

21 questions to ask when selecting an Investment Property Specialist



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When it comes to Property Investment, *most people get it wrong!*

Choosing an Investment Property Specialist to assist you with securing your financial security can help you avoid the costly mistakes most investors make. However, if you choose the wrong company, then the results can be disastrous. So how do you know who to trust?

The following 21 questions will help you choose an Investment Property Specialist so you can receive a high level of service, integrity and advice – without paying for the privilege!

Question 1

Have you ever sold the following?

- Student accommodation
- Retirement accommodation
- Holiday accommodation
- Serviced apartments
- Hotel rooms

Why this question is important:

- The safest real estate investments are standard residential properties in residential areas.
- What are the Agent and their company's track record of success or failure on these types of investments?

Note: Steer clear of Agents that sell these types of properties, as they are typically poor-performing investments and often difficult to sell (even at a hefty loss). There is very little demand for these properties on the secondary market and typically they do not perform well when it comes to capital growth. In fact, they often go backwards, which can leave you in a far worse position than when you began.

If an Agent sells or has sold these properties, it is a warning to stay away from them, as they have demonstrated that their main interest is acquiring the sale instead of ensuring you are buying a great investment property.

Question 2

How old are the properties you are selling?

Why this question is important:

- Older properties often create extensive maintenance issues for you and the cash flow is often poor due to the lack of depreciation you can claim.
 - Brand new properties, on the other hand, have maximum depreciation, making it easier for you to hold multiple properties for a small outlay per week.
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Question 3

Do you have exclusive rights to sell apartment projects?

Why this question is important:

- In almost every apartment complex some apartments stand out from the rest, which means that the others are poorer properties. If an Agent sells every apartment, this shows they are not selective and are happy to sell the average and poor apartments once the good quality apartments are sold.
 - If an Agent is only selling selective properties in the complex, ask them why they chose those particular apartments. It could be that these are the left-overs that are difficult to sell and a high commission is paid to them or, on the other hand, it could be that the Agent has hand-picked the best properties and refuse to sell the inferior apartments.
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Question 4

Who do you act for?

Why this question is important:

- The Agent should be acting for you, the client. However, most act for the vendor.
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Question 5

How do you earn your income?

Why this question is important:

- Provides information on how the Agent and the company they work for operates.
- Avoid Agents/Companies that charge you as well as getting paid from the vendor.
- If they are paid by the vendor, then they act for the vendor. You could challenge them on this and if they say they act for you, ask them to show you how.

Question 6

Do you charge your clients a service fee?

Why this question is important:

- Many Agents/Companies and Property Investment Clubs will charge you a fee for items such as: education, mentoring, strategy meetings and cash flow reports – all of which are essential, but none of which you should pay for. The fees can range from a few hundred dollars to more than \$10,000! Look for an Agent/Company that provides these things at no cost as part of their normal process of helping you buy a great investment property.
 - They may also justify charging a fee by providing research, garden maintenance, depreciation schedule and rental guarantees. You can most certainly guarantee that in most cases you will pay a lot and not receiving much value in return.
 - Look for an Agent/Company that provides mentoring for free and discounted depreciation schedules (because they have bulk purchasing power). As far as rental guarantees go, these are often built into the price of the property, so you are paying for it anyway.
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Question 7

Do you provide comprehensive cash flow reports?

Why this question is important:

- Not understanding the cash flow on an investment property before you buy is the main mistake investors make when buying an investment property. This often leads to them selling at a loss.
 - Do not deal with an Agent/Company selling you a property if they do not supply you with a cash flow report. It means they do not understand property investing or they do not want you to know what the outlook is, as poor cash flow may stop you buying the property.
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Question 8

Can you explain how depreciation works and do you provide an indicative depreciation schedule on every property you sell?

Why this question is important:

- If an Agent cannot explain to you how depreciation works then they do not understand property investing. This means you should be wary about buying an investment property from them.

- An indicative depreciation schedule will provide you essential information on a potential investment property. It sets out the tax breaks you will receive on your property over the first 40 years and it is needed to work out the cash flow.
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Question 9

What do you consider to be standard capital growth?

Why this question is important:

- Many Agents will say it's common knowledge that properties double in value every 7 to 10 years (7 – 10% capital growth). It is just not true in the long term – in fact, the closer they are to 10% growth the more you should question dealing with this Agent.
 - A more realistic figure is 6% capital growth, which means a property will double in value in 12 years. This is a conservative figure and provides an accurate benchmark.
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Question 10

What do you consider to be a good investment property, and why?

Why this question is important:

- Is the Agent considering the fundamentals, such as cash flow, price, location, transport, employment, floor plans and quality fixtures, population growth, percentage of owner occupiers in the area, schools, shops, parks, and proximity to sporting facilities? If not, why not?
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Question 11

Do you sell all of these types of properties?

- House and land packages
- Apartments
- Townhouses

Why this question is important:

- Agents should be offering you all three types of properties to ensure you end up with the correct investment for your circumstances.
- If the Agent only offers one type of property, then you are only receiving part of the picture and more suitable choices may be available to you elsewhere. The Agent will have a great

story as to why their property is the best, however, it is not normally clear if they have a bias.

- Agent who sell only one type of property, or only sell in one particular area or region, may have a vested interest in selling what they do. For instance, they may receive large commissions from a developer, they may have a financial stake in what they are selling, they may be the developer, or they may just specialise in one particular area.
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Question 12

Do all your properties come with a car park?

Why this question is important:

- Properties that do not have a car park area or garage are often poor investments, as the property will appeal to fewer tenants and less future buyers.
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Question 13

Do you provide an independent rental appraisal? If so, how many rental appraisals did you seek and where does your rental appraisal fit in the expected rent range for this type of property?

Why this question is important:

- If an Agent does not have an independent rental appraisal, they might be inflating the rental price to make the property seem more appealing than it is.
 - Some rental appraisals are not worth the paper they are written on, as they are provided by the developer or sales agent. If they are not independent appraisals the chance of an inflated rent appraisal is more likely, leaving you out of pocket when they do not achieve the unrealistic rent originally quoted.
 - A good Agent will obtain 4-6 independent rental appraisals and use an average of the lowest of these when providing a cash flow report – this way the rent quoted will be conservative and a realistic reflection of what you should expect. Any extra rent obtained above the lowest quote should be considered a bonus.
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Question 14

What is unique about the property you sell?

Why this question is important:

- If the property has nothing unique about it, then it will not stand out to a potential tenant or future buyer, which may affect the future capital growth of the property.
 - Selecting properties with special features (such as a larger than average outdoor area) that appeal to owner occupiers will safeguard you, as the future resale value of the property will generally be higher than one that appeals to investors only.
 - Some Agents will sell “investment-stock”, which is small and has basic specifications that will make the property cheaper, but less appealing to tenants and future buyers.
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Question 15

Do you sell high rise apartments?

Why this question is important:

- Steer clear of high rise apartments as there is no scarcity value.
 - Many Agents sell high-rise properties that are all very similar and often over-supplied. Over-supply can lead to long vacancy periods and stunted capital growth, as the tenant or future purchaser has lots of choice.
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Question 16

Do your properties meet bank valuations?

Why this question is important:

- Ideally an investment property price should be of equal value to the bank valuation, or within 5%. Valuations may vary from one valuer to another, but as a rule it should always be within 5%.
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Question 17

Do you have current indemnity insurance?

Why this question is important:

- Professional indemnity insurance provides essential financial protection for Real Estate Agents against potential losses arising out of conduct such as misrepresentation of the features of a property listed for sale, errors or delays in preparing documentation or loss of documents, and misleading or deceptive conduct.
- You need to know the company you deal with is fully insured in the event of a claim.

Question 18

What locations do you work in?

Why this question is important:

- Many real estate agents and buyers agents only deal in their local area, but this restricts the options available to you. Similarly, if the company only sells in one particular area, for example South-east Queensland, then you are limited in choice as that area will not be the best fit for everyone. Also, property cycles change over time and it is best to have the choice to buy in an area that hasn't peaked or isn't over-supplied.
 - Is the Agent looking at all available areas Australia-wide? If so, they should be able to provide proof of their research.
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Question 19

What research do you undertake?

Why this question is important:

- The research undertaken for each property should go through stringent guidelines, profiling and analysis. This question is designed to see whether the Agent can list these components.
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Question 20

Are you a specialist in property investment? What qualifications do you hold?

Why this question is important:

- This answer will provide an outline of the Agent's background and qualifications. If they cannot provide proof, then they are not the appropriate Agent/Company to consider purchasing investment properties.
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Question 21

Do you belong to any property bodies?

Why this question is important:

Is the Agent/Company willing to be held to the standard that those property bodies uphold?