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Look after the risks, ask the right questions – and know how to get out

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International

Feel like going back to Massachusetts?

By David Byrne



People are flocking to the state to enjoy the beauty of the country all year round.



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PROPERTY INVESTMENTS

Look after the risks, ask the right questions – and know how to get out

Is it still a good idea to invest in property as the world economy falters? Yes – but you've got to assess the risks and rewards carefully

WITH THE slowdown in the Irish property market and looming recession in America, people are asking whether it is still a good idea to invest in property. The answer is yes, but it depends on the type of property, its location, and what the prospects are of making a profit when it's finally sold, which is ultimately the point of investing in the first place.

Investing in property, whether a three-bed semi in Roscommon or a warehouse in Riga, is about assessing the potential risks and likely rewards in order to make money. Some people are better at this than others, and some don't bother at all, investing on the principle that the postman has invested there, or the chap at the property fair said it was a bargain.

Property investment is also more complex than, say, buying shares, but the rewards are potentially greater if you know what you're doing. With identical shares it is fairly easy to monitor their value in a relatively transparent market. Each and every property, however, is different in location, income stream, size, and tenant security. These differences make assessing risk critically important.

Essentially, this means taking a look at both the macro and micro factors which may affect a potential investment. This is fundamental, and if investments go awry it is normally due to some issue which would have cropped up in any decent risk assessment. It's not about a casual glance in the estate agent's window.

At a macro level, it is important to enquire about the stability of the national economy, exchange rates, accessibility to the location (now and into the future), the main national and local industries and employers, and demographic trends (what is the population, how and where do people live and what locations are expanding?). This is the bigger picture of the country, and of these, assessing overall economic stability is probably the most important. This is why an investor pays more per square metre for a property in the UK than Albania – it's a considerably more stable economy.

Having decided the macro picture is workable, the micro issues then need assessment. Under this heading, typical issues to be examined include looking at returns (rent and capital growth) from similar properties in the locality, what are the important industries, who are the main employers, what is the condition of the property (does it now, or will it need, considerable work), likely tenants, taxation, transaction fees, what is the legal status of the property (indeed, can I even legally own it), how will it be managed, what future plans are there for the location, and is the rent required in line with local expectations of rents.

This latter point is crucial, as calculations and borrowings based upon unrealistic income expectations can drive an investment under before it has started. Expecting a typical Irish rent (to cover your Irish loan) in a location where the tenant's monthly income is the entirety of that rent is a non-starter. It's also

advisable to stick to the old investment principle of not putting all your eggs in the one basket. Spread any risks by purchasing different types of properties in different locations, if possible. In that way if, for example, one location, apartment block or country, fails badly, all is not lost.

Even when you know what to do, finding a good investment property can be a trial in itself. Investment properties can be sourced by the investor, or they may choose to purchase from a company or employ a firm to seek investments for them.

Most of the large firms now have overseas investment specialists with foreign language and investment experience. Companies and agents who are members of professional bodies (for example, the IAVI, SCS or IPAV) have strict codes of ethical practice to which they must adhere.

They are licensed by the State and, most importantly, they are bonded, which means if they go bust with your money there are insurance schemes in place to refund your money.

It can happen that the inexperienced investor falls prey to unscrupulous and unrealistic marketing from the less professional end of the property investment spectrum, and ends up in a financial situation from which there is no profitable exit (although they mightn't know that just yet), and no money back if the company or development disappears, as both sometimes do. You get the advice you pay for, which generally means sticking with the professionals.

Finally, there should be an exit strategy. As the ultimate idea is to sell at a profit, there must therefore be an end market, someone to sell it on to.

If you can't sell it, then the investment has failed, and a market solely comprising other Irish investors is not good.

Consider what happens if interest rates rise and investors all decide to sell their properties at the same time?

Think about getting out when you're getting in, because assessing how to dispose of a property investment is just as important as assessing how to acquire one.

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“ Think
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Property in upscale parts of London like Knightsbridge are enjoying growth even with the rest of the market faltering