When most people decide that they are going to start investing in property, they start with what they think is the most logical step: looking for a property. It seems like the logical, right thing to do. I would like to challenge this and encourage you to start thinking differently. We are not really after just a "property" that looks good and has great functionality. We are not after a property which pulls at the visual and emotional strings. What we really want is a *profitable deal*. So instead of starting our investment research by looking for a property, let us first look at the factors that would make our investments successful and search for these first. All too many people get carried away with looking for a great property. You could end up with the best property in the whole area and still it may not be profitable for you. The strategy of jumping on line and searching through numerous property sale websites and thousands of enticing photos, can just lead to many hours spent and you end up with a list of properties you thought looked great, or you yourself would love to live in, not necessarily something that will bring you closer to your financial goals. What we need is a focused, systemised method of locating deals that are likely to be the best performing properties in the market.

As Investors, there are 2 major benefits we want to maximise:

1. Growth in Value. The more our property grows the more equity or profit we create for our selves

2. Strong Rental Income. One of the wonderful things about property, not only will it give you growth and end profits, it can also give you good ongoing income for the duration that you own it.

What I will do here for you is show you steps to help you get out of the habit of looking for "properties" and instead help you find profitable deals which will maximise the potential for both Growth in Value and Income. Remember this is a formula, so make sure that you follow this formula.

Focus On 3 Areas Only

Choose 3 areas to limit your attention to. Why? Too many people follow “trends” or ill advice from good intentioned friends and family. This can often lead to chasing property after property and never really being focused on the key indicators of finding the right profitable deals. If you limit your search to 3 areas, it gives you the chance to focus on these areas and really get to know the areas. You will have the opportunity to become an expert in these areas, and as you will learn later on in the book, if you are able to be focused in areas, you set yourself up to acquire several deals, thus all your hard work is leveraged and used ample times over, rather than just once.

How do you choose these areas?

Ideally what you want are areas that have performed well and will continue to perform well, so here are some basic criteria that they should meet:

Average growth of 10%. They need to have experienced average growth of 10% over the last 10-20 years. Many major cities in Australia have experienced this. You will need to narrow down and search for the areas within the cities that are able to uphold this statistic, OR

Rapid Growth last 2-3 years. The area may have experienced rapid growth in the past 2-3 years. What do I mean by rapid growth? Let us say, 3 years ago the growth rate for your chosen area was 2%, the following year (2 years ago) that growth rate jumped to perhaps 5%, and least year (1 year ago) it jumped again to 8%. Whilst the actual growth rate on its own is not high, the big jumps in growth are probably indicative of things going on in the market that are pushing property growth upwards. There is something going on in that area for property to grow so much in a short period, it could be improvements to schooling, lifestyle areas or employment opportunities which are sparking these jumps.

CAREFUL: What you do not want is for the increases in growth rates to have been occurring for more than 3 years. The reason for this is property cycles in most Australian metro areas are usually 7-10 years. Thus if there has been an upward trend in growth for the last 2-3 year, it is likely there is still some growth yet to come, where as if the growth has been going for more than 3 years then it may be likely that a slow down in price escalation is imminent and you could lose out on growth opportunities.

Proximity to convenience and lifestyle areas. What you have to remember is that we are not only looking for growth but good rental income, thus we want areas that are going to attract people with high disposable income, people that are willing to pay decent money to have a certain lifestyle and live in a desirable area as well as home. These are the type of people that will rent your property. These type of people prefer to have convenience nearby (stores, schools, public transport and other amenities), and they also look for quality of lifestyle, thus things such as sports or recreational centres, restaurants and cafes, as well as proximity to beaches, lakes, parks etc.

Close to Economic hubs. To attract the right potential tenants for the rental of your property, employment nearby is an important factor. If your chosen property is near an economic hub then it is likely to have good employment opportunities to attract professionals and good income earners. What's more important is that the economic hub has a range of industries to support the local economy and offer a range of employment options which will broaden the market to attract potential tenants and offer a strong chance of consistent rental income, not to mention rental income raises.

Strong rental income. The area needs to have proven that it can sustain good rental income. Thus you want to make sure that the on average the area is able to raise rental returns by about 5% per annum in the last 2 years. This is an indicator that the area is much sort after by tenants and tenants are willing to pay to live there. It could also mean that there is a shortage of supply of housing in that area. Growing rental incomes are often a result of high demand and low supply. So back to the basics of economics, low demand and high supply results in growth or escalation of prices, in this case rental income. So look out for increases in rental incomes for areas as these help with our desired outcome of growth and income.

Choose 'Spill Over' areas. Choose areas that are close or next door to more established areas that have already recently had a good growth spurt. These are called "spill over areas". They would be tipped off to benefit from the rapid growth of the more affluent suburb near it.

Limited development. Choose areas which have a limited amount of new property developments around it. You want to concentrate on areas that have a limited amount of new residential dwellings so that this creates a shortage of supply. It would help to choose areas that have heritage and height control restrictions.

Not only are we looking for areas with limited development, what we are really looking for here are areas with a shortage of supply in the market (yet still strong demand for property). As it goes in economics, where there is low supply and high demand, you will see the values or prices of products go up. Thus monitoring supply and demand in a property market is essential to understanding the potential growth for that particular area. When it comes to property markets, supply is represented by the amount of properties in the market combined with the amount of properties that are currently being built.

The above are the main indicators for choosing an area to start your search. As you can see if you are able to find to find out this information about an area you are sure to understand the area better and it will give you an indication of whether that specific area could foster good investment opportunities.

I am often asked how do you find out this information? There are several ways you can find out this information, some are free, others require a subscription or a fee. You can gather the above facts through websites such as pricefinder.com.au, rpdata.com.au, residex.com.au, local council, property investment magazines, or even from your real estate agent.

When searching for an area to start your focus on, make sure that they meet the above criteria. Your areas do not need to be near each other. In fact I encourage you to start choosing areas that are very different, thus you can diversify your search and it can make for a more interesting research process. For example, you may choose 1 area that is close to a beach, another that is close to a regional economic centre and another in suburbia which has it's very own lifestyle hub.

This is the longest step in the overall process but if you get it right the first time, you will not need to do the same amount of work again, instead, you will merely need to top up your knowledge. Some people get stuck on this very first step of choosing an area as they get phased by the whole idea of needing to make sure that it meets criteria. This causes a block for them and they procrastinate or get confused about where to start. Often they have not even found out whether or not a suburb meets criteria, rather they waste time making assumptions about the area without even checking it out. It does not need to be this way, it is actually very easy to start.

If you find yourself in this position of indecision, do not fear, here is a little tip: Start off by choosing 3 areas that you already know well (one can be where you live), forget about whether or not they meet criteria at this point. Then start your research on each area individually. Find out if each area meets the above criteria. If they do not meet your requirements, move on to another area. The idea is to get started... once you get started it is a lot easier to find out if a chosen location meets requirements and if it does not, you can move on and no longer waste anymore time. You just need to gain momentum and start.

Locate The Best 3 Streets.

Within your chosen areas choose the best 3 streets in each of those areas. What makes the best 3 streets? It's very similar to the criteria for our chosen area. The best 3 streets are those that are most in demand. They are usually close to transport, close to lifestyle and entertainment, scenic and convenient.

A lot of people tend to make the mistake of assuming the best streets are those that are the most expensive. When we are looking for the best streets as investors, it's not about which the more affluent streets are, but instead which streets are most in demand. Thus they need not be the most expensive streets.

Usually the most expensive streets of an area are the streets with slower sales activity than the rest of the area. Not many people can afford the expensive streets. You want properties where most people can afford to purchase but still represents a desirable location and lifestyle, so it is more like the upper end of the more affordable streets. It is those streets with the most of amount of sales activity that you want because more people can afford to purchase there and it is proven to be in demand.

The trick is to limit your search to within 1 -2 blocks of the best 3 streets in your area. We are trying to narrow down your search quickly so that we can find profitable deals faster. As time means money, thus the faster we find our deals, the more profit we make. Once you have located the 1 to 2 blocks surrounding the best streets in an area, I call this your highlighted area. Limit your property to only this highlighted area.

This does not mean there are no other deals outside of this area which are profitable, on the contrary, there are probably a whole load of deals to be found. But we are following a formula that is designed not only to help us find deals but to help us find them quickly. The formula is also designed to help set us up with deals which are candidates for investment with less (if not none) of our own money.

Locate The Best Of Each Property Type.

People often opt for properties which tend to match what they think is suitable for their personal preferences. So many people decide what they are going to purchase, whether that be a house or an apartment etc, before they have even researched an area and found out what is most suitable for the area. Their decision is often based on what their personal conditioning has been from outside influences and their own personal preferences.

I recommend that you start with a blank slate. Forget about what you think is a good property and what makes a nice home. We are here to make a profit and not to find properties to suit our personal tastes. To set ourselves up for the best outcome possible, we must clear our mind of personal prejudices and preferences. Then we must work out what type of property is most suited in an area and what is most in demand, i.e. 3 bedroom houses or 2 bedroom apartments? By working out what type of property is most appropriate or most in demand in that area, you will set yourself up to maximise your growth and cash flow, as it will be the type of property that most people are renting and buying in that area. This is what will push the growth of your property upwards.

A great way to find out what is most suitable for an area is to go onto the area's council website and look up the demographics of an area. Most councils have a study of the local demographics that include, the background of people that live there, their age, sex, income, family size and more. If you notice that most households in the area have are made up of 3 people or more, than it is likely, houses or larger properties are more in demand. If you find that most households have less than 3 people, then it is likely that apartments or smaller properties are most in demand. You can also get this information from the local real estate agents.

When you have worked out what is most needed for that area whether it be houses or apartments, this will make up the type of property you will be searching for. So be specific. Thus, if you have worked out that 2 bedroom apartments are most in demand in the area, then you should only to be looking for 2 bedroom apartments, nothing else. These chosen properties must also be in your highlighted area. Do not waste your time searching for properties outside of your highlighted area. It is not that we want to be closed minded to other types of properties. You will find if you stick to this formula, if you are specific about what you are looking for and you stick to your highlighted areas, then you are likely to find your deals faster and have a better chance of good returns.

Choose Properties That Have Been On The Market For 2 Months Or More.

To narrow your search down further, find out the properties that have been on the market for 2 months or more. Before you start thinking there must be something wrong with the properties if they have been on the market for 2 months or more, there is good reason for this tactic. Firstly just because it has been on the market that long, does not mean there is something wrong with the property. There could be many different reasons why a property is on the market for too long. The property could have been priced incorrectly previously, a bad marketing campaign could be to blame or even just difficult vendors or real estate agents involved. Never assume there is something wrong with the property purely because it has not yet sold. Many people dismiss a property based on these assumptions when there could still be many advantages and benefits to the property if given proper consideration.

Always keep in mind we are looking for a *profitable deal*, not a pretty property. Thus you have to set yourself up to get good deals. Choosing properties that have been on the market for 2 months or more puts you in a great position to negotiate good deals under favourable conditions because the vendor could be getting more desperate to sell. Not only is it likely the vendor will be more desperate to sell but so will the Real Estate Agent. Real Estate Agent's contracts with vendors are for 3 months in total, and real estate agents do not get paid for the amount of time that they put into a sales campaign, instead they get paid 1 set amount once the property is sold. A real estate agent's allegiance starts off with the vendor. When there has not been favourable activity in the first 2 months of the marketing campaign, there is a high possibility the agent can be swayed to work with you to negotiate an outcome that is favourable for you as a buyer. Understanding the psychology of a real estate agent, and their income motivators will help you select deals that are in the best position for negotiation in your favor. Here are a couple of things for you remember:

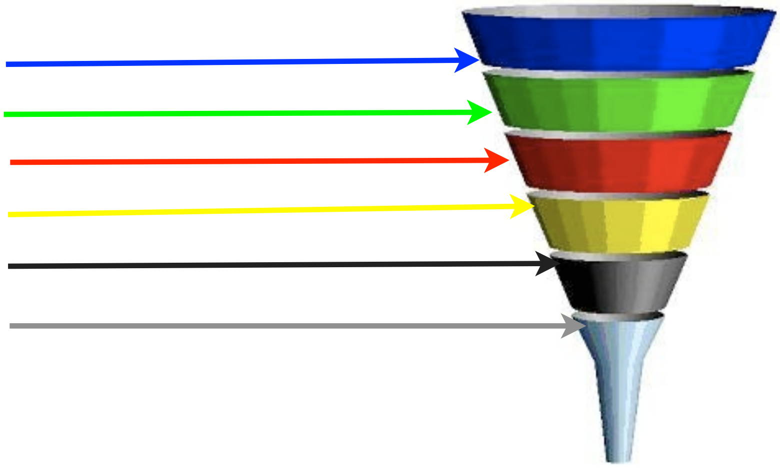
Real Estate Agents never 100% work for the vendors, nor do they 100% work for the buyers, they 100% work for themselves. So if you always look for an outcome that is favourable for the agent as well as the other parties involved, including the vendor, you could be saving yourself a whole lot of hassle when it comes down to negotiations on a property.

A drop of $10K in purchase price or profit for the vendor merely makes a small change of only a few hundred dollars in commission for the agent. So an agent could easily be tempted to help bring a purchase price down marginally, and loose a few hundred dollars. This way the agent could move onto a more promising property deal faster, rather than working on the sales campaign for longer just to make up the small amount in commission.

The Research Funnel

I like to describe my overall research process by using a funnel. Here are the different parts of the funnel:

1. Location
2. Value For Money
3. Infrastructure
4. Designs & Finishes
5. Rental Return
6. Quality and integrity of the Developer



Location

As mentioned earlier, concentrate on only 3 areas. Once you have the areas that meet the criteria, stick to your choices. Become an expert in those areas, do not change your area of choice each time you hear or read something new about other areas. Be focused and systemized but also open to the fact that you can change your area of choice if the market changes and your chosen locations no longer meet criteria.

Value for Money

What can your money buy you in this area? Get an understanding of price ranges in your chosen area, i.e. Will $300K buy a brand new 3 bedroom apartment or a rundown small 3 bedroom house? Get a feel for what type of property is most popular in the area. Once you have determined the best type of property for that location, start your search for only that particular type of property.

The chart above illustrates how markets could move. Purely because there is growth occurring in the property market over these months, a property which sold in February for $240,000 may have sold for less than a very similar property that sold in July for $310,000. This could happen not because the property is inferior in size or quality, but because the market had moved upwards and people are now paying more for a similar type of property. The same goes vice versa, a property which sold in July may have sold for more than a property which sold in March, even if the property which sold in March is larger and superior overall. A moving market can dramatically affect the changes in price of a property no matter what the property's features.

Gather all the comparable sales for your property choice. Whether the comparable sales be ones which have sold for more, or less, you will need all of these later down the track. Keep a record of what the comparable sale properties are, how many bedrooms, their sizes and extra features. It is essential that there has been movement in the market and you are actually able to find deals which have sold for both more and less than your shortlist of properties.

By gathering this information on comparable sales we are understanding where the market is at and what price points make for a good deal. This information will help us determine that there is opportunity for further profit down the line. It is also good to note it is these comparable sales that valuers and banks will be looking at to determine the actual value of your property down the line.

File all your findings in such a way that is easy for you to understand and access. You will need all of this information later on during this book.

Follow the diagram on the following page for another way to narrow down your property search faster and efficiently.

Infrastructure

You want to make sure there are reasons for property price growth to continue in your chosen areas. What is going on in the area? Are they building new roads, transit lines, hospitals, shopping centres? These are the kind of things that add value to an area. As a tip, if the government is spending on improvements in an area, it is likely to be seeing some growth.

Designs & Finishes

You want a property that will stand out amongst the rest. The property has to be boutique and unique, but it cannot be too different from everything else. You need some points of comparison for your property, for example, your property may be unique because it has a swimming pool which is a great feature. Even if your property is unique because of it's swimming pool, if there are not many other properties in the area which also have the same feature, then there are no other properties to compare yours to. If there is nothing to compare it to, then there is nothing to prove its higher value.

Ask yourself:

- Is the property functional enough for the requirements and standards of the people living in that area?
- Are the designs and finishes of good quality and appealing in appearance?
- Is the property appealing to the end owner occupier?

You most definitely want a property that is appealing, however be careful not to choose something that is too expensive, purely because it has top of the range finishes. Once again, we are not looking for the best "property" with the best features, what we want is the most profitable deal.

Make sure you also choose properties that are appealing to the end owner occupier. Being attractive to a home buyer is your ultimate way of increasing the end value of your property. This means the property you choose needs to be attractive to someone that will want to buy the property to live in long term.

This tends to eliminate special use properties such as studio apartments, student accommodation, holiday let apartments or resort style properties.

Rental Return

Does the property get good rental return? A simple way to figure this out is: If a property is worth $400K, then you want to be receiving at least $400 per week in rental income or more! This means that we are after a minimum rental return of $1 per $1000 in value of the property or otherwise known as 5.2% rental return per annum. Of course the higher the rental return the better, as long as it is not at the cost of the growth potential for the property. For example, in some areas such as mining areas, the rental returns are very high, you can get as high as 14% rental return however, whilst the income can be high, the growth in that market may be very slow, not to mention completely reliant on the mining industry alone. If the mines close, you are at risk of losing your all the rental income and as well as having very low growth. Its not that I am against investing in mining towns, I just believe that there has to be more than 1 reason to for people to live and invest in that area. If you are going invest in high rental income areas such as mining towns, make sure that that there are other industries and employment hubs already established in the area.

Quality and Integrity of the Property Developer

We want to make sure that the property is built by a reputable developer who has produced good quality work previously. You can do this by visiting the developer's past projects and speaking to their past clients.

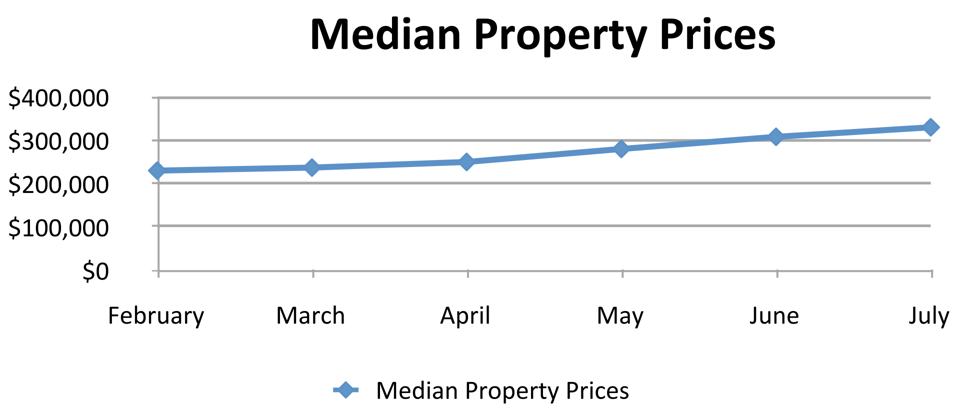
If the property you are looking at is older and the developer perhaps no longer exists, make sure to get a building inspection done (you should do this anyway, whether or not the building is old).

Gather Comparable Sales

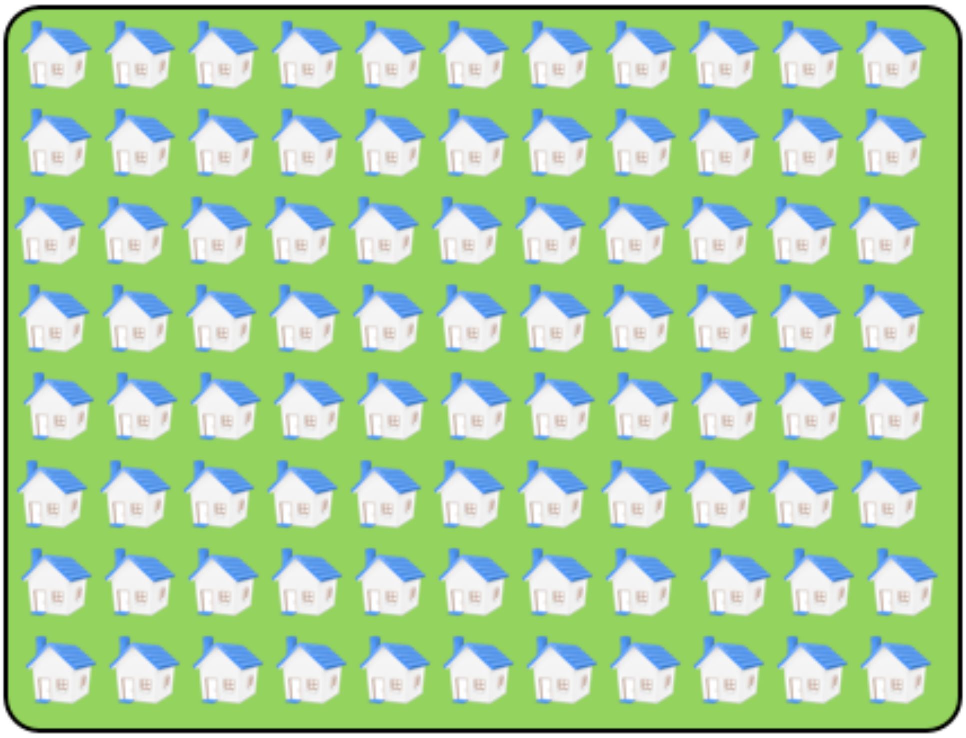
Another very important part of your research is the gathering of comparable sales. Comparable sales are properties in your chosen area, which are similar to your property type of choice, i.e. 2 bedroom apartment or 3 bedroom house, and they have sold in no more than the last 6 months. Make sure to gather every single similar property that has sold in that time.

You may be thinking this is hard to find out past property sales, but it is not. As long as your research is focused and you are only looking at 1 particular type of property it actually becomes quite easy to find this information. You can get this information from either Pricefinder.com.au (for a fee) or direct from the local real estate agents. Once again, this is why it is important to be-friend your real estate agents.

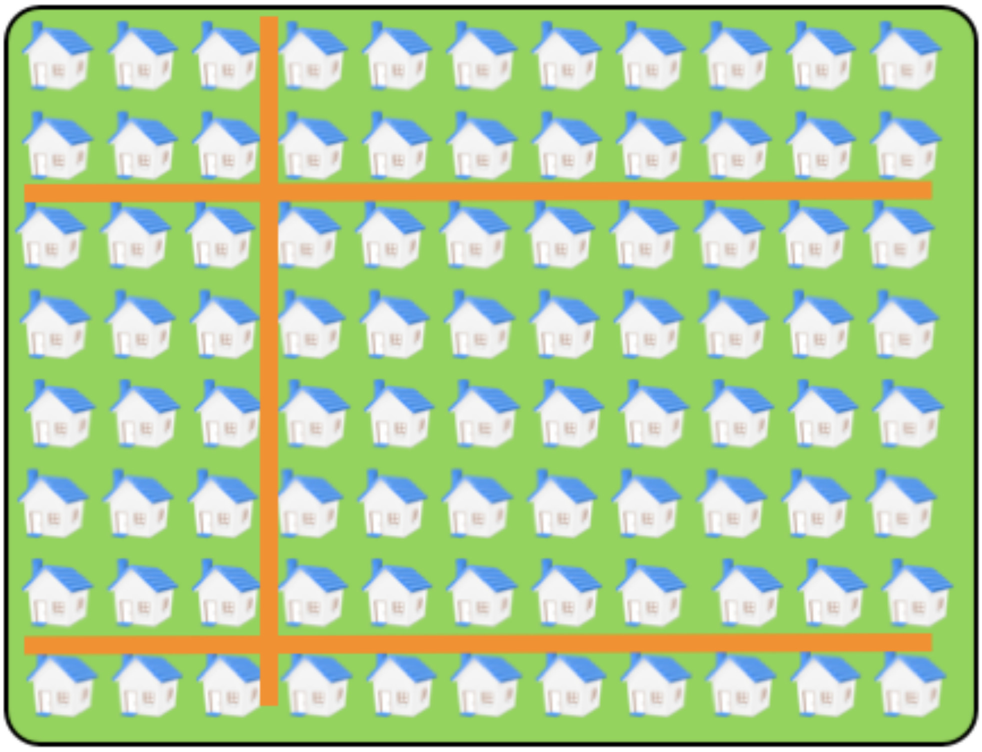
What you will notice once you have your comparable sales, is that the sale prices for the properties will vary. You will find that some properties will have sold for less, though in many ways they could even be better (larger or more modern perhaps) than your shortlist of properties. Then other properties may have sold for more than your selection of properties however these could be inferior to your chosen few. If you have followed the criteria when choosing your area, you will find that a variance in property prices is common. Why this variance? It is the nature of a moving market. You see, if you follow the criteria, particularly that where there has been big jumps in growth rate over the last few years, then it is likely you are searching for property in a rising market, thus by virtue of time and upward movement alone, you will notice a variance in price range.



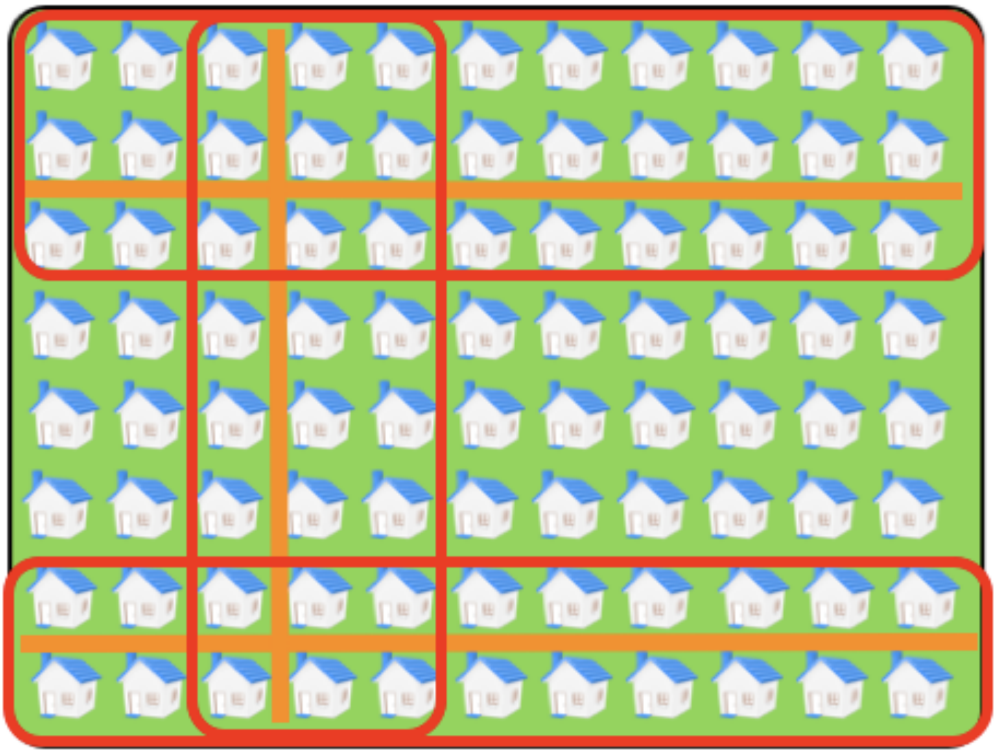
1. **Choose an area.**



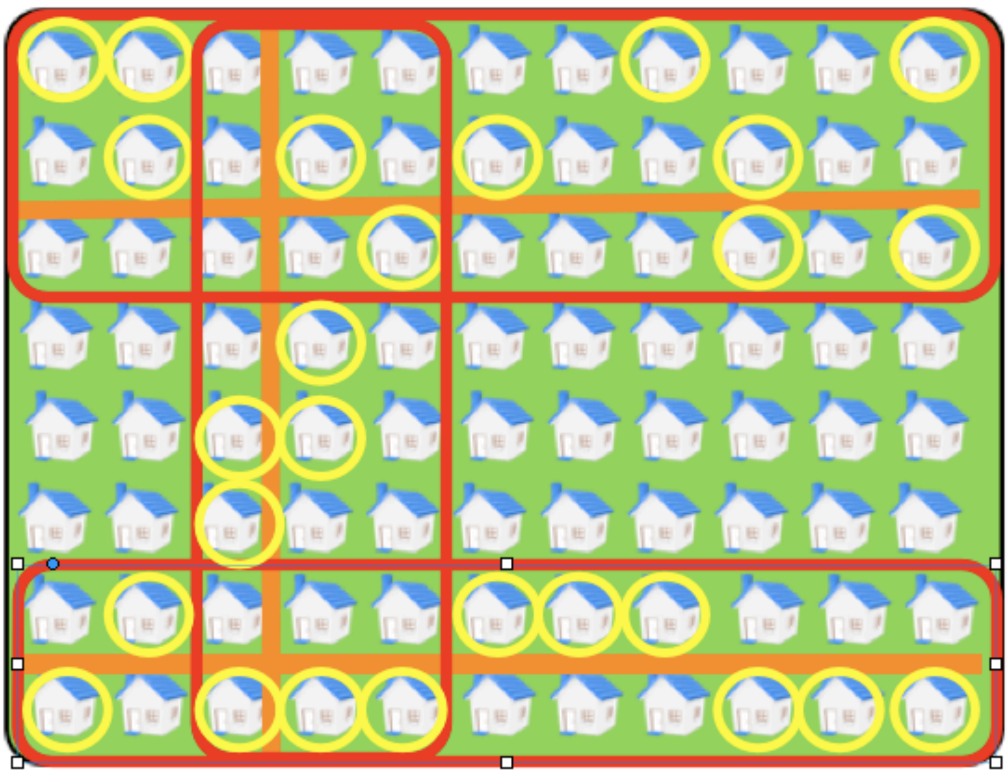
2. **Choose the best 3 streets in the chosen area.**



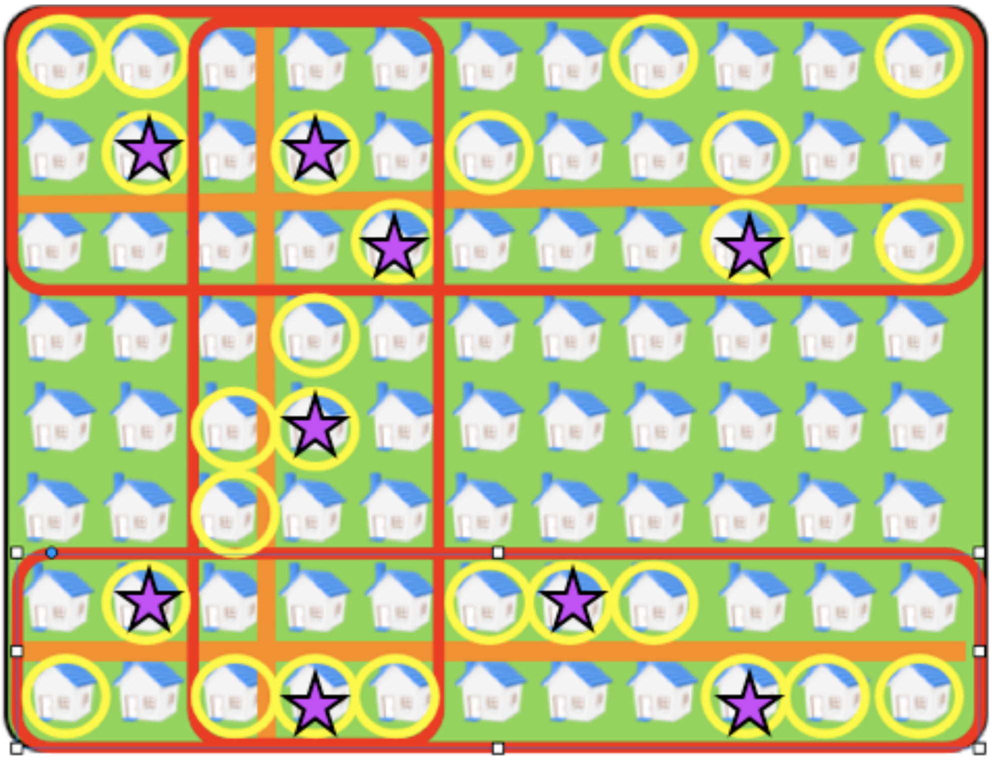
3. **Focus on the 1-2 blocks surrounding the streets. This is your highlighted area.**



4. **In the highlighted areas, choose the most appropriate and most in demand type of property for that area. i.e. 3 bedroom houses.**



5. Of the circled properties, choose the ones that have been on the market for 2 months or more.



The properties that have been on the market for 2 months or more (as highlighted by the stars in the diagram) now comprise your shortlist of properties. These are the properties that meet all our criteria, and now its up to you to check and inspect these properties. Because these properties have been on the market for 2 months or more, coupled with the comparable sales you have found, you are setting yourself up for good negotiations likely to be in your favour.

What's even better, you can use the same information and research you have gathered on each of these properties instead of needing to complete a new lot of research for each property separately. It makes it a lot easier for you because you have been focusing in 1 area, and all on one type of property.

Getting your research method right will help you find deals faster, make profits faster (because time is money) and it will set you up to find deals that will not only out perform the rest of the market, but also deals that may be done using little or none of your money.

Tips to Remember:

- You are looking for a profitable deal and not a "property"
- Do not limit yourself to what you think you may or may not be able to afford. In the strategy section we will teach you how you can purchase almost any deal no matter what the price range.
- Choose areas that are close to economic hubs
- Choose areas that have proven increases in rental returns.
- Areas with plans for further infrastructure and improvements are tipped for additional growth in values.
- Narrow down your search quickly.
- Choose your areas according to criteria and stick to them. Do not change your mind too quickly.
- Become an expert in your areas.
- Get to know all the agents in your areas so they can help you in your search for good deals.
- Be diligent with your research. Look at all similar properties that have sold in the last 6 months.