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5 key features of a great investment property

Many homeowners fall into property investment, almost by accident. They end up buying the home next door when it comes on the market, or they buy a home from a family member who is looking to sell.

Or sometimes, when an owner moves to a bigger home, they keep their existing property as a rental.

Falling into property investment can work out just fine, but you will increase your chances of building long-term wealth with an intentional strategy backed up by a specific set of buying criteria.

If you understand the ingredients that make up a great investment property, you can make smart decisions when opportunities present themselves.

Buying an investment property with the following features will go a long way towards setting you up for success:

Feature 1. Sporting a sustainable yield

The **yield** isn't a physical feature. Rather a way of measuring the return you will receive on your investment. It's a great way to compare different properties to each other.

How to work out the yield:

Weekly rent x 52 / (divided by) purchase price x 100

Example: Let's imagine you are considering buying a property for \$500k that rents for \$600 per week.

To work out the yield: $\$600 \times 52 / \$500k \times 100 = 6.24$ So the yield, or return on investment is 6.24%

Is that a good yield?

It depends on several factors. If you are new to the world of property investment, don't hesitate to get in touch and we can talk you through what kind of yield you can expect in our market.

Where possible, you should aim for a yield which makes your property cashflow positive, or close to it.

2. Wait! What does 'cashflow positive' mean?

The dream of any long-term wealth-building investor is to buy a cashflow positive property. That's a property where there is money left over each week after all the bills are paid (mortgage interest, management fees, maintenance, insurance and local rates).

Tip: In higher-priced areas, you may need to consider multi-income type properties to find one that is cashflow positive.

While it's not always possible to find properties that are cashflow positive from the outset, it's important to have a plan for how you could make that a reality in future. Could you add an extra bedroom to increase the rent? Or a sleepout? Or turn downstairs into a second flat sometime in the future?

Feature 3. It should be located close to schools and shops

If you want to ensure your property is always easy to rent out, even in a down market, pick one that is handy to local schools and shops. Preferably within walking distance. That way, you'll open your target market to a wide range of potential tenants each time you need to find a new one.

Feature 4. The simpler the design, the better

There is a general rule with property - the simpler the design, the lower your maintenance costs should be in the long run. If the house is a plain rectangle shape with a simple roof system (and ideally sits all on one level), it will be easier to repair when maintenance is required and less likely to have underlying issues you can't spot (think roof leaks or water ingress).

While this rule doesn't protect you completely, it is one way to mitigate risk when buying an investment property.

Feature 5. Size matters and smaller is better

If you plan to hold your investment property long term, you will need to cosmetically update it at some point. The costs of new carpet, curtains,

interior painting and similar changes add up quickly. Especially when you are working with a large home on multiple levels. Make sure you buy a rental that is a manageable size, so those 10-yearly updates don't break the bank. When it comes to investment property, small is good!

Bonus tip: Hire a property manager

One of the main reasons why most investors only end up owning one rental property is that they find the process of dealing with tenants stressful and challenging.

When you secure your first investment property it can be tempting to try and make it appear more financially attractive by looking after it yourself to save on management costs. How hard can it be, right?

What you end up learning the hard way is that tenant selection is EVERYTHING. And keeping rents up to market levels is a job most self-managing owners simply aren't cut out for.

Hiring an effective property manager is an investment which will pay off in the long run and will free up your time for more important things. Like looking for your next investment property!

If you are considering taking the plunge into property investment and would like to talk through your options, please get in touch. We are here to help.