

# The cost of giving in to FEAR OF INVESTING

**There's a multitude of reasons why people don't feel ready to buy a property. Often, the easier aspects are having finances in order, seeking pre-approval and determining cash flow. Amy Mylius explains why the challenging part is commonly psychological and/or emotional**

The primal emotion of fear can drive people to do all kinds of different things. They can run away, scream, hide and even do nothing at all. The latter is particularly common for those considering buying an investment property.

A client of ours came to us after searching for a property for more than two years. His mother had passed away and left him a considerable inheritance, but the sentimentality of his situation meant that he was paralysed with the fear of making a mistake with this very special nest egg. What he found was that now he couldn't afford what he had originally wanted to buy.

Buyers need to be confident in their ability when making such a large financial decision. For first homebuyers or new investors, this is particularly relevant when they've had limited exposure to the property market.

They might have an innately negative perception towards getting into debt – a trait passed along by previous generations who have held on to the mindset of 'borrow as little as possible and pay down debt quickly'. Often, buyers feel that savings are precious, based on the fact that the process of saving for a deposit has taken a long time and a great deal of sacrifice.

## Information vs misinformation

When buyers first start their investment journey they can be overwhelmed by the amount of information, or conversely

the amount of misinformation, that is out there.

In a perfect market there are no barriers to entry and exit, and there is transparency and accessibility of information. The property market is the complete opposite of a perfect market, where costs of entry and exit

are huge, for example stamp duty and agents' fees. Sellers have a tendency to withhold information from buyers by not disclosing reserve prices and understating (or overstating) the interest from other parties.

These issues create unease and mistrust within buyer circles, where



the only solution for buyers is to become self-assured in their own judgment by doing their own research, due diligence and analysis.

**Fear of missing out**

One fear which is incredibly tough to overcome is the ‘fear of missing out’. The grass is supposedly always greener on the other side, and although homebuyers may have found a property which is exactly what they’re looking for, how will they feel if something better comes along?

Late last year one of our clients faced this problem, and after inspecting for only one week, he had only days to make the decision regarding whether to go to auction or make an offer. He knew that three-bedroom properties in this area for the appraised price were rare, but he struggled with accepting that it was happening so soon. If he pressed ahead and pursued the property, he would not be able to ‘experience the journey’.

He ended up buying under the hammer, but he needed the professional support of his financial advisor, builder and buyer’s advocate assuring him that it was the right decision.

The reality is that if you’re prepared, you’ve statistically got just as much of a chance of finding the right property in the first week as you do the fourth or 10th week. The only difference in the 10th week is that you’ve had more properties to compare to and more exposure to the market. But what you also might have is more confusion and an upward movement in prices.

I regularly meet people who have been intending to buy an investment property for five or even 10 years, but they’ve needed a push from someone like a financial planner to remind them that they should buy property and wait (for it to exhibit growth), not wait to buy property.

Without a burning date to purchase by, or a need to have shelter, an investor can whittle away time while they are overruled by their terror of making an early call on a less-than-perfect property.

**The cost of waiting**

Hesitating in a market which is experiencing even moderate capital growth can cost you more than just time. A simplified example explains:

a \$600,000 property appreciating by 7% is growing by over \$3,200 per month, which is typically significantly more than a median household might be able to save in the same time.

Dragging your heels can also mean that you may have had an opportunity to buy a property prior to auction during the early part of the campaign, but are no longer eligible. The longer you wait, the more buyers have the opportunity to see the property and so competition between buyers is likely to grow; and the less chance you’ll have to secure it before auction. Once an agent and vendor have confidence that two or more competing buyers are prepared to bid, the option of buying prior to auction is taken off the table.

You also need to be mindful of how the agent perceives you. If the agent recognises that you aren’t prepared (or realistic), they’ll have less desire to invest their own time into you when they’ve got other buyers in the wings who are ready to buy for a realistic price.

In all cases, if you’re interested in a property, you’ve got nothing to lose by telling the agent that you have interest. Playing games and acting nonchalant can result in someone else beating you to the punch. If the agent doesn’t know you’re keen, you won’t have given them any reason to contact you when they do receive a genuine and realistic offer from someone else.

**External influences**

The media, our friends and our family have a strong influence on the decisions we make in our everyday lives, but in particular in our attitudes towards how we build wealth – and more specifically, in relation to our property investment decisions.

The hype of the so-called ‘property bubble’ or the theory that we’re at the peak of a property cycle creates fear. The fear of paying too much, the fear of losing money, the fear of being conned, and the fear of suffering stress can frighten would-be investors into a state of ‘wait and see’, where they will opt to see what happens within the market before making a decision.

The short-term volatility of the property market means that we can’t hide from property cycles, as some Melbourne buyers in 2010 can attest. Their property values have only just eclipsed the price they paid four years ago, but in 2010 they took a calculated risk. Provided they held and didn’t crystallise a loss by selling, in the longer term they will benefit from growth.

**Property is not a short-term investment**

It’s very hard for an investor to make a profit through buying and selling in the short term, and sometimes even experienced developers get caught out. Overlooking capital gains tax, selling costs, marketing fees and initial stamp duty can cost a ‘flip investor’ significant money. This is one key reason why my philosophy and advice is to buy and hold.

Time is the biggest insulator of short-term fluctuations. We don’t need statistics to be confident that the long-term growth trend is upwards, regardless of micro dips and spurts. We look at how much our parents paid for their properties and how much the properties in question are worth now.

My dad always bought where he wanted to live and then sold when he was ready to move on. It suited his lifestyle, but he now wistfully looks back at the single-fronted Victorian period house in Seddon which he sold for \$96,000 in 1996 (now worth \$650,000), and his three-bedroom home in Highett which he sold for \$270,000 in 2000 (now worth over \$800,000).

**WHY SECOND-TIME INVESTORS HOLD BACK**



Second-time investors can be hamstrung in buying another property, possibly because their first one didn’t perform as well as they expected. There’s a valid reason why three-quarters of the investor population stop at only one investment property. Instead of recognising and learning from their mistakes, many choose to view property as a risky choice.



## » No property is perfect. Location and land size can't be changed, but kitchens, etc can be renovated

### Timing the market

In terms of seasonal market fluctuations, there can be better months to buy depending on supply and demand ratios, but these months can be difficult to determine if you don't have your finger on the pulse. This is because property data such as clearance results or growth statistics have a lag, while first-hand experiences can explain what's happening in the market right now.

In some suburbs in Melbourne last year we had a fairly quiet spring, (which is typically the busiest time for new properties coming online). When we did have a late surge in spring listings, there was a simultaneous decline in auction clearance rates as we got closer and closer to Christmas.

We were able to discover this window of opportunity through our daily interactions and discussions with numerous agents, and ultimately our December resulted in some of our best value purchases of the year.

If buyers are diligently studying their local market, they might also be able to find an edge through discovering a 'micro glut' in a certain category of properties (such as two-bedroom apartments, as an example). If suddenly there's an above-average number of these properties available in the market, this micro-glut can create an imbalance which dilutes the buyer pool and creates favourable buying conditions.

On the flipside, buyers need to be wary of making a hasty decision by assuming that a few statistics denote a trend. A limited number of strong sales don't necessarily indicate runaway growth, and instead could represent pent-up demand for a certain type of property which has experienced limited supply in the preceding months.

#### Amy Mylius

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### How investors can empower themselves

- 1** The most important thing any investor can do is back their own well-versed judgment.
- 2** Educate yourself and establish a clear criteria of what you're looking for, familiarise yourself with the local market and keep an eye on sale prices of recent and comparable (sold) properties.
- 3** When making your criteria list, separate the 'must haves' from the 'nice to haves' and then rank them based on importance. These items might include things like number of

bathrooms, off-street parking options, distance from train station, structural condition and land size. If you're an investor, make sure you have an idea of your target yield AND target tenant.

- 4** Finally – remember that no property is perfect. Some aspects such as location and land size can't be changed, but kitchens can be renovated and gardens can be landscaped. If the property meets your criteria and if the price is right, don't let the fear of making an early decision cause you to miss out. Once you have found that property, paid the deposit and popped open the champagne, you can then play the waiting game and enjoy the rewards that come. 🏠