.4% compared to 7.1% for houses – although over the 10 years to 2010 the average annual value growth of houses (9.9%) was better than units (8.0%).

This?

Or this?

In 2013, according to APM figures, apartments achieved higher growth than houses in the two leading capital cities for price increases, Perth and Darwin. In Perth the median unit price rose 9.3% in the 12 months to June 2013, while in Darwin the unit median increased 10.3% (although subsequently there was post-boom price decline in those markets).

Figures published by SQM Research in February 2017 indicated that annual price change outcomes were similar between houses and units in several cities. This included price growth leader Hobart, where the Asking Price Indexes were up 12.8% for houses and 13.0% for units. The average situation across the capital cities was an 8% rise for houses and a 6% rise for units - while the growth over three years was 21% for houses and 18% for units.

The data suggests the rising performance of units is quite recent – and affordability is a key reason. CoreLogic figures in December 2018 indicated the typical Sydney unit was $215,000 cheaper than the average house. The differential was $220,000 in Melbourne, $230,000 in Canberra and $160,000 in Brisbane.

Households have been getting smaller. More people choose to live alone or as couples without kids. Some baby-boomers want to downsize. Young adults are happy to live in a small dwelling as long as it's wired. The average household has reduced from 4.2 people in 1950 to 2.75 people in 2000 and 2.6 people in 2016.

More are opting for units because they're cheaper and less time-demanding. Media has presented numerous articles discussing this trend. ***The Australian*** reported, under the heading *Young plump for inner-city pads*, that Melbourne was leading "an apartment surge" as young buyers gave up on the idea of owning traditional homes in suburbs.

While the newspaper attributed this largely to affordability reasons, lifestyle choices play as big a part.

Often, a buyer's choice will be a mixture of affordability and lifestyle: a desire to live in a low-maintenance, easy-care home close to work, restaurants and nightlife, at an affordable price.

The Australian quoted Sam Nathan, an apartment specialist with property advisers Charter Keck Cramer, as saying that Generation X and Generation Y saw apartments as their "primary housing option".

At the same time, ***The Courier-Mail*** reported that Brisbane residents have embraced apartment living with the number of owner-occupiers buying units in the inner-city jumping 25% in five years.

Government policies will add further impetus. Most state governments have plans to manage population growth.

A central theme is strong emphasis on infill development in preference to urban sprawl. This calls for more medium- and high-density development, particularly around transport nodes.

City dwellers are increasingly using trains to get to work. Petrol prices, road tolls and city parking fees are driving more people to stop driving. Suburbs with train stations will be out-performers in capital growth and units around rail stations are likely to be winners.

Urban renewal programs are a success story. We're seeing industry removed from waterfront areas and replaced by dwellings.

The purpose of this piece is not to convince you that you should buy apartments.

It is to suggest that there is an alternative to the dominant culture of Australian real estate that could be considered.

Deciding where to buy

More important than <u>what</u> you buy – or <u>when</u>

A critical feature of successful property investment is deciding **<u>where</u>** to buy. In many ways it's more important than **<u>what</u>** you buy – or **<u>when</u>**.

The key for investors looking at properties is to first take several large steps backwards.

Investors fail to see the best opportunities to buy real estate because they look too "micro". The bigger picture is more important. But they can't see the suburb for the houses (the real estate version of "can't see the forest for the trees").

Many investors put their energies into scrutinising the individual property to buy. That's important – but where they buy is more important. Most crucial of all is the rationale supporting the where.

The chapters that follow discuss some of the key issues in helping investors decide the **<u>where</u>** .....

Deciding where to buy

There's life beyond the big cities

Despite its vastness, Australia's attention is focused in narrow areas. Sydney and Melbourne have dominated media attention and discussion of property markets since 2013 - both when their markets were booming and later when they went into decline.

So much of our population and headline action is in the big cities, we tend to forget there's a life beyond them. When we do receive news of regional areas, it's about drought, bushfires and population drain.

As Bill Birch, economic development manager for Narrabri Shire in NSW, said: "If it's more than two hours away, city people have never heard of it and have only flown over it on their way to Hong Kong."

But away from the big cities and beaches, there's a vibrant economic life happening around regional cities and towns. They're places where community is alive and most councils embrace anyone who wants to come and invest.

For some reason, property investors cling to the coast like a security blanket.

The last place they'll consider is an inland regional centre.

Most favour the inner or middle-ring suburbs of the capital cities (all, except Canberra, coastal), especially Sydney and Melbourne - in the mistaken belief that this is where the best growth always resides.

The research suggests otherwise. In the six 5-year periods since 1988, the leading cities for price growth in four of those six 5-year periods have been Brisbane, Perth and Darwin (twice). Sydney has been the market leader only once in the past 30 years and the strongest 5-year growth spurt was delivered by Perth, where house prices grew 140% in the 2003-2007 period.

Surveys indicate that investors tend to rate precincts in this order, in terms of perceived capital growth performance:

1. Inner-city suburbs
2. Sea Change areas
3. Outer-ring suburbs
4. Inland regional areas

Outer suburbs of our capital cities rank low in their estimation, despite the large body of data showing this is where good long-term capital growth is often found. In Melbourne in both 2017 and 2018, the busiest markets and the ones with the strongest price growth were the outer-ring areas.

Regional centres and country towns barely rate a mention in surveys of investor perceptions. It's only in the context of mining towns that investors will look inland (and that's seldom a smart move).

It confirms how little people understand about property markets - and how little research investors do, despite the risks involved with large sums of money.

In 2018, most of the locations with the strongest price nationwide were in regional Australia, including in Victoria, New South Wales, Tasmania and Queensland.

Some Victorian towns recorded median price growth well above 20%.

They included suburbs in the City of Greater Geelong, as well as towns outside Melbourne to the south-east, including Pakenham, Officer and Warragul.

Strong growth in New South Wales in 2018 was led by Newcastle and neighbouring locations including the Port Stephens area and the towns of the Hunter Valley.

Many locations throughout the Central Coast region recorded double-digit annual growth in their median house prices in 2017 and 2018.

Other NSW markets with solid uplift in values included inland regional centres like Orange, Goulburn, Queanbeyan, Lismore and Casino.

Many regional locations in Tasmania recorded high growth in 2018, headed by the state's second largest city, Launceston.

And in Queensland, the strongest market was the Sunshine Coast, where many suburbs delivered annual price growth above 10%, out-performing Brisbane markets by a wide margin.

Deciding where to buy

Middle and outer suburbs often have the best capital growth rates

The most temperamental markets in Australian real estate are the premium suburbs in Sydney and Melbourne. Long-term, they often have capital growth records that are poor by national standards, notwithstanding the growth of recent years.

The prestige markets have periods during which they run amok, with home-buyers and investors competing feverishly at auctions.

Usually, this price surge is followed by a decline in values. We saw that in 2018 in Sydney and Melbourne. The price graph for many of the millionaire suburbs resembles a mountain range. A peak is followed by a trough, sometimes quite a deep one. By the time you average out all this volatility the long-term growth rate is relatively unimpressive.

The middle-ring and outer-ring suburbs are less likely to behave like that. The same is true of those solid regional centres that most investors ignore. Their price graphs tend to be smooth and the long-term growth averages are usually solid. It's the property market's version of the hare and the tortoise.

Research conducted in 2010 revealed that there were 46 suburbs in the Melbourne metropolitan area with long-term growth rates of 12% or better. That's the average annual growth rate in median house prices over 10 years. Only one of these out-performing suburbs – Balwyn - was in the "prime" inner-city suburbs. The rest were a long distance from the Melbourne CBD. The Mornington Peninsula was a standout for long-term capital growth.

So was Geelong.

That research was repeated in mid-2013 and delivered a similar result. Only one of the top 25 Melbourne suburbs for long-term capital growth was a million-dollar (again it was Balwyn). Most of the top performers were cheaper areas a considerable distance from the Melbourne CBD.

So much for those "professionals" who claim the best – indeed the only – places to buy are in the inner-city suburbs.

Toorak, the most expensive Melbourne suburb with a median price well above $3 million, had a price spike in 2004. Growth fell away hereafter to a trough in 2006. There was another price spike in 2007/2008, followed by a deep trough, with the median price falling almost 20 per cent in 2009. In the first half of 2010 we saw another spike, followed by another deep trough in 2011. After another brief growth spurt in 2015-2016, the median house price for Toorak dropped 28% in 2018, according to CoreLogic data.

In January 2019 its average annual growth rate over 10 years was 4.2%, one of the worst in Melbourne.

The Toorak apartment market was even more volatile, with price surges in 2004, 2008 and 2010 interspersed with deep troughs in 2006, 2009 and 2011-2012. In 2018 the median apartment price fell 17% and the long-term growth rate was less than 4% per year.

Research conducted in mid-2015 indicated that the best long-term growth rates in most of the capital cities were achieved by middle-ring or outer-ring suburbs.

The leading suburbs in Perth for long-term capital growth were found overwhelmingly at the cheaper end of the market. Fifteen of the Top 20 suburbs had median house prices below $500,000, including five with median prices below $400,000. Only one of the Top 20 was above $700,000.

The stand-out growth precinct in the Perth metropolitan area was in the south-eastern suburbs around Gosnells. Four of the Top 20 were in the Gosnells LGA. They were all affordable suburbs (median house prices in the $395,000 to $490,000 range), most with train links to the CBD.

The Top 20 suburbs for long-term capital growth across the Melbourne metropolitan area in 2015 had growth rates in the range from 8.3% to 10.1%. The Top 20 list was dominated by Middle Melbourne, headed by typical middle market municipalities like Whitehorse and Monash, which provided half the suburbs in the Top 20.

The Whitehorse LGA east of the Melbourne CBD was the No.1 municipality, providing six of the suburbs on the Top 20 list, including the No.1 ranked suburb Mont Albert, which had averaged growth of 10.1% per year over the past decade.

Nine of Melbourne's top-ranked suburbs for capital growth had median prices between $730,000 and $960,000.

The leading capital-growth suburbs in the Brisbane metropolitan area were overwhelmingly middle-market areas, particularly on the city's northside.

The leading precinct was Brisbane Northside – the northern suburbs of the Brisbane City Council area – which provided the top four suburbs and six of the top 10. This area was prominent in terms of capital growth rates because it led the upturn in the city market in 2013 and 2014 – and many suburbs had recorded double-digit price growth in the previous 12 months, lifting their long-term growth rates.

These were locations with median house prices in the $500,000 to $700,000 range.

This illustrates how much markets change over time. In late 2014, the Top 20 list for Brisbane was a mixture of middle market and bottom end locations. And in late 2012, the Top 20 list was dominated by cheap suburbs in the Ipswich and Logan local government areas.

Hill Change can offer better value, higher growth than Sea Change

At a dinner party, when the conversation turns to real estate investment, which of the following would you rather be able to say:

- I've just bought a high-rise apartment with ocean views in Surfers Paradise?
- I've just bought a three-bedroom house in Dubbo?

There's more (perceived) prestige in having the Surfers Paradise pad than the run-of-the-mill house in regional New South Wales.

But - and here's the thing - the Dubbo house is the superior investment.

The median house price for Dubbo has grown 30% in the five years to the end of 2018, with a long-term growth average around 5% per year.

This is not boom-time growth but is typical of the solid, steady uplift experienced in strong regional cities in NSW - and much better than the performance of iconic tourist destinations like the Gold Coast.

Deciding where to buy

Surfers Paradise has the allure of being a great place to invest but its performance is among the worst of any big-name location in Australia.

The long-term capital growth rate for Surfers Paradise units is a negative figure, according to the CoreLogic figures.

This means that the median price for Surfers Paradise apartments ($370,000 early in 2019) is lower than it was 10 years ago.

It's similar for other beachside Gold Coast suburbs like Main Beach and Broadbeach, where the market suffers from frequent bouts of oversupply.

You can buy a typical Dubbo house for less than a Surfers Paradise apartment and are likely, based on the recent history, to get a much better capital growth performance - as well as rental yields averaging 5%.

But if you asked average investors whether they'd rather own a Surfers Paradise apartment or a house in a regional centre like Dubbo most would opt for the unit on the glitzy beach strip.

Around 3,000 people bought apartments in the Gold Coast high-rise suburbs (Surfers Paradise, Main Beach, Southport and Broadbeach) in 2018 but only 800 people bought houses in Dubbo.

There are numerous regional towns in NSW with better recent capital growth performance than steady-as-she-goes Dubbo.

In hill change destinations like Katoomba and Mt Victoria in the Blue Mountains, the 10-year growth average is around 7.5% per year. Prices grew 70% or more in the five years to 2019.

Towns like Mittagong and Bowral in the Southern Highlands have delivered price growth averaging 7% or 8% per year over the past decade.

The inland river towns of Nowra and Bomaderry in the Shoalhaven area of NSW grew 70-80% in the five years to 2019, with a long-term growth average around 7% per year.

In 2017 and 2018 regional towns in Victoria - such as Warragul, Pakenham, Officer and Ballarat - were among the price-growth leaders in the nation.

The median price for Officer, south-east of Melbourne in Cardinia Shire, grew 74% in the three years to 2019, including 25% in 2018. In Warragul, in Baw Baw Shire, the median price rose 24% in 2018.

Deciding where to buy

The impact of government

Perhaps the most overlooked of the factors that generate hotspots is the impact of "government policy". It's a fairly bland term unlikely to set pulses pumping but it can be the highly influential.

Many of the most compelling growth areas have "government policy" among the factors generating their strong property markets.

There are three main ways in which government intervention can influence real estate:-

1. Through a planned process of urban renewal targeted on specific areas;
2. Through regional plans designed to cope with growth across an entire city; and
3. Through proactive action by energetic local councils.

Most of our capital cities have regional plans which purport to control expected population growth for the next 10, 20 or more years.

The Queensland State Government announced the South East Queensland Regional Plan in 2005 as the blueprint for how the Gold Coast, Brisbane and the Sunshine Coast will evolve over the next two or three decades. (It's been updated more recently.)

There were many key points in that plan for property investors. One was that the Government planned to absorb some of the population growth through in-fill, allowing more medium and high-density development – i.e. more apartments and townhouses. This tended to make houses in good-sized allotments more valuable, because over time there will be relatively fewer of them.

The NSW Government also had a strategy for Sydney which required existing suburbs to absorb an extra 640,000 homes over 25 years. Again, this needs to occur through medium and high-density homes – which would tend to make houses on good-sized allotments more valuable over time.

These moves reverse traditional planning policies which have discouraged density in existing suburbs. In 2018 two independent studies - one by the Reserve Bank and the other by Flinders University - concluded that the No.1 cause of affordability issues across Australia was the zoning system which mitigated against greater density in existing suburbs.

While state government policies in recent times have sought to change this, there has been a community backlash against the development of units and townhouses in established suburbs. Local councils in both Sydney and Brisbane announced new policies in 2018 to prevent medium-density and high-density developments in key areas of those cities.

At a more micro level, there are urban renewal programs. Most cities have urban renewal processes, which target specific suburbs for rejuvenation, either by converting industrial uses to residential or by renovating older housing stock.

These kinds of programs can transform areas that were formerly run-down into lively precincts.

In Perth, the Metropolitan Redevelopment Authority is having a significant impact on property markets across the city by facilitating the conversion of former industrial areas to modern residential.

In Brisbane, the Urban Renewal Task Force revolutionized rundown areas by removing industrial uses and injecting new residential, usually in riverside suburbs in the inner-city such as Teneriffe, Newstead and West End. More recently the new Urban Land Development Authority has brought big changes to Bowen Hills and Woolloongabba.

The influence of programs like these can spread to property values surrounding the projects and this is a syndrome that's worth watching.

Areas with energetic local authorities can also prosper, helped by the efforts of a proactive council to encourage and facilitate business development.

A notable example is the Sunshine Coast Regional Centre. It has been instrumental generating game-changing events such as ...

- creation of a multi-billion-dollar medical hub,
- businesses like Youi Insurance relocating their national headquarters to the region,

- a sub-sea communications cable connecting from Asia directly to the Sunshine Coast, and
- the creation of a new CBD in centrally-located Maroochydore, utilising former golf course land.

Prospects for the economy and the property market on the Sunshine Coast have been revolutionized by the $2 billion Sunshine Coast University Hospital project, which has inspired an array of other medical-related infrastructure nearby and created a new industry for the region.

This created the highest price growth recorded in Queensland in 2018.

Generally, investors should look out for markets boosted by hospitals and education precincts. One of the most powerful adrenalin injections for property markets is the presence of an expanding university precinct or a growing hospital sector.

Any location that has both in its midst can be assured strong demand for rental accommodation, which is the holy grail for property investors.

One of the best things about hospitals and universities is that, while they create plenty of construction jobs when they're being built, the finished facility generates a greater number of jobs – and they're long-term jobs.

This is starkly different to the impact of a new power generation facility, resources processing plant or water infrastructure facility. Those kinds of developments tend to create a short, sharp spurt of accommodation demand while they're being built – and then everyone leaves. A project might create 2,000 construction jobs but only 50 ongoing jobs in operating the facility.

That creates upheaval in property markets. For a while there isn't enough rental accommodation to go around and then there are widespread vacancies.

Markets with growing education and medical sectors, on the other hand, have the kind of solidity that allows investors to sleep at night.

North Melbourne has good prospects because it has a major educational precinct (the University of Melbourne and RMIT) and the city's main hospital precinct. That means lots of medical professionals, hospital support staff, academics and students are coming into the area looking for accommodation.

Liverpool, a regional centre within the Sydney metropolitan area, has a hospital which regularly undergoes major upgrades.

The combination of a large and expanding hospital facility and a major educational presence (Liverpool College of TAFE NSW, which caters for over 6,000 students) is a key attraction for property investors.

The Epping precinct on the North Shore has the expanding Macquarie University and the Macquarie Hospital – plus the Macquarie Park commercial precinct and new transport infrastructure.

Deciding where to buy

Regional centres are safer options than mining towns

Australia is littered with the carcasses of former boom towns impacted by the rise and fall of the resources sector.

Resources-related towns in Western Australia, including Port Hedland, Karratha and Newman, were negatively impacted by the decline in commodity prices and the end to the previous investment boom.

The median house price in Port Hedland rose as high as $1,200,000 at the height of the resources investment cycle, but fell to $885,000 in June 2015 and further to $395,000 in June 2018.

At the start of 2019, the median price was $355,000, according to CoreLogic figures. Rents fell by even greater degrees, bringing typical rental yields down from 10%-plus to around 5-6% at the bottom of the trough.

Resources-related towns in Queensland had been speeding ahead until stalled by the downsizing of mining operations or the growing use of fly-in-fly-out workforces accommodated in temporary camps.

Moranbah is Australia's greatest example of a boom-bust scenario. Until 2012, it was the national leader for long-term price growth, having averaged 30% a year over 10 years.

Its median price reached $750,000 and tenants were typically paying $1,800 per week.

Then Moranbah became a victim of its own success. Key miner BMA refused to pay those rents and moved to 100% FIFO workforces and temporary workers camps. Projects were deferred or downsized in response to falling coal prices.

Vacancies rose sharply in 2013, reaching 10%, and prices dropped massively, including 42% in 2015, with the median price down to $215,000. It fell further to $150,000 at the end of 2016 (before picking up in 2018).

Median rents declined to $270/week in June 2018), a sixth of the peak levels.

Mount Isa is one of Australia's largest mining towns and a significant regional centre in far western Queensland. But its property market declined alarmingly from early in 2013. In consecutive quarters, the number of dwelling sales dropped from 189-158-78-63-61-46-41-50-49-42-25. The suburb of Sunset was typical – sales numbers in consecutive quarters were 30-23-8-10-12-12-7-6-8-7-5. In Pioneer, quarterly sales were 20-16-12-7-3-8-4-1-2-4-6-2.

This remarkable decline coincided with the merger between Glencore and Mount Isa's biggest employer, Xstrata – followed by downsizing. Vacancies rose and prices fell markedly.

In the suburb of Sunset, the median price decreased 44% to $200,000 in the three years to 2019.

The experience of the past five years shows that putting your money into mining towns is at the scary end of the risk spectrum. Locations dependent on one industry or one project for their boom market are perilous propositions.

The good news is that there are ways to benefit from economic activity in regional Australia without high risk. The low-risk approach is to target regional centres which have economic diversity, a growing population, good transport links and elevated spending on infrastructure.

Geelong, Bendigo and Ballarat are Victorian regional cities with those qualities. They produce steady, reliable property markets and all three entered 2019 which dwelling prices rising.

Orange is a rock-solid regional city in the Central West region of New South Wales. Its great strength is the diversity of its economy, with agriculture, education, tourism, manufacturing and health services among the major employers. Government Administration is big.

It also has a gold mine on its doorstep, which recently had a $2 billion expansion. The resources impetus is the cream on the Orange cake, but the cake doesn't need the mineral ingredients to be tasty.

There are other good examples, including Toowoomba in Queensland and Wagga Wagga in New South Wales.

The key is to consider the prospects of the location without a resources boom – and if it stacks up in those terms, then it may be the right place for your money.

Deciding WHEN to buy

One of the constants of the residential property market is the way the herd mentality dictates decisions. Most property investors make decisions about buying, or not buying, based on reports in mainstream media. If they hear there's a boom happening, they'll want to get involved - but if the media rhetoric turns negative (as it did in 2018) they'll withdraw from the market.

Most investors like the comfort of the herd, despite its history of running in the wrong direction. No one has ever made serious money by following the pack, but people appear more at ease in a herd that's racing towards a cliff rather than being the independent thinker running away from it.

Many wealthy people have preached the "buy when others are selling, sell when others are buying" principle, but few people get it.

In the early part of 2009, when prices were down and interest rates were low, investors went missing. According to media reports, they were waiting for the market "to bottom". Some apparently were waiting for the FHOG boost to end, based on the theory that prices would then fall (they didn't).

Many investors opted out in 2018 because it was clear the Sydney up-cycle was over and media headlines suggested prices would fall across Australia.

At the same time the recovering Perth market presented good possibilities to buy at low prices without strong competition from others, but few people seized the opportunity. They will get active only when they read that the market is rising strongly.

Investors with this mindset will always miss the best opportunities to buy well. They won't act until they read that prices are surging and buyers are piling into the market. Then, happy to have a herd to follow, they'll jump in. Often they end up buying at or near the market peak.

Another consequence of this inability to think and act independently is shunning areas where prices are currently falling.

This is flawed thinking fuelled by magazines which misunderstand the meaning of "hotspot". They invariably highlight areas that have been "hot" (defined as prices having risen a lot) in the past year or so. This is worthless information because it basically says we should have bought there two years ago.

Most investors, however, will latch on to this stampeding herd and rush into the market, after the premium growth has already happened.

Generally, "Is this a good time to buy?" is the dumbest question a property investor can ask. If you're currently asking that question, you have misunderstood a great deal about property. But, according to what we see in newspapers and blogs, many people are constantly asking this question.

It's the wrong one to be asking. A more pertinent query is: ***Where*** is it a good time to buy? In simple terms, it's always a good time to buy – somewhere.

Australia is a big country and the mistake many commentators make is to discuss real estate as if Australia was one large market, with all locations moving in unison. That clearly is not the case. Australia has myriad sub-markets and they are not all at the same stage in the property cycle, nor influenced by the same issues.

Choose any moment in the last 20 years and you will find locations that were rising, some that were falling, others that were stagnating, some booming thanks to local catalysts and some going through tough times for reasons exclusive to that location.

Take 2014 as an example. While media characterized the situation as a national boom and indeed a "bubble", it was nothing of the sort. While Sydney and Melbourne saw considerable median price growth, Brisbane and Adelaide did not. Nor did Perth nor Darwin or Canberra, where many research sources recorded price decline.

Outside the capital cities, few regional centres saw major growth, but some did for specific reasons. Some of the regional cities of New South Wales caught the wave from Sydney or grew for local reasons. Some Queensland centres had buoyant markets while others experienced decline.

By 2018 Sydney and Melbourne markets were no longer booming and many writers and commentators interpreted that as a national decline in prices.

But while prices were falling in some sub-markets in the two biggest cities, they were rising in some of the smaller capital cities (including Hobart and Canberra) and in many regional centres (notably in Victoria, Tasmania, NSW and Queensland).

The message is that the Australian property market is not one great lumbering beast moving in a single direction. It's many thousands of small creatures running in various directions.

The key focus for prospective investors should always be to locate the best areas to buy, always remembering that property is a long-term play.

And at any given point in time, there are always myriad locations worthy of investor attention.

One of truisms of real estate is that you make your money when you buy, not when you sell.

This means you set yourself up for solid capital gains by buying at the right price.

Investors can make their lives a lot easier by avoiding buying in markets that are rising strongly.

The best option is to buy in an area that has good future prospects but where the market is currently flat. In other words, the essence of good investing is to buy in a growth area before it starts to show good growth.

If you target a market before it starts to boom, you will be buying in a "buyers' market". This means the buyer has the strongest hand in the negotiation.

The importance of negotiation

Buyers need not fear negotiation. Yet it's the thing people dislike most about buying and selling real estate. There's an almost universal aversion to looking another person in the eye and talking money. It's almost as if we think there's something unclean about bargaining over price.

People actually know more about negotiation than they think. Most don't realise how often they negotiate in the course of a normal day.

Every time we buy something we negotiate. Everyday interactions with family and friends involve negotiation. Taking a phone call from someone selling a service teaches plenty about negotiation, because we're dealing with people trained to turn objections into selling points.

People who teach negotiation skills say kids are great negotiators. Children are naturals at squeezing out a good deal.

While their parents are distracted by work and running a household, children are free to observe, learn and apply the lessons. Wayne Berry, who is the author of many books and marketed as Australia's "Top Gun" negotiator, says cultural conditioning turns children who negotiate into adults who don't. Without good negotiating skills "we become shark bait if we negotiate with someone who is good at it," Berry says.

There are dozens of negotiations in an average day and people are more experienced than they think. Most of the time we are negotiating without being aware of it.

The basic laws of negotiation

There is much common ground among writers and speakers on negotiation. They've all distilled the subject down to some basic laws on which most of them agree.

It's easy to see day-to-day applications in all of these principles and to realise that this is information we know already and apply every day.

1. Preparation is essential

It's impossible to negotiate without information. The more information you have, the better you can negotiate.

Anyone who goes into a negotiation unprepared undermines his/her objectives. Preparation demands research and consultation. Before negotiating on a property, a buyer needs information on the market, the target property and the other party in the deal. And it's better to have information you don't need than to need information you don't have.

Brisbane buyer's agent and valuer Scott McGeever says many people doubt it's possible to buy well in a buoyant market – but says it's achievable with good negotiation skills.

"We initially built this business predominantly through a market that was going ballistic and we secured fantastic property well below list price," McGeever says. "It comes back to market knowledge. Valuers put a price on property and are able to support that price with an argument. We call it a measured approach rather than a gut feel. It comes down to negotiation. Whether it's terms and conditions or price, it's about starting at the best possible situation for yourself and being prepared to give a little."

He negotiates mainly with agents and says while some are quite good, most are "quite appalling".

2. Know how to communicate

Being good at communicating has nothing to do with being educated or articulate. Many intelligent and highly credentialed people are poor communicators. Your average Footy Show presenter is often a model of poor sentence construction but is still able to communicate well. You know what they mean, even if the syntax is sometimes strangled.

The key ingredients of good communication are honesty and sincerity – and your typical footy expert is passionate and straightforward.

Courteous people are more likely to reach a good outcome.

Many people think being tough and aggressive is the best way. It's often the worst way. Sure, be determined and stand your ground, but arrogance and rudeness will often result in no deal.

Chester Karrass says in his book ***The Negotiating Game*** that it's wrong to believe that nice guys don't win. "In negotiation, as in life, nice guys do win," he says. "They gain their objectives when they know what they are doing."

Karrass also says this: "Negotiators must think well of themselves." That's easier to do when you have behaved with integrity and dignity.

Good listening skills are essential in good communication. People who articulate their own viewpoint well but fail to hear what's coming back are poor negotiators. Fast-talking salespeople are often poor listeners. They're manipulators, not negotiators.

3. See it from the other side

You can't negotiate effectively if you know nothing about the other party. Find out everything you can and imagine how you'd behave if you were the other person. Wayne Berry suggests a good outcome can happen if one party focuses on helping the other achieve what they want. If there's empathy between the parties, a good result can happen.

Meeting the other party halfway can discover a place acceptable to both. Chester Karrass says in ***The Negotiating Game***: "In a successful negotiation both parties win, but more often than not one party wins more than the other".

4. Ask lots of questions

Buyers should ask lots of questions. Asking questions invites the other person to open up. Often they're concealing their bottom line or their motivation for wanting this deal. Sparking a conversation can relax them and they are willing to be more revealing.

Asking polite questions can also disarm a tough stance by the other party. Important questions to ask may include:

- Do you think your request is fair?
- Can you explain that to me in more detail?
- Have you researched values in this area?
- How long has the house been on the market?
- Have there been any offers on the property?
- Why is the price higher than comparable properties in the area?
- Is there anything else I should know?

5. Pick your moment

A home-owner unwilling to accept an offer today may accept a lower one next week. A salesperson of any sort may be more amenable to a deal at the end of the month, if they haven't filled their sales quota.

Knowing the other party's deadline can be crucial. Someone under time pressure makes concessions. Sellers who have already bought elsewhere place themselves under pressure and their power weakens as time goes by. Buyers who have already sold also operate under the same constraints.

Sometimes buyers can create a deadline and win. Melbourne buyer's advocate Mal James had a buyer client interested in a property valued at $330,000 to $350,000. But the agents advertised a price guide of "$240,000 to $270,000". James put in a pre-auction offer to the agency of about $300,000 with a tight deadline for acceptance.

The agency complained that the offer was too restrictive and that it put them under tremendous pressure. James says: "It did – and it was deliberate. The initial response was that this was unacceptable. We asked whether this was an agent's response or a vendor's response." The agency asked for more time but James and his buyer insisted on their deadline.

They bought the property that night.

The sellers, already conditioned by the agents to believe that their target price would not be achieved, accepted the offer on the table.

"A discussion with the agency head led us to believe that there may have been several offers in excess of that figure since then – and a number of salespeople were most upset that their buyers were not given an opportunity."

6. Solve problems

Finding a way to solve an issue dividing two parties is central to good negotiating. This may rest on some of the earlier principles, such as good preparation and asking questions.

Making concessions is one way to remove an obstacle but most experts on negotiation insist concessions should never be given away – they should be traded. A concession from me buys a concession from you. Often a negotiation cannot even start until someone makes a concession – and extracts one in return.

Ego can prevent people from making headway. Pride can prevent a buyer from achieving a deal: when the price is already attractive, they try to squeeze every last drop out of the seller.

7. The KISS principle

The Keep It Simple Stupid concept works well in real estate. To a seller, a lower offer without complications may be better that a higher offer with strings attached. The buyer who doesn't need finance approval and has no settlement issues is often more attractive to the seller.

Confusion kills property deals. Complications do likewise. Don't give someone a reason to say: "This is all too hard." Sellers sometimes complicate sales by focusing on the inclusions or the settlement terms. These are best left until the property sale itself is settled.

8. Terms and conditions

Sometimes price is not the key. Either party may be happy to concede on price if other aspects of the deal are attractive. As Chester Karrass says in ***The Negotiating Game:*** "Terms of sale may be open to discussion even when the price is not".

A building and pest inspection is a condition a smart buyer will often place on a purchase. The mention of an inspection can generate honesty from the seller. Or, if it reveals a problem, it can be a negotiating tool. If the building inspection reveals expensive repairs are needed, it gives the buyer negotiating options – one of which is to walk away and find something easier.

9. Understand where the power lies

Many authors of negotiation books maintain that power is the most important ingredient. Power comes in many disguises. If one party speaks with greater authority than the other, they have power. If one is a decision maker and the other is not, the decisive one has the power. If one party wants the deal more than the other, the indifferent party has the power. A person easily bullied will lack power in a negotiation.

The person who's put in the most time and energy, and is better prepared, will negotiate from a position of strength. The one who knows more about the other's position has power. The one who best understands the other's motivations and seeks ways to help them win can drive the negotiation.

10. The price factor

A common mistake is to believe price is the only factor in a negotiation. It's also common to fear the price negotiation.

Making the price clear is important. Buyers are repelled when the price is not clear. Auctions are a good example of this. Often buyers waste time and money chasing properties that were never in their price range because it was an auction and/or the ads lied about the price.

Sellers are best advised to start with a high price and work down. That's another reason why auctions don't get the best result for sellers: they start from a low price and work up, and stop when the second highest bidder drops out. The only bidder left wins and would often have paid more – if they had to. For this reason, auctions often work better for buyers than for sellers.

Many negotiation experts advise never to accept the first offer, but to ***flinch*** instead to communicate that the price offered was too low.

Buyers who gush over a property they're inspecting can weaken their negotiating position. Many people are aware of that factor and are careful not to show any emotion.

11. Anything can be negotiated

Most people pay the asking price for goods in a store. Often, however, the price is negotiable. And if you buy a large quantity, it's worth asking for a discount. Some retailers will offer discounts if you pay cash instead of using a credit card.

Sometimes a sale that appears to be dead can be revived. A buyer may walk away from a deal because of a stubborn attitude by the agents or sellers, but later the matter reappears because the buyer's offer was the best available. When that happens, the buyer is in a good position to negotiate.

12. Keep cards up your sleeve

Sincerity is an important quality to bring to any negotiation – but it doesn't mean you have to show your hand at the beginning. You may have valuable cards to play but it's sensible to hold something back. It makes no sense to reveal your best price when the seller may be prepared to sell for less.

Both parties need a fallback position and should keep that to themselves. Sometimes the fallback position is not proceeding and waiting for a better option. Real estate watchdog Neil Jenman recommends that people always have a "higher authority" to refer to – a brother, mother, lawyer or accountant. He suggests people say: "I always check decisions with ..." This allows you to push a pause button instead of signing on the spot. You can say: "It's my policy to have everything checked by a lawyer."

13. Be prepared to walk away

The strongest position a buyer can have is the willingness to walk away.

Patience is important in negotiation, but it's wise not to waste time when it's clear the other party won't bend. It's easier to look elsewhere.

Sometimes in situations like that, the sellers will come back to you after realising their bluff didn't work. The party most willing to walk away has the advantage.

This advantage should always lie with an investor buyer. Investors should never get emotionally attached to a property and should always be willing to walk away and look elsewhere for a better deal.

Often there's a better option just around the corner.