THE INVESTORS AGENCY

INVESTING DURING A DOWNTURN

How can I continue leveraging off my property portfolio during an economic downturn? This is a question we have been asked a lot lately. In order to continue growing your portfolio during a downturn you must be an active investor.

The beauty of property investment is that it is mostly passive, when the markets are moving you can see real results by accumulating as many properties as you can, holding on and letting the market do its thing. But the reality is when you're going through times of uncertainty, most markets will most likely stagnate or drop by 5% or 10%. This doesn't mean you should sit back and not invest. The best time to buy is when 90% of the other buyers are sitting back and not doing anything. But it does mean you're going to have to change your strategy a little bit from what you normally would.

To be an active investor you need to look at value add options. You're going to have to manufacture equity which may be done in several different ways.

You can do that by sourcing a house in the inner city of one of the main capital cities, do your due diligence, look at the comparable sales. And if you find a two bedroom house, but the three bedrooms are $150,000 more expensive, you can build a bedroom on it and instantly add $100,000 equity. Just something simple like that, we've done that successfully quite a few times and we've been able to manufacture a lot of equity.

Another alternative would be, Look for the worst house in the best street. Do some minor renovations, such as replacing carpet, floorboards, paint, new kitchen, whatever it may be.

Adding a granny flat or changing the floor plan of the property to allow for dual occupancy are also great ways to increase your yields and equity.

The reality is when we are experiencing 8%, 9% 10% unemployment during a pandemic, you're going to have to start getting a lot more active. What we are currently going through is no different to the last four recessions. The 1990's and 1980's recessions saw unemployment spike from 5% to 10%. During these recessions we only saw 5% decline in house prices in some of the capital cities while other capital cities saw an increase in house prices. The following years immediately after the recessions all capital cities experienced double digit growth due to government spending, government stimulus, increase in migration, increase in overseas investors, and a reduction to interest rates. The difference between then and now is that interest rates are already low, sitting at 3%. However what the government can and will do to ease lending restrictions will be things like 95% and 100% loans, negative interest rates, as many other countries have had for several years, removal of stamp duty as they have already been discussing, relaxation of serviceability calculations. Currently everyone in Australia that has a loan, has had to prove that they can make their mortgage repayments at 7% interest rates which more recently was reduced to 5%. When we saw this 2% reduction, the effect it had on the property market was immediate. These are all examples of how the government and APRA can stimulate the economy so don't presume that just because interest rates are low, there are no more levers that can be pulled. Have confidence in investing in a down

If there is opportunity to manufacture equity in your property portfolio during these times take advantage by building your portfolio while the majority of buyers can't get lending or don't have the courage to invest. History tells us that immediately after a downturn is when we see the most aggressive growth.

Thanks for taking the time to read this. If you would like have any questions or would like to reach out please feel free to call me directly on 0415420108 or get in touch at bobby@theinvestorsagency.com.

Kind regards

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