PURSUIT
REAL ESTATE

What No One Else Will Tell You

An inside look at what most
real estate agents will not tell you
or don't want you to know about
Property Management

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Hush-Hush

Upfront honesty about the perils and difficulties in property investment is hard to find. In Real Estate – in most industries in fact – marketing departments are designed to promote the positives and hide the negatives of their product. Across every business this loop perpetuates itself to encourage you to place your business with that business and no other.

Hiding negatives doesn't eliminate them though, leaving customers and investors feeling the pinch after they've signed the dotted line and the truth about the service (or product) comes out. It's an all too common experience that many people can recognise having been through. Investors are placed at risk without fully understanding what to expect and prepare for, proactively. When the going gets tough, it can leave many investors shocked and without a 'Plan B'.

This approach usually results in frustrated landlords who feel like they have been overpromised and underdelivered to – especially during downturns whether that is a global financial crisis, a pandemic shutdown, or simply the day-to-day difficulties of ongoing property management. They think, "Why wasn't I told about this?", "This isn't what I expected?" and "Is my property manager trustworthy and credible?". Doubt and insecurity about your property management team does not make for a healthy investment relationship.

To be successful with investment property, the investor should understand the positives and negatives of the investment process and your property manager should prepare you for both. Inside you'll find advice for your investment strategy, best used as a warning against shonky agencies and as a guide to help you focus on a winning mindset, here are some truths to residential investing that most agencies would prefer to keep "hush-hush".

Investment Quality Investment

While every property can become an investment - add a tenant and charge rent - not every property is worth of investment.

Translation for normal folk: an investment-grade property will strongly outperform the averages of property over the long-term.

That last part - over the long-term - means that often when a media article pops up exclaiming the 'outperforming' suburbs to invest in, the gains in those suburbs have already been realised and is obvious to anyone reading the numbers. Finding the suburb that will be outperforming in 10 or 20 years from now is the real challenge.

While location can account for around 80% of the performance as an investment, it is also important to own the right property suit the local demographic and tenant trends. Investment-grade property earns stronger rental yield and has a higher occupancy demand resulting in a greater tenant pool.

Okay, so what makes a property worthy of investment?

1. It is capable of capital growth

An investment property lives in an area experiencing or - the tough part - projected to experience increased population growth or demand. Inner-ring suburbs with supporting infrastructure and affluent attraction - e.g local parks, public transport, nearby restaurants and entertainment options make for the so-called ‘growth corridor’. Planned improvements and additions of public and private infrastructure, a premium demand for properties like the investment and long-term population development/growth are items to look for.

2. Intrinsic Value and Opportunity

Property that has opportunity to add value through refurbishment, renovation or development can help grow your real estate return faster than waiting for an unimproved property to mature. Off-the-plan property comes at a premium price and is often in areas experiencing oversupply and should be avoided. These areas are often flooded with investor supply creating competitively weak rents and low capital growth. Agencies often team with developers to push these properties over traditional residences and can leave many investors feeling burned long after the transaction has concluded.

Look for a property that has value for living in – i.e. that people want to live in. Improvability, land-size, bedrooms are all good things to look for, but always in consideration for the local demand. Following market demand and finding that value will create a healthy loop that means greater tenant pool and a stronger performing asset. It also means a competitive sale when the opportunity arises.

3. It suits local demographics and appeals to owner-occupiers and tenants

As a continuation from point 2, demographics are what drive markets. It can explain why some markets can be thriving while others are stagnant. The appeal of different suburbs and lifestyles draw (or detract) particular demographics and influence the performance of property. A studio unit will not perform as effectively in a suburb demographic that desires large, family homes.

Why appeal to tenants and Owner-occupiers? Well, desirable property that suits local demographics is readily purchased by owner occupiers reducing the stock of available property in the area and pushing up local real estate values.

Long-term Thinking Strategy

Finding the right property is about thinking about more than just the market now, but the long-term development of the area. Many investors bought into the strong returns of mining town booms only for mining to then exhaust the local area and move on, crushing mining town real estate values. When considering the above three points, consider them at a level above the present and think longer.

Will this property survive the next twenty years?

What will this suburb/area look like in 20 years?

Does the property lend itself to quick, easy opportunities to add value?

What is the local demographic, does it suit my property?

Is the local demographic changing or likely to change?

Investment buyers agents excel in this regard. They are in the marketplace every day, looking for the right property to suit their clients needs and goals. Providing services from simply listing or area research all the way to assisting with the purchasing advice and creating investment strategies, buyers agents are a more useful tool than ever to consider for an extra leg up.

By considering an investment and creating a game-plan prior to action, you can be assured of setting yourself up for investment success. And investment success begins with the right property – most of all one projected to make a quality return, not a bargain one.

What no one else will tell you?

Not all properties are worthy of investing in. A high-performing investment starts with good research and examining your options carefully. If you can, consider a buyers agent who can evaluate your needs and form recommendations.

Why wasn't I told?

Because your average-joe's real estate isn't concerned about what you want to do with any property you buy – but they do want to sell you whatever residential property they have on their sales-list – regardless of its investment potential.

Bargains Go Nowhere Fast

Continuing on from the previous point about property – A bargain-area or a bargain-property may seem like the perfect opportunity: why commit to the larger mortgage, greater sacrifice and increased risks, when you can break into an investment at half the price with a bargain-property in a bargain-area?

Cheaper opportunities often bite investors who may see the value in a low initial price but fail to plan further. Cheap homes in cheap areas – they are often priced low for a reason. It can be many small factors rolled together – the type of land or property (such as a home that doesn't match the local demographic), encumbrances limiting value opportunity, a lack of growth, a stagnant or declining local area or other socioeconomic factors.

Buy-Low-Rent-Low - Many factors that create low buying prices also affect the quality of the tenant pool and potential rental income. Advertised as 'affordable investment suburbs' by big media these areas often lag behind in growth – both in population and value, and are slow to change, harming your well-meant investment strategies.

A bargain now will remain a bargain for the foreseeable future. While we would like to, no one can accurately predict when a local area will experience a 'boom'. While it may seem attractive to pay a lower price for your investment, the most likely outcome is that the bargain will remain so. A case of "you get what you pay for".

On the alternative, an area experiencing high desirability and strong prices achieves a stronger tenant demand. This larger tenant pool influences a rise in both quality of tenants and rental income. By accepting a larger initial sacrifice in price, greater tenant consistency over the life of your investment is achievable. As your investment matures, you'll have access to a stronger property asset that occupies an area achieving better returns. This makes the *Game of Finance* harder initially, but easier to win towards the end.

What no one else will tell you?

Quality of your investment determines your success – low-price investments result in low-rate growth. Look for an area with high desirability rather than cheap entry costs.

Why wasn't I told?

It's easier to blame "Buyer Beware" and make money off those who 'don't know any better' than to have tough conversations about investment strategy and tenant demand.

A Game of Finances

Real Estate investing is a lot less about the properties and more about playing a long and clever game of finance. In most cases, this means sacrificing some immediate income or cashflow in the present to play a strategic game where the winners are rewarded with greater wealth in the future.

The longer you can play this game, the greater the win can be – and this is where most investors get lost. Much of the media and industry focus is on the last part – the resulting winners – and often ignores the game that was played for many years or decades prior. When all you see is the winning result, it is easy to believe that all you need to do is buy an investment property and you've already won the game. Investors can be 'sucked in' to this model and suffer the painful shock that their money woes have not gone away.

It is highly recommended to work with a financial advisor and tax accountant to understand the positive and negatives of rental cashflow, capital growth and the tax benefits that apply in your investment. While your property manager looks after the day-to-days of your property and ensure it operates as a leader in property, financial professionals ensure that you have the right winning strategies and plays so your finance game is the real winner.

The industry favours those who apply patience over speculation. The often quoted 'time in the market beats timing the market' is popular because it is true. Patience also helps weather the storm of the cyclical nature of real estate that reveals the truth that property investment is not a direct ladder to the top but a little bit of Snakes ***and*** Ladders.

What no one else will tell you?

Success in property is more than just having an investment property, passing go and collecting $200. Property is lucrative but challenging – find helpful professionals who can guide you to build lasting wealth and be ready to play a long game of finances.

Why wasn't I told?

Selling the idea of being a successful, retired property portfolio owner is more attractive (it makes more money) than being honest about the upfront sacrifices that must be made to get you there.

Snakes And Ladders

Investing in real estate is a fantastic tool to 'climb the ladder' and achieve future financial goals.

But. There is always a but! Unforeseen, unavoidable events or situations happen every year from local area depressions to global financial crises (or pandemics!). Hiccups such as these can affect rental income or the availability of tenants at all. Unforeseen events of a personal nature are also unfortunate – and unavoidable – risks that we must always consider.

While we strategize to win there often come moments that may disrupt us forcing us back towards square one. We may have to deal with issues we did not anticipate such as supporting a second mortgage, emergency repairs or even selling.

When playing the Game of Finance allow for the unexpected x-factor in your investment strategy. This can often by overlooked or ignored as 'we'll deal with that when it happens' only for the worst to happen and having greater damage through a lack of preparation.

While you can still *finish* Snakes and Ladders without ever landing on a ladder, it is unlikely that you'll be the winner. It is important to discuss events and changes with your property manager as well as your financial advisors. Any advisors on your team need to know so they can keep your Game Plan as accurate and focused as possible. Your property manager works to represent you and having a better understanding of your immediate concerns or needs will help them to orient their work to be more effective for you.

The property management role is a challenging balance and communicating about your goals can help your property manager to be more effective in their day-to-day role.

What no one else will tell you?

The market will not go up every day, and unforeseen events occur regularly to disrupt our plans. It is important to be prepared, mentally and financially, for the moments when it gets tough.

Why wasn't I told?

Marketers firmly avoid anything negative and it is hard to make investing sound easy when you need to insure yourself in case you land on a 'Snake.'

Maintenance: Money Mayhem?

Many landlords are hesitant to spend $300 on their property for a small repair, or item maintenance. It's completely understandable – property expenditure takes away from your returns – affecting your investment income and potentially impacting things like your mortgage and lifestyle.

But… consider a possible long-term effect this approach has:

1. One maintenance item adds onto another, and soon the property is beginning to show wear.
2. The tenant vacates in frustration at the expiration of their lease.
3. Now the landlord will incur a letting fee, advertising costs, loss of 1-2 weeks rent for vacancy and have to roll the dice with a new pool of tenant applications while still having a property falling into disrepair.
4. A property in disrepair will rent for less on average than a well-maintained home.
5. You're income-earner falls behind the market and you have less to spend when repairs are needed

The cycle can perpetuate itself as the landlord tries to spend as little as possible. An un-maintained property is also at risk of attracting unwanted attention from your residential authority. Additionally, if you suddenly need to sell, the sale value on a property that is unmaintained will be significantly lower than one that is fully maintained forcing the investor into costly pre-sale repairs or negotiating an undervalued sale.

We've all heard the classic call: A stitch in time saves nine. When it comes to your property the same is very true. A regular termite check is an expense out of the property income but is absolutely vital at protecting your investment against an invasion that could cost thousands. What appears to be an unnecessary repair to a landlord can cause a tenant to 'rage-vacate' and cost the landlord in other harder to measure ways.

Investing in real estate is a product that you (or your agency) 'sell' to tenants. Establishing your property at the peak of market through attentive maintenance and repair reduces tenant instability, creates a happier tenant relationship and improves outcomes related to lease renewals, associated advertising and re-letting costs, rent increases, reduced arrears and longer occupancy. A well-maintained property attracts higher quality tenants who readily pay above average rental yield.

A note about Pets and 'saving money on damages' – many investors believe pets are too great a risk to allow in their investment, fearing damage, increased repair or renovation expenses or a reduced property value. With more than 60% of Australians owning a pet, this greatly reduces the available tenants that will choose your property over any other. In the industry, properties that allow pets achieve more rent than the same property without, accelerating your possible return. This return is far better in your pocket than someone else's and reflects a similar attitude that exists with maintenance and repairs.

What no one else will tell you?

Maintenance creates a stronger investment 'product' for tenants that increases property's long-term success. It creates a consistent value that tenants will pay for. The investment is always about creating the ultimate product that tenants want.

Why wasn't I told?

There is a dominant culture that the cost of a repair is 'lost money' – and very few dare challenge this idea. Income is king but the long-term strategy must consider costs and income together. Failing to maintain property can affect your long-term strategy and introduce unnecessary risk.

Quality versus Speed

Would you trust a chef who boasted about the speed of their cooking? That they could get a steak to your table in 90 seconds – how about that?

What about a mechanic who boasted about how fast they could service your car? A fast dentist? A 24hr accountant? While a fast chef is probably microwaving their food; a fast dentist, mechanic or accountant is more than often a risky agent who works too fast to respect giving your precious mouth, car or finances appropriate due care.

With the fast pace of the modern world and the wonder of computers, emails and smartphones, we have come to expect work completed faster than ever before with more accuracy and more detail to boot. The need to be seen as responsive and fast acting has created a plethora of agencies with exemplary statistics regarding their efficiency. While it is very important to ensure you are not ignored by your agent and that important issues are not mishandled or forgotten, it is equally important that property managers are given adequate time to perform their tasks properly.

Consider the lifecycle of property management from page 8. Items such as reviewing tenant applications, executing legal paperwork, conducting property inspections and reports and creating insurance or court claims all require delicate precision to be effective. Complex tasks can often not be done rapidly without a degradation in the quality of the work. Agencies that boast of their speed at completing tenant applications or processing reports are often cutting corners.

This is what no one else wants you to know! Modern agencies can now outsource duties such as leasing, property inspections, reporting, accounting, data entry or legal paperwork to external providers or even – in the case of digital systems – to virtual assistants overseas.

This begs the question: What are you paying your property manager for? How are they utilising their time? Usually the answer is – your property manager is given an even larger portfolio so that the agency achieves a better profit ratio.

An evaluation of your property manager about how they conduct work on your investment is the only way to be assured that your investment is properly cared for.

What no one else will tell you?

The performance of high-quality work takes time. Your investment is worth a lot of money, now and into the future – a manager who gives your property the respect it deserves is very important. Be wary of shonky agents that use clever marketing that disguise the reality of their service levels.

Why wasn't I told?

Many industries have been gripped by a wave of modernisation to be more responsive than ever. How many times have you heard the slogan 'the Uber of X industry'? As discussed in the introduction, marketing can often bend reality to increase appeal of the service – at the cost of delivery the quality service.

Why Was I Told To Invest

It's very easy to assume that after reading about how:

- Buying any property is not enough, you want to find a suitable property asset
- It's best to avoid large 'bargain' developments or cheap areas for investing
- Property investment success is about playing a game of long-term financial strategy
- You'll need to have backup plans for downturns
- Property management isn't a hands-off investment even with a property manager.
- The modern real estate industry is dangerously overpromising and underdelivering – moves that can harm your investment.

You may now be asking yourself: "Why should I invest in real estate?"

The answer is simple: property investing is very lucrative and rewarding when you consider all the above points and find ways to plan for and beat those tough, complex issues that no one else wants to tell you about.

Property investment is a still a tool to achieve a future that includes stable passive income and a portfolio that can continue building itself. There are many media articles written about, or by, people who have achieved financial freedom through the residential investment game. The goal is achievable.

However, achieving that goal requires patience and dedication. While there is no get-rich-quick-scheme, especially with property, the investor who can understand both the goals **and** the journey – and take advantage of both will be the winner. This guide was written as an attempt to 'clear the air' regarding some of the inconsistencies the team at Pursuit Real Estate have heard from investors who have been overpromised and underdelivered to. It's the reason Pursuit Real Estate was formed in the first place.

We hope that this guide doesn't scare you off from investing but empowers you to be more aware and informed of the decisions and processes that make up this fun, rewarding but sometimes difficult game. Because our job is to do exactly that – help you get the most out of your investment journey each and every day.

All the best in your journey.

The Pursuit Real Estate Team

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