Keep it conservative: Why a long-term approach works in real estate

by Brent Smith

These days, conservative is not a word you hear often in regards to real estate. When you see people in places like Auckland raking in hundreds of thousands in profit after owning a home for only a couple of years, it's very easy to start thinking 'that's easy – I should do it!'

While making a quick buck might sound appealing, the reality is that fast or 'easy' money often comes with risk.

Now, risk is ok if you're willing to foot the bill when things turn to custard. But memories of the property market turning wobbly are a very distant thought for most people in larger city centres. Whether it's long forgotten or not, another downturn is a very real possibility.

I've worked in and around the property market for a few decades now – Managing Director at Iron Bridge for the past 11 years. What I've learnt from my many clients, and my own experience, is that playing the long game pays off.

So what does playing the long game mean?
It means looking beyond making a punt on what's going to happen in the next few years and setting real goals for what you want to achieve. Where do you want to be property-wise 10, 20 or even 30 years from now? Sustainable success is about time in the market.

What's your goal?
Perhaps you're happy to steadily move up the property ladder from your first home. This is a pretty low risk approach, but even taking steps up your own personal property ladder comes with risk.

For example, the catch-cry at the moment is 'get out of Auckland' – get much more for your money or go mortgage free by going elsewhere. Well that's all well and good, but you need to think long-term about that. Will you ever want or need to get back into the Auckland market? If you jump out on a short-term whim of making a lot of money on your Auckland property, will you ever be able to get back in to that market?

Another stumbling block is taking those jumps up the property ladder a little too quickly. Stretching that mortgage for the sake of an extra bedroom or better view can be the breaking point, especially when interest rates start increasing. Remember it's a long game you're playing. Despite what the market over the last few years has shown us, solid capital gains are made over time.

Many have seen the opportunity to buy into new subdivisions and get more for your money than you would more centrally. When the market slows though, the value of homes in new subdivisions falls faster. This could be an issue if you're selling up in a couple of years. On the other hand, if you have the long-term goal of sitting steady, short-term market fluctuations have no effect. Time in the market will let inflation do its job.

Perhaps you're looking to build a portfolio of rental properties over time. We help a lot of property investors start out on their ownership journey, and part of our job is to protect people from themselves! We help people buy conservatively so even in a dropping market they can do well.

An example of this is the large number of our clients who bought into 'nappy valley' style new subdivisions over 10 years ago. There was little visual appeal then, but they were good solid homes at an affordable price. Ten years on, those subdivisions have become leafy, appealing places to live, and that little bit of risk and forward thinking has paid off with properties doubling or tripling in value. Over time some owners have taken in more in rent than the price they paid for the house!

Even with housing supply catching up with demand in Christchurch, and the rental market softening 5-10% recently, these long-term investors have little to worry about. By buying well into 'bread and butter' housing with wide rental appeal, they'll always find demand for their property. In property investment, the main return is long-term capital gain, not from week-to-week rent. By playing the long game they've seen the results, and will continue to see them.

The last group of people we see in the market are traders looking to buy and sell on quick. Risk and reward go hand in hand. It definitely doesn't line up with our conservative approach, but if you're going to play that game you've got to be big enough to suck it up if things don't pan out in your timeframe, and simply put that down to experience.

At the end of the day, there is no way to control the market, but you can control the risk involved in each step you make on the ladder you're climbing. How? Knowledge and experience are key – know your market, and what you don't know, glean from someone more experienced than yourself.

That experience, conservative approach and thorough processes are why our clients rely on us. We're there to make the process simpler and safer for you, whether it's your own home or investment, so have a chat.