PROPERTY *investment*

TIPS AND TRICKS FOR GETTING INTO THE PROPERTY MARKET

Thinking about investing in a property that will not be your place of residence? An investment property is a potential way to increase your wealth and secure your financial wellbeing. Property is generally viewed as a secure, long-term investment with many advantages.

However, it's important to understand how investing in property works, to decide if it is right for you as there are also risks with investing in property.

PROS OF INVESTING IN PROPERTY

- **Income** – you earn rental income from the property when tenanted
- **Less volatility** – property income and property value can be less volatile than other investments such as shares or bonds etc
- **Capital growth** – if your property increases in value, you will benefit from a capital gain when you sell
- **Tax advantages** – you can offset most property expenses against rental income, including interest on any loan used to buy the property
- **Physical asset** – you are investing in something you can see and touch.

CONS OF INVESTING IN PROPERTY

- **Cost** – rental income may not cover your mortgage repayments and other expenses
- **Tax** – you will need to declare your rental income in your income tax and you may have to pay capital gains tax on sale of the property if you sell for more than you paid
- **Interest rates** – a rise in interest rates on your variable loan will mean extra loan repayments which may impact your net income from the rental property
- **Vacancy** – if your property is vacant for some reason, you will need to cover the costs including mortgage repayments which will impact your disposable income
- **Value loss** – if the property value decreases below what you paid you could end up with a shortfall and owing more than the property is worth
- **High entry and exit costs** – expenses such as stamp duty, legal fees and other fees can impact entry and exit.

COSTS OF INVESTING IN PROPERTY

There are costs involved in investing in real estate, these include but are not limited to:

- mortgage costs including interest payments, establishment fee and associated fees and charges
- stamp duty
- conveyancing fees
- legal costs
- search fees
- pest and building reports
- taxes.

TIP NO.1 There may be tax benefits to investing in property as you may be able to claim property management costs, maintenance costs and other borrowing expenses as a tax deduction from your taxable income on your tax return. You should obtain advice from your accountant or tax adviser before doing so.

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COSTS TO OWN AN INVESTMENT PROPERTY

There are ongoing costs with an investment property, they may include:

- council rates
- water rates
- body corporate or strata fees
- land tax
- building insurance
- landlord insurance
- property management fees (if you are using a real estate agent)
- repairs and maintenance costs

TIP NO.2 There may be tax benefits to investing in property as you may be able to claim property management costs, maintenance costs and other borrowing expenses as a tax deduction from your taxable income on your tax return. You should obtain advice from your accountant or tax adviser before doing so.

WHAT TO CONSIDER WHEN BUYING AN INVESTMENT PROPERTY?

The decision to buy an investment property should be a decision that is made with your head and not your heart. Take a long-term view and the fundamental key is to make the property attractive to renters.

Once you have a property in mind, compare the income you expect to your outgoing expenses. If there is a shortfall, you will need to consider whether you can cover the expenses long-term. You will also need to factor in whether you could cover all expenses in the short-term if you have no tenant for some time.

TIP NO.3 Investing in real estate is all about capital growth. Choosing a property that is more likely to increase in value is the most important decision you will make, so buying at the right price is critical. You should talk with a real estate agent and a conveyancer before committing to any purchase.

WHERE TO BUY

- Location is key and look for liveable properties
- Research capital growth areas to gain insights into what the median sale price for the suburb is and whether it has increased over time
- Buy in a high rental demand area with high rental yield
- Look for areas that have good infrastructure eg; close to schools, shops transport, hospitals etc
- Find out about proposed planning changes in the suburb that may affect future property prices eg; proposed motorway, airport, zoning

WHAT TO BUY

- Your budget will determine whether you can invest in a house, duplex, unit etc
- Consider properties with appealing features such as an additional second bathroom, a home office/study, attic/storage space and garage
- Consider maintenance costs based on property type, age and features.

CAN I LIVE IN AN INVESTMENT PROPERTY?

We cannot give you personal tax advice as it will depend on your particular circumstances. We suggest that you seek professional advice on tax consequences of changing the status of your property from an investment property to your principal place of residence.

WHAT IS RENTVESTING?

Rentvesting is an investment strategy for would-be home buyers who can't afford their dream home yet. It's where you rent a property to live in that's right for you and your lifestyle, while you own an investment property that's right for your budget.

Instead of buying an expensive dream home, you purchase a more modest property in a suburb where prices are more affordable. The property you buy can then be rented out to help cover your own rental payments and later sold for a capital gain. This strategy lets you have the lifestyle you want now, while at the same time building a property portfolio for the future.

Before you choose to buy a property or rentvest, make sure you can afford to rent and have a mortgage. Just because an investment property is cheaper than your dream home doesn't necessarily mean that you can afford it, and just because renting feels like throwing away money doesn't automatically mean you should mortgage yourself.

BUY IN A HIGH RENTAL DEMAND AREA WITH HIGH RENTAL YIELD

BE REALISTIC ABOUT YOUR INVESTMENT GOALS. DO NOT UNDERESTIMATE ONGOING COSTS

WHAT IS STAYVESTING?

Stayvesting is a relatively new term for those who are wanting to buy an investment property, perhaps whilst still living at home with a parent, parents or relatives.

It is important to have an idea of your budget and you will need to consider your income and expenses and what deposit is currently saved. If you are living at home rent-free, most lenders will factor in a nominal amount of rent in your application. This means that when they are calculating your income and expenses, they will add a nominal rental expense (regardless of whether you pay rent or not).

Buying an investment property can be a sound financial decision, however, it is not without its risks. Remember to work with experts who can help you navigate the process and help you make the best purchase possible and evaluate all your options to ensure that the investment you make is the best one for you.