

# Austin Donnelly's checklist

Contributed by Travis Morien

I've "borrowed" this list from Realistic Real Estate Investing by Austin Donnelly. Go read the whole book, as it is a wonderful antidote to all of that claptrap put out by real estate agents and other interested parties about negative gearing being the be-all-and-end-all of investment strategy, and the myths of steady, non-volatile gains in prices.

## Specific location

Does the immediate environment create a good impression?

Are the buildings in the vicinity attractive looking? You can fix your own place but the neighbor's houses are out of your hands.

Are there any wrong types of building next door? For example ugly apartment blocks or commercial buildings that detract from your own place.

What special restrictions apply to the property? What is the zoning requirement?

Do any organisations have a claim on the property, or part of it. For example utilities running cables through it, or the main roads department having an option on the front yard.

## General location

Is the suburb or district the right area?

Is the area up and coming with new features or property types that appeal to the market now and into the future or more likely to be left behind as activity moves on to some place else?

Is the area likely to benefit from any current or pending improvements to roads? If the area is isolated, a new highway passing through will improve values, with the exception of those in the immediate vicinity, especially the property values of those that live on extremely busy roads that will be relieved somewhat by the new artery taking the traffic. Alternatively, could the place become a backwater as a new freeway takes business elsewhere?

What is the trend on local, regional and national migrations?

## Availability of transport

Is the property close to reliable and cheap public transport?

Thinking of recent trends in the provision of public transport, are any reductions in services likely to have a big impact on this area?

Don't just think about the price of transport, but also the time taken to get where you want to go. Take the bus to the area at least once to get an idea, some suburbs which are relatively close to the city suffer through the lack of a direct service. If you need three changes of busses and to walk considerable distances from one change to another the journey time could be several hours, even if the distance covered is not great.

## Types of property

Is the property suitable for the needs and investment goals of the individual, the time at which the investment is made and the ease of management?

Is the type of property appropriate for the area in which it is located?

Is the building a general purpose type that can be used by a variety of tenants, or is it very specific in nature and of limited appeal? (commercial/retail properties - some buildings can be converted to a variety of uses with little expense, others are built for a purpose and can not be used for anything different).

## Supply situation

Is the supply situation at present and for the medium term future, as best as can be estimated, such that rental levels and vacancies will not suffer through excessive competition?

Is the property of a cyclical type that undergoes periodic bursts of activity leading to over-supply, or is the supply pattern less volatile?

Does the trend for construction approvals indicate that an over-supply situation could be on the cards in the future?

#### Demand situation

Is there really a healthy demand for that kind of property in this area, and not just from speculators, but from tenants?

Are changing economic trends, or new attractions in other areas likely to adversely affect demand in this area?

If you pose as a would-be tenant and approach rival real estate agents about renting in the area, are you told a similar story with regard to prices and supply that you heard from the one that is trying to sell you a property?

#### Income, Expenditure and Net Earnings Figures

Do the figures submitted appear reasonable on the basis of inquiries as to matters discussed above?

Is there adequate provision for vacancies, long-term maintenance, depreciation, repairs to damage of parking areas, courtyards and other outside areas due to rain and storm water, management, including engaging a resident caretaker for some residential properties as well as a managing agent?

#### Maintaining and/or increasing rental levels

Is the current rental level in line with the going rate, so that if this tenant should leave for whatever reason the yield will not fall?

Are actual or emerging surpluses of accommodation in neighboring areas likely to spill over into this area and reduce demand?

#### Physical Condition of the Property

Can the physical soundness of the property be verified by architectural or engineering specialists?

Are there any problems with the site, for example subsidence on reclaimed land or possible land slips on sloping sites.

#### Zoning

Is the zoning such that it will help the property to hold and enhance its value?

Are there any trends in the re-zoning of neighboring or nearby properties that could affect the popularity of the property or other properties in the area?

#### Market Value and Replacement Cost

How does the current market value compare with the replacement cost of the property?

Even if the market value is well below replacement costs, this does not necessarily mean values will be maintained or increase to compensate for the under-valuings. A situation where a property is clearly selling for greater than replacement cost could well be dangerous though.

#### Relative Cost

How does the cost of the property in terms of income return compare with other investments and the relative cost of this type of investment in the past?

#### Possible Damage from Flood or Fire

In some cases houses are covered by sufficient insurance to cover this risk, however if a home is in a definite high risk area, on a flood-plain or in an area prone to bushfires, insurance may be refused, or may be available only at a prohibitively high cost.

#### Threats from Erosion

A severe problem on some coastlines and rural properties, especially due natural vegetation being stripped away or overstocking of cattle. Various sites on the web talk about beach erosion, and how the introduction of man-made features like spits and jetties can disrupt normal sand flow, causing severe problems downcurrent from there, where storms wash away sand but nothing replaces it. I have seen pictures on the Internet of houses falling into the ocean as they are undermined in a storm (in particularly in America, where development right on the beach, right on the sand is popular).

#### Vandalism

Investors should also check to see if the area is prone to vandalism. Avoid the house next to an access path joining one cul-de-sac with another. They are notoriously bad places for graffiti, are escape routes for thieves, and generally bring trouble. At best you end up with a back yard full of rubbish, at worst you could be robbed frequently.

#### Sensitivity Analysis

How significant would changes in interest rates, rental levels, capital value and management costs be on the viability of the whole investment. Do worst-case analysis and only go ahead if you could still afford that outcome. Many people on high incomes can perfectly well afford the vacancies for long periods, higher interest rates are not beyond their means and the immediate short term capital value doesn't matter as much as the value in 20 years when they retire. Although this contradicts what many say about real estate being available to everyone, to be realistic it is biased toward high income earners, if you aren't on the highest marginal rate you may well be better off with shares.