EXPERT OPINION

Finding the Holy Grail of real estate

Investing in property can be a powerful strategy for growing your wealth – provided you invest in the right type of real estate. So just how can buyers find the 'Holy Grail' of property?

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CEO of Multifocus Properties & Finance

Philippe has countless years' experience in property investment, He has helped many first-time and experienced investors achieve their goals

FOR THE last few years, many have considered Sydney to be a star real estate performer, with property owners enjoying double digit annual growth for several years running.

But there is one piece of the puzzle that is presently missing in the Sydney market, and that is yield.

There's no point in investing in a property that is going to cause you considerable financial stress to maintain, and in the Sydney market, unaffordability and low yields means this is the reality for many.

Let's say you buy a property in Sydney right now in Lane Cove. You pay around $800,000 for a brand new one-bedroom apartment, and you rent it out for $550 a week.

This translates to an entirely ordinary yield of 3.6%, which isn't going to be nearly enough to cover to costs of owning the property. When you add up mortgage interest, property management fees, council rates and insurance, your property is going to cost you around $750 a week, leaving you with a shortfall of $200 per week.

Why yield is so important

Now, you might be reading along and thinking, well, $200 a week isn't all that bad. You can afford it, and with negative gearing rules, you get a chunk of that back at tax time anyway.

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I want you to consider a few things, however, such as: what if interest rates go up (which they will eventually), and that $200 shortfall becomes a $500 shortfall?

What if you want to invest in more than one property? A $200 shortfall across four investment properties is $800 a week, which is a very high financial commitment.

For all of these reasons and more, it's essential that you factor yield into the equation when you're investing in property. In my view, this means looking for properties that return at least 4.5%, and which won't cause you financial stress if interest rates increase.

Criteria for a 'holy grail' investment

Many of my clients own property in Sydney and thanks to recent price growth, they've built up some solid equity in their portfolio.

However, they know that one or two well-performing properties isn't going to be enough to build lasting wealth. To create a real estate portfolio that allows you to retire from the workforce in comfort, you need to invest in a number of diversified properties.

We always advise our clients to invest in real estate that passes a stringent criteria that prioritises both growth and yield. Our research team searches for investment opportunities that tick a number of boxes, including a central location with a growing population and strong local infrastructure and amenities, but we also look for a property market that is in the ideal part of its cycle.

Timing the market is not an exact science, but we use a number of strategies to help build confidence that we're buying at (or near) the bottom of the market cycle. This way, our clients can experience as much price growth as possible, while also holding onto affordable investments that don't put them at risk of financial pressure.