Property Investment
A Personal Account of Mistakes to Avoid

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If you are shopping around for a new mobile phone contract, energy contract or car insurance and make a mistake by not researching the market properly it will result in you overpaying by a few hundred pounds. If you buy an investment property without fully investigating the pros and cons it will cost you thousands and possibly mean your purchase is worthless or even, in the worst case, bankruptcy!

In the past I have made mistakes when buying property, many of them; thankfully none were irrevocable, but they cost me money that I, with hindsight, could have avoided wasting. In this article I can share with you some of the simple mistakes to avoid when initially dipping your feet into property investment.

BELVOIR!

1. Fully research the area and rental demand before you buy.

Profit from property comes in two ways, the first is net ongoing income - this is the profit from the rent after deduction of ongoing expenses such as mortgage repayments, maintenance, legal obligations, taxes and insurance.

The second is capital appreciation – the uplift in value of the property over time.

When researching a property always ensure that you base your calculations on the ongoing income rather than what you think the property might increase by in value – this way you are making a sound investment decision based on certain values – the rent should always keep pace with inflation therefore your initial calculations should extrapolate forwards and ensure you are always in profit.

Capital appreciation is not guaranteed – as with the stock market: past performance is not necessarily a guide to future values! Basing your business decisions on this is called speculating not investing. Internet searches and Land Registry research will show which areas have in the past benefitted from house price inflation, they will also show medium to long periods of deflation or static prices! If it was possible to predict these variations we would all be millionaires!

There is an old adage that property speculators always propound: buy the worst property in the best area not the best property in the worst area. In this way, after refurbishing the property you would be adding value to the underlying asset.

Never forget that you are making six figure decisions so base your calculations on certainties, not guesses on some possible future value.

2. Over-leveraging.

When I first started in the business in the late 90's leveraging was all the rage. No deposit and 110% mortgages were used to buy property (preferably undervalued ones), renovating/updating, then renting and refinancing was the order of the day.

Other people were flocking into buying new build apartments 'off plan' (buying before the blocks were even built) all with an eye to the capital inflation that was rampant at the time. This was called using OBM (other buggers money)! As it turned out many of these properties were in the wrong areas (no tenant demand) or the expected increase in value didn't happen during the build period, so, when the financial markets hit the buffers and the value of these investments nose-dived they could no longer afford the increased mortgage rates and the property was repossessed by the banks.

This approach can work but a close eye needs to be kept on the amount of money being borrowed and the ability to continue mortgage repayments should the inflation rates rise.

Buying property that is undervalued is a good idea but bear in mind that many people are looking for just such properties forcing the values up.

Renovating and updating is also a very good idea, it increases the value of the property, reduces ongoing maintenance costs, makes it more appealing to potential tenants and can increase the rental value.

Borrowing against this increased value through re-mortgaging is also an option, however, it is not a good idea to actually own only 5 or 10 percent of the property portfolio as this leaves you in a very precarious position should inflation suddenly take off resulting in a negative equity situation. Negative equity means that your debt to the bank is less than the value of the underlying asset.

The end position you should be aiming at is to own your property outright. The over-leveraged speculators crashed and burned during the last financial crisis – do not emulate them!

BELVOIR!

3. Surveys

I have bought investment property on the basis of the mortgage provider's home-buyers survey before and lived to regret it! This survey is conducted for the benefit of the bank/building society and forms the basis of the mortgage offer, it is conducted to ensure that the value of the underlying asset is sufficient to cover the loan. This will report on the property's condition, including any risks, potential legal issues and urgent defects. This is possibly ok for standard properties and relatively new property in good condition. It also includes a market valuation and rebuild cost.

It is always worth having a building survey conducted, especially with a larger or older property, this will advise you via an in-depth look at the property's condition, with advice on defects, repairs and how to maintain the property.

Buying a property and then having to spend out on maintenance to the roof or drains can be an expensive mistake. Ongoing maintenance to keep the property in good condition is a basic necessity when owning rental property and should always be factored into your business plan and accounted for in your ongoing spreadsheets.

Amateur investors who haven't done their homework waste an awful lot of time, money and energy and when they finally fail make easy pickings for the experienced property professionals. You need a strategy – property investing is a multi-thousand pound business, there is no room for guesswork!