BUILDING YOUR PROFESSIONAL TEAM

AN EXPANDED CHAPTER FROM

PROPERTY 101

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A GUIDE TO INVESTING IN NEW ZEALAND WITH A FOCUS ON AUCKLAND

Introduction

Starting out in property investing can feel daunting, but with a good team at your back it becomes a much easier undertaking. Don't make the common mistake of trying to work everything out yourself – most mistakes have been made already in this world, and dealing with professionals experienced in property makes an enormous difference.

Many professionals, including accountants, lawyers and valuers, are not property investors. However, because they have 'property clients' or have some limited experience in watching investor mates, they think they are qualified to give advice to investors. I have seen many fantastic deals spurned by so-called experts, and equally, seen terrible deals done that should never have happened. Think Blue Chip – GRA banned our clients from buying Blue Chip deals and resigned as trustee if they insisted on proceeding. Where were all the other 'experts' around the town on Blue Chip?

They only seemed to emerge after they went broke. Choosing your team members is therefore something that you should consider carefully. It should not be undertaken lightly.

Who should be on your team?

The main players are:

- Accountant
- Lawyer
- Mortgage broker
- Property manager
- Real estate agent
- Insurance broker
- Valuer

You may also want to consider:

- Your renovations team
- A mentor or coach

QUALIFYING TEAM MEMBERS

It is important that your professionals are an asset to your team, and as such they need to have certain characteristics. All your team members should:

- Understand property investment, be deeply experienced in the property industry, and preferably be active property investors. Ask them how many properties they own themselves, when they last bought a rental, how many property clients they have, what is a net and gross yield etc.

- Be good at communicating – you must be able to understand what they are telling you. Communication styles vary and some people are terrible at explaining things. There would be no point having the smartest lawyer or accountant on your team if you do not understand what they are saying or what they propose you do.

- Understand the property cycle and bigger picture economy, and how that should influence your investing decisions. Ask them about property cycles and investing philosophy. If they don't have an easy answer that makes sense, are they really property people?

- Be up-to-date and knowledgeable in their field, and keep abreast of regulatory changes and trends in the market. This is especially important with income tax, GST and legal matters.

- Belong to a professional association (if applicable). If they are not part of a professional body, you can't hold them accountable to a professional conduct committee for their actions – you would have to sue them, which is often cost prohibitive.

- Be organised and professional, treat you with respect, respond quickly to your enquiries, and always return your calls and emails promptly.

- Have a qualified backup team who can help you if your adviser is absent. Consider whether a 'one man band' will be able to help you when they are on holiday or sick.

- Respect what you are doing and support your goals and vision. Negotiating with an expert on your team who does not believe in you or what you are doing is not constructive or supportive. You can miss the 'deal of a lifetime' because they caused you to hesitate.

KEY POINT

Remember that many accountants are bookkeepers doing tax returns and accounts, and clever as they may be, it doesn't make them good property advisers. Similarly, many lawyers may be great at conveyancing or litigation or their chosen area of the law, but they are not experts in property strategy and planning.

Often professionals will act as 'transaction police', saying 'No, it's too risky,' rather than giving you a structured answer based on the numbers and character of the deal. This is not because they are unintelligent, and they will have your best interests at heart. However, if they believe bank debt and property are 'dangerous', and they have little knowledge of property cycles, contrarian investing and the business of property, mixed with an automatic dose of conservatism – this is not what you need in the middle of a property negotiation. What you need is someone who understands your goals and the business at hand.

WHERE DO YOU FIND GOOD PROFESSIONALS?

Ask other investors and professionals for recommendations, and make this your starting point.

When choosing each member of your professional team, you may find it useful to interview (or at least phone) several people before deciding which one to engage. Compare how each of them structures their fees, what sort of team they have backing them up, their communication style, and degree of professionalism. Don't tell them they are one of several candidates or they will likely be offended.

Don't be tempted to base your decision purely on how much they charge. An expert whose fees are at the higher end of the scale will quite probably end up costing you less in the long run than a lower-priced person whose advice and performance is mediocre or very generalised. Tax is a good example of this. If paying an expert accountant $1,500 more reduces your tax bill by $2,500, what did it cost to have the higher level expertise? You actually save money by spending more in this example, and get access to the better adviser.

You may be thinking I am feathering my nest being that I am a chartered accountant, but I live by this philosophy. I have different lawyers, property consultants and advisers for different jobs. If I'm writing a shareholders' agreement I have an expert guy in town I use. Conveyancing and property law – another guy. Employment law – a lady who specialises in this area. Each professional has their area of specialisation and a 'generalist' can actually cost more (despite being cheaper on rate) because they have to study the issues more to give an answer. Use experts.

KEY POINT
Contracts with professionals

Some professionals will require you to sign an agreement before they will work with you (e.g. property manager, real estate agent, mortgage broker). Always ensure that you have *the right to terminate the agreement* if they are not fulfilling their obligations or if your circumstance change, and that you will not suffer unfair penalties.

CASE STUDY

Getting expert advice

I remember watching Anthony Lipscombe, one of my very clever consultants at GRA, deal with a new client for tax advisory services. This client had around 20 companies held between three trusts. Property tainting was a concern for him, and he wanted to use the associated persons rules that existed prior to Oct 2009 (but which changed after that time) to argue that an asset he was selling was not tainted at the time of sale. It was a very technical matter, so the client asked Anthony, 'Is Company X associated to company Y, and therefore do I have to pay tax on the sale of the property from company Y?' In vintage Lipscombe straight-to-the-point style, Anthony replied 'No'.

The client blinked a few times and said, 'Why?' Anthony explained in two short sentences why the assets of Company Y were not tainted by Company X, and undertook to send a letter of explanation to the client that afternoon. He duly sent a three-paragraph letter that explained the property was not tainted and the client could sell the assets and not pay tax, due to his specific circumstances.

The client, suspicious at how short the advice process was with Anthony and how fast the advice was given, decided to obtain a peer review from his local accountants in Christchurch, which he ordered that very afternoon. Three weeks later he got an 11-page opinion and an invoice for $4,500 + GST. The conclusion on the summary page was exactly what Anthony had advised him and charged him half an hour for. The Christchurch practitioner explained that the matter was very technical and they need to take third party advice from an expert firm in land transactions, and therefore charged client for not only their own fees in learning about the issues at stake, but further the costs of the third party to give expert advice.

The client was shocked and moved all his accounting affairs to GRA. He realised that the advice we give over the phone in a relatively casual manner is actually expert advice and represents real value for money.

Morals of the story

1. Sometimes cheap accountants cost you money. They don't have the expertise to make complex things simple and, despite their best intentions, end up costing you more to resolve technical matters.
2. A true expert who has mastered their area of expertise and charges a higher rate is often cheaper despite the higher rate, because they spend less time researching and, in most cases, can give you the answer immediately.
3. Deal with experts, not generalists. You get better quality advice, faster.

LISTEN TO YOUR PROFESSIONAL TEAM

Not only should you have a good professional team supporting you, you must also be prepared to listen to them and take their advice.

If your advisers are experts, they will be plugged in to what is happening, will have great depth of experience, and will be able to steer you away from the mistakes they commonly see people make. So you should trust what they tell you and, most importantly, act on their advice.

CASE STUDY

Listen to experts

In 2009 a client I met decided to move to Australia. She had properties in South Auckland, which she wanted to sell in order to cash up. We advised her against this, as values were rising rapidly off the back of the GFC and it was pretty obvious to savvy investors that Auckland was going to boom.

However, at this time a doomsday theory was doing the rounds and it had grabbed her attention. This theory, which pops up every time there is a financial disaster, stated that the banking system was bankrupt, the fiat currency system would be abandoned, and the world was going to return to the gold standard. There were videos of children on the internet professing the downfall of the world banking system. This client was listening to a 12-year-old girl on the internet expounding the impending demise of the greedy bankers. Our client was scared the world would go broke and that the only viable currency would be gold and silver, so she wanted to invest everything in precious metals.

We pointed out that an advantage of property is its ability to be leveraged – she had put in $300,000 and was getting growth on $1.2 million worth of property. This was not something she would be able to do with gold and silver. We pointed out that in real disasters, physical assets (like property) survive well, and property performs well in inflationary markets (if world inflation were to take off). We explained the yield gap was opening up and becoming positive with low interest rates, which would create a cyclical recovery. We pointed out Auckland's supply imbalance would shelter it and the market would recover faster than elsewhere. We encouraged her not to 'knee jerk react'.

Additionally, her financial adviser warned her against investing all her money in a side-line investment like precious metals, and that she was best to diversify and keep a portion of her money in mainstream investments like property, as well as cash and equities (advice which I agree with).

Nevertheless, against all advice she sold all her properties and invested $300,000 in precious metals. By the time she sold those, they had dropped 25% in value, meaning she lost $60,000. Meanwhile, in South Auckland where her properties had been located, prices had continued to rise. In fact, values increased by 45% between 2009 and 2014. So she lost $60,000, instead of making 45% of $1.2 million, i.e. $540,000. The cost of not listening in this case was $600,000.

Moral of the story
Respectfully, if you are using experts, pay attention to what they are telling you.

ACCOUNTANT

I may be a little biased in putting accountant at the top of the list, but in property a good one is going to be a key part of your success. You must choose an accountant who is an expert in property investment, from both a structures and a tax perspective. In addition, they need to understand the business of property.

A good accountant will:

- Be a property expert.
- Return your calls and do your work in a timely fashion.
- Advise you on the right structures to use, taking into account tax minimisation, asset protection, and estate planning aspects of your affairs.
- Along with your financial adviser, assist you in implementing a long-term investment strategy with property as part of your wider financial plan. (Don't just invest in property – spread your risk.)
- Help you analyse the numbers on potential property purchases and give you advice about whether a purchase will fit in with your investment goals. GRA give our clients free analysis tools to help them in this area and provide a fixed-fee annual service so when you call we don't charge you for the discussions.

- And last but not least, they will do the nuts and bolts – take care of financial statements and tax returns at year end, and help with GST issues. They will give expert advice on which expenses you can claim, including working out depreciation correctly, claiming a percentage of your home office, telecommunications costs, travel costs, finance costs and operating expenses related to the asset.

Now you know what you are looking for, where do you find such an accountant?

- Visit the Gilligan Rowe website (**www.gra.co.nz**) or phone (09) 522 7955. The accountants at Gilligan Rowe specialise in property and tax structures. I encourage you to take advantage of a free initial interview to see how they can help you.

- Whomever you choose, make sure they are chartered accountants. The quality standards they are required to have and the professional training imposed on them by their professional body is an invisible layer of comfort that you only get with a chartered accountant. You can also complain to their professional body, the New Zealand Institute of Chartered Accountants (NZICA), for free. NZICA will tell them to behave if they are acting unprofessionally, overcharging or being unethical. A non-chartered accountant can pretty much do what they like and have no accountability unless you sue them, which is impossible for most people. Chartered accountants are highly regulated and their quality standards are essential to a successful investor's team.

LAWYER

The type of lawyer you need for most areas of property investment is a solicitor specialising in property, and I tend to use the words interchangeably.

One of the main reasons you need a lawyer is to take care of the conveyancing of the property title that is required for every property transaction you do. However, a good lawyer will do much more than this, including:

- Give advice on ownership structures, relationship property issues, protection of assets and estate planning.

- Check sale and purchase agreements. (This is very important. Your lawyer will keep you out of legal trouble if they check your agreements upfront and look at property titles before you go unconditional.)

- Advise you on the GST implications of transactions and liaise with your accountant. (This is extremely important as you can end up inadvertently paying GST or not being able to claim GST if you are not careful.)

- Search the title and LIM reports of any properties you want to buy and advise you of any issues.

- Check agreements you have with other suppliers, e.g. property manager, builder, real estate agent. (Watch for personal guarantees in contracts, and avoid if possible.)

- Advise you over financing documents, which can be complex and overbearing at times. Liaise with your lender to register or discharge mortgages.

- Help with the resource consent process if you are undertaking complex building, subdividing or developing projects that are likely to encounter major hurdles.

Other than the obvious qualities of knowledge and experience, the traits you should look for in a lawyer are:

- Can work in well with your accountant to set up structures in such a way that asset protection doesn't prevent you from receiving the tax benefits you are entitled to.

- Has plenty of other clients that are property investors.

- Prepared to act fast if you find a deal you need to move quickly on.

- Returns your calls and emails promptly, and does your work on time.

- Is a member of the Law Society, so you can hold them accountable for issues.

I suggest you find a lawyer before you start seriously looking for property to buy. If you find a great deal and you want to be able to take advantage of it, you could miss out if you have to spend days trying to locate a good lawyer. We can introduce you to good people in Auckland, Wellington and Christchurch if you need a steer in the right direction. Outside of these centres I tend to ring clients in the area and ask around, 'Whom do you use and why?' – the same question you should be asking others.

MORTGAGE BROKER

A good broker will:

- Give advice on how much you can afford to borrow, and how much lenders will be prepared to give you (which may be two completely different things).
- Source finance for you from banks at no cost to you.
- Arrange pre-approval.
- Advise on the best way to structure your borrowing and will liaise with your accountant or tax adviser so that you can keep your investing going. Critical to this is using split loan structures (and banks).
- Know how to approach lenders, negotiate a good rate for you and not take the carded rate on display publicly.
- Save you a lot of time (and probably stress).
- Minimise the risk of a banker saying 'no'.

The qualities you should look for in a mortgage broker are:

- Extensive experience in lending specifically for property investors (as opposed to home buying).
- Has access to a wide selection of lenders, including non-bank lenders who are not constricted by the LVR rules or commercial rules for larger investors.
- Will base decisions on what is best for you, not the potential commission rate they might earn or how easy it is for them.
- Is a registered financial adviser and member of the New Zealand Mortgage Brokers Association.

CASE STUDY

Our client, Michael, approached a mortgage broker, and thankfully talked to GRA before signing up with him. The broker had told him, 'GRA are overcomplicating things – it's much better to keep everything simple so everyone can understand it. Let's put everything with the bank that finances your family home, because if we tie everything together you'll get some advantages like lower interest rates, a higher level bank manager to manage your affairs, and better customer service. Use the KISS principle – Keep It Simple, Stupid.'

We explained to Michael that this approach is risky and that this advice was contrary to his best interests – cross-securing his private affairs with his investing business would leave him unnecessarily exposed if he had a problem. We also pointed out that it is much better to fly under the bank's radar than be treated as a special customer, because in a recession you might not want the bank looking at you so closely. I pointed out the KISS principle reads the other way too – sometimes simple is stupid.

Michael found a new broker who was used to investor strategies. The new broker split the private financing from business financing and eliminated the cross-guarantees from Michael's trust to his company, got low interest rates despite using two banks, and maximised the tax deductible debt by liaising with his accountant, GRA. This is a daily exercise at GRA – helping clients structure their finance. It keeps you safe by putting a firewall between your home and business financing activities.

Most mortgage brokers won't charge you anything – they earn their money by way of commissions paid by the lenders. Be wary of a broker who wants to charge you an upfront fee – I have heard stories of people having to pay fees even when the broker was unable to source finance, or could only find absurdly expensive loans. Some brokers will charge a 'success fee' as well as their commission when they find you a loan, but this is often negotiable. If you do agree to it, make sure you only have to pay it if **you choose** to accept the finance they source for you. You don't want to be in a position where they present a loan offer and you have to pay them thousands of dollars despite not accepting the loan. Most brokers don't charge fees, so be careful in this area if they are suddenly proposing fees that you have to pay. It is against current industry norm, except for commercial finance or for extremely marginal borrowers where the broker has to go 'above and beyond' to get the finance in place.

Broker appointment agreement

You will be required to sign an agreement with your broker – make sure you read it carefully, or get your accountant or lawyer to check it for you. Watch out for clauses that force you to accept finance when it actually isn't in your best interests or that prevent you from finding finance elsewhere (e.g. through your own bank or via another broker). When a broker finds finance for you, I suggest you do a quick check with your accountant, who should be familiar with interest rates and finance if they are in the property game.

To find a good mortgage broker:

- Again, ask for recommendations.
- Use the New Zealand Mortgage Brokers Association website to search for a broker in your area (**www.nzmba.co.nz**). Note that since the NZMBA website combined with the Professional Advisers Association (PAA), the search is more difficult.
- Ask us at GRA – we know excellent brokers up and down New Zealand who specialise in investment property.

PROPERTY MANAGER (AKA LETTING AGENT)

Rental income is the lifeblood of your property investment, and a good property manager can ensure that you maximise it. I always use property managers on my portfolio of houses – the last thing I want is another job to perform (both during working hours and after hours). A property manager should make your property investment passive – they do the work.

Let's look at what a good manager does:

- Will assess market rent for your property, ensure that you get the maximum, and keep assessing market rent and seeking increases over time.
- Gives advice on how to present your property to maximise rent and attract good tenants.
- Markets your property effectively.
- Assesses and screens prospective tenants, weeding out those with a bad history.
- Draws up written tenancy agreements.
- Makes arrangements for bond payment.

- Organises repairs and maintenance and pays the costs for you from rents.
- Deals with tenant enquiries and issues promptly, keeping you informed.
- Keeps track of rent payments and acts promptly if they are late.
- Undertakes regular property inspections.
- Keeps rent at market rates with regular rent reviews.
- Keeps records of all income and expenses and provides well-organised financial statements at year end for you to give your accountant.
- Prepares regular, comprehensive reports for you, including photographs taken during inspections.
- Will deal with problem tenants, and apply to the Tenancy Tribunal if necessary.
- Operates a trust account.

The qualities to look for in a property manager are:

- Works for a professional firm that specialises in property management. (Don't deal with amateurs – most of them will cost you money in the long run.)
- Has excellent systems, which all members of the firm use (so if your manager goes on holiday you know your property will continue to be managed in exactly the same way by another member of staff).
- Is able to sort out tenant/landlord problems in a non-confrontational manner.
- Operates a trust account (does not mix personal monies with your rents).
- Member of a professional organisation, e.g. Independent Property Managers Association, Property Institute of New Zealand, or best of all, is licensed by the Real Estate Agents Authority. You need someone to complain to if they are acting unprofessionally – or you have no redress against them.
- Expert in the area and your type of property.
- Available 24/7 to tenants (within reason).

- Attends to any issues promptly.
- Has a good team of cost-effective tradespeople who can undertake repairs and maintenance competently and quickly.

Management agreements

You will enter into a management authority agreement with your chosen property manager, and as always, make sure you read every word before you sign it. The agreement should clearly outline the manager's responsibilities, and should your manager not fulfil them you must have the right to terminate the agreement with reasonable notice. Try not to sign agreements that lock you in and charge you a penalty for early termination if you sell or wish to leave, or agreements that automatically renew annually for 'x years' etc. These clauses are inserted to increase the value of your management contract for them to sell your relationship to a third party one day. They are inserted for the property manager's benefit, not yours.

Ways to find a good property manager are:

- Ask other investors who have owned property for a long time.
- Look at online rental listings for properties similar to yours, and see who is managing them.
- GRA have a good network of property managers in the main centres in New Zealand – we can arrange an introduction for you. We don't get any commissions or kickbacks – we refer purely to those we know and respect.

REAL ESTATE AGENT

Real estate agents can be a huge benefit to your property investing career, both by helping you to find good investments and then by facilitating sales when the time comes to sell.

I use the term 'real estate agent' loosely here to mean a person who can legally sell real estate. The absolutely correct term these days is 'licensed real estate salesperson'. A licensed real estate agent is the master agency (licensee) that the salesperson will be tied to. Both the licensed salesperson and the licensee are regulated and controlled by the Real Estate Agents Authority. The salesperson works for the licensee.

This section is divided into two parts – working with agents when buying, and how to find a good agent when selling.

Buying

There will be a number of real estate agencies that work in your chosen area and it is advisable to have a contact in each one of them. Meet your contact face to face, and keep in touch regularly. It is a good idea to make them feel 'exclusive' and special to you – build a relationship over a cup of coffee if you have time. Before long they will be ringing you with possibilities and will often tell you about properties before they are officially advertised, which means you get first pick. But remember, agents are shrewd and have their own pet clients who are regular buyers. What you are trying to do is get on their list of investors to call when they get a deal.

If you notice a property for sale by another branch of the same real estate company, contact your agent rather than the listing one. There are two reasons for this. Firstly, because your agent will get a share of the commission should you buy, they will be more inclined to return the favour by contacting you first when great deals come up. Secondly, because they are not the listing agent and therefore didn't give the seller a price indication, they won't be quite so reticent about presenting lower offers. Having said that, the listing agent will have more background information on the vendors, which can help in some negotiating situations (in my experience).

Be very clear with your agent about what you are looking for. Investors will find they often need to provide a little education about what makes a good rental property, as some agents are not specialists in property investment and will not have an understanding of yields or key drivers for investing.

There are some points to remember when buying property:

- The agent acts for the seller, and their job is to get the highest price possible. Even if they are appear very friendly and on your side, their goal is to get you to buy the house at the best price for the vendor. Remember this when they look you in the eye and tell you it's a great deal.

- Don't waste an agent's time, constantly demanding information and statistics, questioning their fees and the value they provide, expecting to be driven around and treated well, and never buying anything through them. You will just annoy them.

- Everyone wants a deal, and buying well should be your goal. But don't waste an agent's time with annoying lowball offers on every house you see. Only go in low if you know the agent is open to it due to circumstances you have identified that encourage lowball offers. So be very selective when lowballing, or the agents will tag you as 'one of those' purchasers who is dreaming of a deal but devoid of reality. If an agent decides you are a pest, not a real buyer, you will find it much harder to get at the better deals that pop up because the agents will ignore you and call the people they know are serious players instead. In summary, don't burn the agents with constant lowball offers. Pick your circumstance and deal, and then go in hard.

- You can get away with more in a down market, but will have to work more cooperatively with agents in an upmarket.

- The filthiest agents I've met are in America. They wrap both arms around you, slapping you on the back as if you are their new best friend, but in reality both of their hands are in your back pocket rummaging for change. New Zealand agents are pretty ethical in my experience, relative to overseas agents. Our industry is highly regulated and our culture more transparent than those in big cities overseas where they too often seem to have no regard for the truth or your financial outcome. They are just slamming deals to get commission. Watch your step overseas – the agents are not like the New Zealand ones.

Selling

A good agent will have the skills to get top dollar for your property, in as short a time as possible. In my experience, in every market there is a dominant agent or a few dominant agents. They have the most listings, they make the most sales. When you think about it, it is not only their reputation and skill, it's a snowball effect.

- The more they are selling, the more they are seen and the more advertising budget they get from their vendors.
- The more advertising budget they get, the more visible they become, which gets them more listings as sellers see them as the dominant agent.

The key observation here is a dominant agent has the most listings, biggest advertising budget, and therefore the most buyers around them. They are in a position to bounce buyers off one property onto another that might suit them better, which means as a seller you get the benefit of the pool of buyers they have buzzing around them from the combined marketing coming off all their sellers. So as a seller you get a flow-on effect of free advertising by dealing with a dominant agent – you get access to all of their buyers off their other houses. Weak agents just can't offer this pool of buyers, so I tend to list with the most dominant agent to get access to their pool of buyers and the 'free advertising' effect from that.

Selection criteria:

- Pick the dominant agent to get the coat-tailing effect from their other clients' advertising.
- Should be local, not an out of area agent. Out of area agents by definition know less about an area and will have fewer buyers.

CASE STUDY

Agent selling out of area

With some amusement in 2014 I watched a Parnell agent marketing a six-house portfolio of Manurewa properties. I was interested in buying the properties, and met with him to discuss the pros and cons of the houses and a prospective offer. Right from the outset he was embarrassed to be associated with the houses. His core business was selling multi-million dollar houses in upmarket Parnell and Remuera. He liked to be associated with glamour and the rich and famous.

There was nothing remotely glamorous about the Manurewa houses, and he remarked to me with a smile that he would much rather take a bulk offer on the portfolio than sell one-by-one because he was terrified at the thought of running open homes in South Auckland. He spent 10 minutes telling me that property investors were the scourge of the planet and the cause of Auckland house price inflation, and it was very clear to me he had no interest in being involved in the Manurewa market. My sister is a prominent real estate agent in Remuera who this agent knows (and she is his competition), and I joked with him that I was going to take a photo of him with his brand at the first open home and send it to her. He howled in protest and said, 'Don't you dare!'

All jokes aside, this agent had no desire to spend any time selling property in Manurewa. He just wanted to get his commission and get back to his local area where he was an expert. He certainly didn't understand that the portfolio was in an area targeted by investors, going through rapid gentrification, and increasing in value faster than the Auckland average. This made him an excellent agent to deal with from a purchaser's perspective because his lack of understanding of the area and personal bias meant that he was sympathetic to receiving low offers and had limited rebuttal for the multiple criticisms I levied against the portfolio during my negotiation. How did he come to be the real estate agent selling the portfolio? One of his mates got him the listing despite him being an out of area agent.

Moral of the story

Out of area agents know less about the property and the area, and are therefore less likely to get the highest market value. They make good targets to buy through and lousy agents to sell through.

- Should not have a pattern of complaints against them. You can search complaints against an agent on the REAA public register at: **www.reaa.govt.nz/Pages/PublicRegisterSearch.aspx**

- Must be knowledgeable about the area, your type of property, and prices.

- Can explain the reasons for the marketing plan they suggest and why they recommend it for your property in particular, e.g. auction, list with price/no price, tender etc. They should explain why and relate it to the market.

- Is realistic about where your property sits price-wise, and won't try to 'buy' your listing by setting a high expectation and then have to convince you to accept a lower the price later. (This is an annoying, counterproductive but common tactic to get your listing.)

CASE STUDY

Vendor conditioning

When I'm selling a property I always watch out for agents who provide over-the-top value assessments. They do this to encourage me to list with them rather than the other agents who are competing for the listing. While there are rules within the Real Estate Agents Authority (REAA) on real estate agents providing over-the-top appraisals, it doesn't stop some of them pushing the envelope for listings. This practice makes it hard for the agents with integrity to get listings, and disappoints the vendor who gets their hopes up only to be let down when the agent says things like, 'You have to be realistic; the market has spoken.'

I remember one instance where a client of mine was selling a property in Ellerslie. The agent told me the property was grossly overpriced and my client had to meet the expectation of the market and 'get real' if he wanted the property to sell. My client had asked me to talk to the agent because two months before, when the property was listed, the agent had appraised it at $395,000–425,000. Offers were coming in in the early $300,000s and my client was confused because the expectation set by the agent in his appraisal didn't match the market feedback.

The agent used phrases like 'the market has spoken', 'the market was softer than expected', and 'the vendor has to be realistic', and generally from the time the listing was signed he was encouraging my client to accept that the market environment was difficult. This is called vendor conditioning. You can understand why agents do it to get listings, but it is very disheartening for people who don't understand what is going on, and they are left confused and disappointed.

Moral of the story

Watch for agents that highball the price to get your listing and then immediately start talking the price down to vendor condition you into accepting the real market value. These agents will confuse and disappoint you.

How to go about choosing a good salesperson:

- Look around your area to see which real estate companies and which agents are the most active, i.e. have the most signs up and advertise the most online and in relevant publications.

- Contact the agencies that work in your area and ask who their top sellers are, if you can't work it out yourself.

- If you really want to check an agent out, consider attending one of their open homes and pose as a buyer. You could approach them at the end of the open home if you like them.

- Asking other property investors, family, friends and colleagues whom they recommend is also a good way to find an agent.

- Ask letting agents who are the dominant real estate agents in an area. But watch that they are not just recommending their own company or a mate up the road.

- Remember real estate agents are trained salespeople and it can be easy to get swept up in the hype and sign with them on the spot, so don't make a decision about listing until you have talked to a few of them.

RENOVATIONS TEAM

You will most likely need help from contractors and tradespeople to make improvements to your property. From architects and builders, to painters and tilers, it is important that your team can do a good job in the required timeframe and to your budget.

If you are renovating often, you will end up with a team of regular people you use who understand how you work and can get the job done quickly, efficiently and with the minimum of fuss. But when you are first starting out, how do you find such people?

- If you use a good property manager, they will already have a team at their fingertips that you will be able to use for cosmetic renovations. But watch for 'kickbacks' – this can pervert their advice.

- Some work will require licensed contractors and tradespeople, so make sure whomever you use has the appropriate qualifications.

- Consider inspecting work contractors have previously done.

- Consider checking references. Talk to people who have used them before to find out what they were like to work with, how reliable they were and whether they completed the job on time and to budget. Contractors that muck you around and keep you waiting or don't follow up when you have a problem, can end up costing you a great deal in extra holding costs and lost rent, and increase stress unnecessarily.

- Get two quotes (or more) before choosing a contractor. As well as price, take quality of workmanship, reliability and availability into account when making your decision. Quotes should be in writing and be very specific, detailing every aspect of the work involved so you can more accurately compare different quotes and hold contractors to their quotes. You don't want them saying x, y and z were excluded and then demanding price variations. Ask them, 'What's excluded?' by email. Their reply in writing forms part of your contract scope.

- Generally you are better to obtain a fixed quote than to employ a contractor on an hourly rate, but this is not always the case. I do try for fixed quotes where possible.

- For minor renovations not involving council work, I tend to go for the cheapest price, and I am less sensitive to quality if the property is in a cash flow/rougher area. Scale your quality to your market.

- Both the Consumer Guarantees Act and the Building Act contain implied warranties meaning work must be undertaken to tradesperson-like standards. Some contractors who belong to associations also offer extra guarantees (Master Builders, Master Painters, for example), which can give additional peace of mind, but these contractors can be more expensive.

- Run contracts past your lawyer for any large scale jobs. They can save you a lot of trouble by striking out unreasonable clauses.

MENTOR/COACH

A good mentor or coach can make a huge difference to your investing success by offering guidance, advice, and continued motivation. A coach also helps you set goals and makes you accountable, as you have to regularly update them on your progress (or lack thereof). Maintaining momentum is one of the hardest things to do in business, and if you are not a self-starter a coach can be invaluable for sustaining forward progress.

Choose someone who is successful in property investing, has experience in the area you are interested in, and that you admire. Be prepared to pay for a coach or mentor – you should get a return on your money spent through buying better, reduced risk and an easier investment roll out.

At GRA we run our Property School, a course on property investment that runs one night a week for six weeks. We also have online resources (at **www.gra.co.nz**), and can introduce you to our network of suppliers, including coaches and experts who help clients build property portfolios and create equity.

CASE STUDY

Using a coach to get started

Bryce was a new investor who had made a commitment to engage in buy-to-hold investing with an additional focus on trading for cash flow. He had been working hard for about six months, getting familiar with the market and putting in offers, but had not yet purchased a property. He was working with a coach, and on finding a potential deal Bryce would run it past him to see what he thought. Like many new investors, Bryce was worried about making a mistake that could be financially detrimental and was consequently nervous about making an offer. This meant that he was sometimes missing good opportunities.

Bryce found a property he thought would be suitable. His coach, upon analysing the deal, told him it would make a terrible buy-to-hold investment, but could be a great trade if he undertook some cosmetic renovations. Bryce followed his coach's step-by-step instructions, and traded the property very successfully.

Without that support, Bryce might never have bought the property, and if he hadn't bought it he wouldn't have made the healthy profit he did. The first deal felt like looking over Niagara Falls for Bryce, as it does for many new property investors. However, his coach helped overcome that fear hurdle and he was on his way. He kept using his coach for the next 12 months, by which time he felt confident enough to continue on his own.

CASE STUDY

Using a coach to identify the best angle

Karen, with the help of a coach, had built up a good portfolio of investment properties. She wanted a short-term profit, so decided to look for properties to trade. Upon finding a property, which she could buy for $320,000, Karen contacted her coach.

Her coach explained that with this particular property the value was in the land, and she would be better to look at it as a long-term buy-to-hold rather than a trade. He showed her that she could add a minor dwelling unit at a cost of $150,000, meaning her total outlay would be $470,000. With the minor dwelling, the property would have a market value of $560,000 and would generate $780 per week in rent. So she would be pretty well maximising her income per square metre for the site, plus she would be getting capital growth on a more valuable asset over time. In effect, she made a capital growth property 'cash flow itself' and become self-funding.

Without her coach, Karen said she would never have identified this opportunity and would likely not have held the investment long term. As it was in one of Auckland's better areas, she would thereby have missed out on the capital growth. She said she never realised you could extract cash flow in 'A' or 'B' capital growth areas, and this was an important lesson for her.

NETWORK

Surrounding yourself with like-minded, successful people can be beneficial.

Ways to build your network include:

- Join your local property investors association.
- Join a mentoring group run by property educators.
- Attend seminars and courses including those on property investment, success, business, and personal development. GRA run many events, and we have recorded videos of some, which you can access at **www.gra.co.nz** under 'Seminar Downloads'.
- Join discussion groups, forums and websites about property investment and other related topics, e.g. **www.propertytalk.co.nz**.
- GRA run a free coffee club. If you are in Auckland, join our network. It will cost you a cup of coffee once a month.

CONCLUSION

- You don't need to be an expert in all aspects of property investing, but you should surround yourself with people who are.
- All members of your professional team should be knowledgeable about property investing, experienced, and specialists in their respective fields.
- It can be a good idea to interview several people before deciding on which one to use, but don't abuse their time.
- The main team members you will need are an accountant, lawyer, mortgage broker, property manager, and real estate agent. You will also need an insurance broker and valuer, and although not compulsory, a mentor can be very beneficial.
- Choose a reliable renovations team that will do a good job within your budget and timeframe. Check references and get fixed price quotes. Scale quality to your market.
- Build your network and surround yourself with likeminded people, whose overriding goal is the same as yours, i.e. success.

About the author

Matthew Gilligan is a chartered accountant, and has been practising since 1992. He is the managing director of Gilligan Rowe and Associates where he works alongside John Rowe, Janet Xuccoa and Salesh Chand (his partners) to assist the firm's clients.

In particular, Matthew heads GRA's specialist asset planning division, helping clients protect their assets, implement their estate plans and develop optimal taxation structures through a process called asset planning.

Matthew has extensive knowledge of the property market, with a focus on Auckland investment. He has been involved in this area for over 20 years and has developed and invested in property in Australia, the United States and New Zealand over that time.

A great believer in education and sharing knowledge, Matthew is a well-known speaker on asset planning and property matters. Matthew regularly presents at seminars, and also speaks to various groups, including working with banks and their clients, property investor associations, and various organisations around New Zealand that are interested in property.

As part of his commitment to education and helping people prosper, Matthew writes a regular blog to keep readers up to date with a range of topical issues affecting all New Zealanders who have a goal to be financially successful.

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