Ask the experts

Our panel of experts advise on how to buy under value, whether to make an offer before an auction and what to do when properties appear too unsightly

Negotiating prices down

Q I'm new to property investing and, after buying a $600,000 investment that is draining my cash flow, I've decided buying lots of lower priced properties is a better way to go. What's proving difficult is negotiating with vendors to get a better price. I know listing prices are an inflated figure, but I'm not good at negotiating them down. What's the best way to do it?

A When building a property portfolio it is important to have a strategy, just as any large and successful company would have a business plan. You need to have a sound acquisition plan in place before you start purchasing properties. Three things are a must:

1. Buy the property below market value: This ensures you gain equity from day one and you're not being a passive passenger waiting for the property cycle to make your profits. This also provides you with a plan B, an exit strategy, if your circumstances change.
2. Strong rental yield: Ideally, a property should be cash flow neutral or positive from day one with room for increases. Most of my purchases have 7- 15% gross yields the day I purchase. This is critical for building your portfolio as your serviceability should improve with each positive geared property you purchase.
3. Don't bring emotion into it: Numbers don't lie. They will be the crux of a successful portfolio. If the numbers don't stack up, walk away. 'Bargains of the year' come by weekly.

When trying to negotiate a price down, I suggest first getting a good understanding of the market you're buying into and the property values there. Familiarise yourself with all aspects of the local property market, including past and recent sales.

In creating a base price of what I think a property is worth, I use the same tools valuers use, being mindful of comparing apples with apples – land size, age, condition and location. I also factor in whether a property needs a cosmetic or structural renovation and wider population trends, amenities and infrastructure – both present and planned.

I also suggest finding out what the market rent would be for the property. You can do this by looking at rental listings online and speaking to local property managers. This will give you a good idea of not only possible rent but also the level of demand for that type of property. Knowing the likely returns will put a ceiling on the price you'd be willing to pay.

If all else fails, and you find negotiating is outside your skill set, or doing due diligence simply takes too much time, you can always employ a professional property negotiator or buyer's agent. They can act on your behalf to achieve the lowest possible price, provided the numbers stack up and emotion is out of the equation. Good luck.

– Nathan Birch

Bid or say bye?

Q I want to make my next property purchase in inner Sydney and, after doing my homework, I've seen a Rushcutters Bay property listed for, easily, $90,000 more than it is worth. I've tried putting in an offer for $100,000 less than the asking price, but the real estate agent came back saying the vendor is not prepared to negotiate. I didn't go further, but I've just noticed the house is going up for auction. If the vendor stays vigilant on price, I'm sure the house will get passed in at auction. Is it worth putting in another offer, even though the real estate agent made it clear last time it was the listed price or nothing?

A The best advice would be to go to the auction if you believe it will be passed in. Bid just below your limit (allow yourself some room to negotiate) or just below what you believe the property is worth. If you are the highest bidder, the agent will negotiate with you first at the auction and you could secure it for what you believe its value to be. If you are not the highest bidder, it stands to reason someone believes it is worth more than you do and the agent will try and negotiate with them to secure a deal on the day under auction conditions.

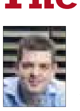
If the agent made it clear it was list price or nothing during the previous campaign, I do not see the benefit of putting in a formal offer, (unless he/she indicates the vendor's price expectations have changed). However, stay in touch with the agent and let them know your price feedback. If they are doing their job correctly this should all be reported back to the vendor and can be a valuable tool in giving the vendor market feedback, which should help at the auction.

We are all guilty of believing our properties to be worth more than they are when selling and looking for a bargain when buying – it's human nature. However, market feedback and time can be powerful tools in an auction campaign.

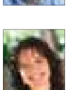
Make sure you have done all your due diligence before you go to the auction – strata report, building inspection, comparable sales (what else has sold recently in that pocket of real estate, which is like-for-like) and check your finance is in order.

– George Raptis

The experts



Nathan Birch
Nathan is a buyer's agent and property investment adviser with B Invested. He is also a highly successful property investor in his own right. Visit binvested.com.au



Prue Muirhead
Prue amassed a $3.5m portfolio within four years and retired at age 39. Visit pruemuirhead.com.au

George Raptis
George is director of Metropole Property Investment Strategists in Sydney. He shares his 23 years of experience in the property industry as a licensed estate agent and active property investor. Visit metropole.com.au

Investing with ugly ducklings

Q I've been studying growth patterns in Melbourne suburbs and have identified a market that is going to have good capital growth. Rents are good too and, on some of the cheaper properties, I've calculated that positive cash flow is a possibility.

The problem is these cheaper properties are, well, yuck. I know you're supposed to look at them through the eyes of a prospective tenant, but I grew up in a blue collar suburb like this one, and I can't imagine many people would want to live in some of these houses.

I've read investment advisers saying I'm wrong and I'd be surprised who would be willing to rent certain properties, but surely there is a line? I want to buy cheap, but isn't there a limit?

A Well done for taking the first step and researching the combination of capital growth and cash flow. My strategy has always been a combination of both. Cash flow will allow the property to pay for itself, without you having to use your 'hard earned' cash. Capital growth will give you future equity to use for deposits on further investments.

Generally, the best returns will be with these cheaper properties. As a landlord, you would be required to provide a rental property completely maintained and 'liveable'. Tenants have different rental budgets and requirements. Although you may not want to live next to a service station in a small, old 1950s home, on a tiny block of land, maybe the part-time service station assistant would feel this is perfect.

> The benefit of buying that 'yuck' investment is manufacturing capital growth immediately by simple upgrades

The other benefit of buying that 'yuck' investment is the likelihood of manufacturing capital growth immediately by simple upgrades. This would bring better rental returns, also making your next investment property purchase easier too, since your income (rent) and wealth (capital growth) have increased.

These upgrades could be as simple as painting the front of the house, weeding and pruning the front yard, or adding a front fence to give your unsightly property better street appeal. The only cheap properties I would not consider (after researching the area and rental market) would be properties with structural issues. Appearance, on the other hand, can be changed with a bit of imagination.

– Prue Muirhead

Got a property question you need answered?
Email your questions to editor@yipmag.com.au