Macquarie Bank Lecture Series

The "Plain English" Dos and Don'ts of Property Investment

(prepared by Macquarie Bank in conjunction with
the Fraud Crime Team of the New South Wales Police Service)

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If you are buying a pre-existing Investment Property...

- **DO make sure you can afford the investment**

Do your sums before committing yourself. Remember, interest rates can rise, and so can your mortgage repayments.

- **DON'T always assume a stable or increasing rental market**

Rental flows from an investment property are rarely guaranteed. Don't assume you will always be able to rent out the property, and don't assume rental will always increase over time.

- **DO make sure you have written confirmation of your finance before signing a contract to purchase**

Also, be aware of conditional approvals - sometimes loan approvals will be subject to certain conditions, including a satisfactory valuation and mortgage insurance.

- **DON'T succumb to high pressure sales tactics**

Be prepared to say "no"! Be wary of promises of high returns over the short term.

- **DO your own "due diligence" on the property and the local market**

There is no substitute for "knowing your market". Be aware of all recent comparable sales and rentals in the local area before committing yourself.

- **DON'T rely on a valuation from a vendor or vendor's agent**

Always obtain an independent valuation, which should include all recent comparable sales. If you need a valuer, contact the New South Wales Institute of Valuers.

- **DO have your OWN solicitor go through the contract with you carefully before signing**

Never rely on the vendor's solicitors, they may not act in your best interests. Also remember you may need to see your solicitor quickly if purchasing at auction. Make sure your solicitor ensures you obtain a first registered mortgage. If you need a solicitor, contact the New South Wales Law Society.

- **DO have your solicitor ensure that your deposit is held with an independent and trusted third party, with very clear provisions in the contract governing its release**

Many property frauds involve investors losing their deposits. Make sure that both you and your solicitor understand and are happy with the provisions in the contract relating to your deposit and its release.

- **DO consider obtaining a building report and pest inspection**

At the very least get a builder or architect friend to have a look over the property. If the property is structurally unsound, you may not have any recourse against the vendor. Property purchasing is very much "buyer beware"!

- **DO remember that investing in property is a long term proposition**

and always remember that...if it sounds too good to be true, it probably is!

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If you are buying an "off the plan" Investment Property then all of the "dos and don'ts" on the other side still apply, but so do a few more…

- DO your own "due diligence" on the developer and the builder

Ensure that the developer and builder are reputable, and have a proven track record in the particular type of development. Ask to inspect comparable properties constructed by them, preferably in the local area. Information on builders can be obtained from the Department of Fair Trading.

- DON'T rely on a valuation from a developer

Never rely on a valuation, or a listing of comparable sales, from a developer. Always obtain an independent valuation, which should include all recent comparable sales. Make sure you understand any assumptions made in the valuation.

- DO have your OWN solicitor go through the contract with you carefully before signing

Remember that a contract for an "off the plan" purchase is fundamentally different to a contract for a pre-existing property purchase - "off the plan" contracts must include clear and comprehensive provisions governing construction, timing, fit out and Practical Completion.

- DON'T agree to release your deposit to the developer prior to Practical Completion

If a developer asks for this, they are probably having financing difficulties, and need the funds to continue with construction. If a developer requests an early release of your deposit, either up-front or during the course of construction, beware! You need to ask yourself why the developer can't get bank construction finance in the first place.

- DON'T always assume the property will increase in value between when you sign the contract, and final settlement

Many investors fall into the trap of simply assuming that the value of their "off the plan" purchase will increase in the period from when they sign the contract, and final settlement. This is not always the case, and is dependent on a variety of factors - including local market and broader economic conditions.

AND NO MATTER WHAT TYPE OF INVESTMENT PROPERTY YOU ARE BUYING…
ALWAYS BE VERY CAREFUL IF YOU ARE BUYING OUT OF YOUR LOCAL AREA, OR INTERSTATE

- Don't become a victim of "Two Tier Marketing"! Two Tier Marketing involves organised schemes designed to ensure that "out of town" or interstate buyers pay a higher price for a property than would "savvy" local investors.
- Victims of Two Tier Marketing invariably succumb to high pressure sales tactics, fail to do their own "due diligence" on the property and the local market, and do not obtain an independent valuation.
- Two Tier Marketing is now spreading beyond the Gold Coast, and into other States. You can prevent yourself from becoming a victim by following our simple "dos and don'ts of property investment"!

and always remember that...if it sounds too good to be true, it probably is!