

# 4 Essential Elements of a Successful Property Investment

A Property Investment Article from Pinnacle

*Do you remember the adage of prior planning preventing poor performance? Well, the same philosophy can be applied to successful property investment. In this month's article we uncover the 4 key elements of a successful property investment.*

## #1: Assessment

Assessment is the point at which an investor decides on what type of market to invest in.

Will the investment be in a primary, secondary or tertiary market? For example, UK or Australia are primary markets, Spain or Malaysia are secondary markets, and Thailand or Brazil are considered tertiary markets.

Choice can also be governed by additional personal factors such as attitude to investment risk and capital available to invest.

The legal system is also important to assess in this initial phase. Will the property be freehold or leasehold? How easy is the legal work needed to secure the purchase?

Also, what are the compelling factors for investment in that market? What is the economic story and prospects for the future? In light of recent global financial activities some countries look good and others weak. For example, in a comparison of Brazil with Spain, one might consider Brazil's growing economic prowess against Spain's well documented financial instability.

Financial modelling is also very important in order to assess what lending can be achieved to purchase. Analysis at this stage and achievement of a pre approval from a lender - which can be achieved in less than 72 hours - will firmly establish affordability to buy and prevent a great deal of hassle along the purchase process.

This aspect of financial modelling will also clearly establish the level of deposit needed for the purchase, and logically the investor can then decide where these funds come from. For example, investors might apply funds from capital (money in the bank) or re-finance (equity in currently owned property).

## #2: Property Sourcing

Essential element number two involves matching the appropriate property to the outcome of element one above.

### ***Type of Property?***

Decide whether the property is for investment or for lifestyle. Are you buying that investment property in London or that dream holiday home in Bali?

Is the property intended to generate income or capital growth?

### ***Built Property?***

What's the location, and what is the yield? Does the property come with tenants in situ, or will renting it out be easy? A lot of this is decided by location, location, location. If the yield looks high, then potentially the market value or the purchase price may be low and representative of a good buy.

Take London as an example: Determining which property is the right one to buy may lie in how close to Central London you are, upcoming areas such as Shoreditch, or areas that will benefit from the Olympic Games infrastructure spend of £11 bn.

### ***Off Plan?***

Again location is important, but key here is developer risk. Has due diligence been done on the developer's ability to build the property? What warranties are in place for you as a buyer should failure occur?



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Phone: +852 2242 8989  
Web: [www.pinnacle-props.com](http://www.pinnacle-props.com)  
Email: [pinnacle@pinnacle-props.com](mailto:pinnacle@pinnacle-props.com)

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## #3: Pre Completion

This is where you turn the mortgage acceptance in principle into a formal offer. The bank will need to conduct its own valuation for this purpose, and investors will need to submit personal financial information to substantiate the borrowing request.

At this point - and once a formal offer is received - investors need to secure the property with their deposit. This is done through another key aspect of this supply chain: the solicitor acting for the investor.

There is also here a difference between off plan and complete property. It's not possible to secure a mortgage on a property that will complete in say, two years. In this case investors will need to exchange prior to obtaining any mortgage financing. It's for this reason that financial modelling is important at the start and making sure the developer has been assessed in terms of ability to complete as well as warranties and insurances checked.

## #4: Completion

The completion process is where the bridge from purchase to ownership occurs.

The solicitor acting for the investor will take care of all the legal aspects such as completion paperwork, land registry and stamp duty transfer.

It is also at this point that investors need to prepare to live in the property (lifestyle) or rent it out (investment).

If renting, the buyer will need to secure a reputable management and letting agent who can deliver tenants, collect rent and advise whether the property will need furnishings.

Good letting agents will conduct and provide a market assessment of potential yield and will hopefully then deliver against that, allowing investors to manage the cash flow generated from the purchase, whether it be for personal income or income to cover a mortgage secured on the property.

## In Conclusion

There are many facets to the 4 essential elements governing a successful property purchase. There are numerous touch points, such as markets, lending, legal work, property type, furnishings and management/lettings. So much so the final key element could be regarded as working with a reputable property company, who will assist in all aspects of this process.

Pinnacle provides this service for all investors and can also offer this service to investors who buy independently of the company, but want the reassurance of a team dedicated to delivering on all these elements.

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