



# **HOUSE AND HOME CO**

## **MY FIRST INVESTMENT GUIDE**

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# MY FIRST INVESTMENT GUIDE

Welcome to *My First Investment Guide* presented by House and Home Co.

Housing and more specifically residential real estate, has long been one of the most popular and successful investment platforms. Property investment is certainly not a new frontier, which is great for those about to embark on the journey for the first time. By learning from other's experiences and having an awareness of the potential obstacles or mistakes made, you could potentially avoid risk and achieve success much quicker. Be a step ahead with our guide derived from decades of industry and personal experience with property investing.



1. Beginners beware of books
2. The property sector
3. Research versus recognisable
4. Cash flow or capital growth
5. Managing the investment
6. Building a portfolio

## 1. **BEGINNERS BEWARE OF BOOKS**

There are hundreds, if not thousands of books on the subject of investing. I am not opposed to the odd book and I believe you can find something of value in almost every writing, however beware. The reality is that the subject of investing is ideal for selling books, as many people search for guidance and understanding. Unfortunately, it is easy to either get lost in the subject matter with no further clarity or worse, interpret one person's experience or opinion as the answer.

Many of the books I first read like "Rich Dad Poor Dad" had some great underlying principals and philosophy around investing and wealth. However, the practical applications were mostly for US based readers and much of the interpretation and jargon does not apply to Australian property. It is always important to consider the source of any information you read or receive whether from books, newspapers or even people. One most recent example, which I was not surprised to hear ranked toward the top of best-selling books is the "Barefoot Investor". Many people mention this book, it has been well marketed, and the author has been very smart with TV appearances and internet marketing. While the book is more centred around a philosophy of traditional saving your way to wealth, the authors advice on property investing in my opinion is extremely poor. So, it comes as no surprise to me that the author is not a successful property investor and does not have a professional background with property. The author in this case is a previous financial planner who learned to write retirement plans with the primary investment being stocks, shares or managed funds. I am sure the knowledge of these is unquestionable however, property and shares are like chalk and cheese which is why I do not comment on shares.

When reading any investment guidebook, consider the author's credentials and motives. then make sure the content fits into the investment you're considering.

## **2. THE PROPERTY SECTOR**

The property sector is quite broad. Made up of a handful primary markets, which can branch out into many sub-markets. Examples of the property sector are:

- Residential
- Rural living
- Agri-business
- Commercial / Retail
- Industrial / Manufacturing
- Aged Care / Retirement Village
- Hotel / Tourism

Many of these sectors require extremely sophisticated and professional analysis prior to investment. With the likes of Commercial, there are significantly different market drivers and economic indicators when compared to residential. There are also considerably more restrictions placed upon an investor of commercial property, which may have adverse effects on their financial capacity and status.

A recent trend has been the adoption of short-term letting of residential property. There are various platforms in use, and it is easier than ever to try and compete against more traditional sectors, like hotel and holiday letting facilities. While it is certainly possible to adapt property to meet evolving markets. There can be unexpected and at times serious consequences for those that do not have the knowledge, experience or expertise in an often specialised sector. Costs to manage, maintain and cover lengthy vacancy in off-season are also often overlooked.

## **3. RESEARCH VS RECOGNISABLE**

If there was just one fundamental that ensured successful property investing, it would be research. Research isn't just a few market results from a property website or opinions from local agents. Quality property research combines market data, demographics and economic reports, which is finally interpreted through a tried and tested formula. The process to complete an accurate report requires many resources, time and experience. House and Home Co can assist with access to quality reports, some are even free to clients. For those that choose to wade into research without any assistance, they must be aware of the risks. Many sources of data and information online can be incomplete and outdated. The accumulation of information without a strategy or process to interpret and form an outcome, could increase risk rather than provide direction. One of the biggest mistakes made by those investing in property is the belief that knowing the area one lives, together with recent positive news about the market, provides a sure basis for investment. The fact that an area is recognisable can never replace the crucial need for research.

Key information to accurately research includes:

- Demographics
- Infrastructure
- Economy
- Employment
- Rental market
- Sales market

## **4. CASH FLOW OR CAPITAL GROWTH**

Some argue one is more important than the other. The truth is both are essential for an investment to be sustainable. Cash flow is necessary to meet the ongoing costs of an investment. Capital growth is required to support lending and future leverage of the investment, as well as eventual monetary return. There are a lot books and promoted seminars on the subject of cash flow. It would seem that with enough cash flow any investment could be great. Unfortunately, the reality is cash flow comes at a cost to the investment. After looking into the many myriads of ideas and schemes to maximise cash flow, it is quite obvious to an experienced investor of the pitfalls. One of the simplest schemes involves short stay accommodation, often corporate stay apartments in a capital city. The seller guarantees a mind-blowing weekly rent which is promised to be sustained by high nightly room rates. Looking beyond the sleek marketing and seemingly perfect offer, the cracks begin to show. How much will the eventual management, maintenance, daily cleaning costs be? What is the actual occupancy over an annual term? And how much will the property be worth in the open market without a permanent tenant?

With a well-researched property suitably balanced for growth and return, it is possible to have the best of both.

## 5. **MANAGING THE INVESTMENT**

Not too many people these days personally manage their own investment properties. Of course, there is the lure of saving property management fees. I would argue most that self-manage, will lose the equivalent of these fees or even more every year if not over the life of the property. This is through lost rent, renting behind the market or without rent increase, potential legal costs for disputes and vacancy. For those that do go it alone, the best advice is to avoid renting privately to friends and family. The potential for a relationship destroying feud is almost inevitable.

It is highly recommended that property investors engage a qualified property manager. Managing an investment goes way beyond just rent collection. Be sure to select a property management business that understands the business of property investment. Ideally your property manager should have life experience as well as professional credentials. It pays to have a continuous review of income and growth. This will help assess potential rent renewals and market conditions. It's also important to have an understanding of maintenance required, as well as recurring items like termite treatment, pest control, smoke alarm and pool compliance. A great property manager will have a system in place to manage maintenance and compliance on your behalf. Ensure this is covered within your agreement. Finally selecting a tenant is key, it is crucial to understand their background and history as well as their capacity to meet rental payments and contractual obligations. A great property manager will also be able to consciously consider a prospective tenant's character.

## 6. **BUILDING A PORTFOLIO**

The holy grail of property investing is being able to build upon the hard earned first few properties. Creating a self-propelled portfolio, which will lead to serious wealth and a secure future. A major factor required for achieving this seemingly mystical position, is the quality and performance of all properties held. It can take just one property with the wrong fundamentals and poor performance, to significantly slow a portfolio's growth, or worse, compromise the entire investment.

With a clear plan to build a portfolio, and an understanding that every move needs to be carefully thought through, a secure financial future is available to anyone.

Get in contact with House and Home Co to begin your property investing journey.

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