Property Investment Guide

Achieve your property investment dreams

elliot watson
Financial Planning

Why Invest in Property?

Many Australians look to invest in property to build their long-term wealth.

When deciding to invest in property there are different types of investments you should consider;

- Residential
- Commercial
- Property Development
- Property Trusts

The type of property you choose to invest in will depend on your financial circumstances and the ability of the investment to meet your needs.

What Are the Benefits of Property Investment?

Property investment is popular because it is tangible – you can see it; you can touch it. A common expression used is ‘it is safe as houses’ as the tangibility gives some people a sense of security compared to something like Australian or international shares. Property provides multiple benefits; it provides:

- An income stream through rental income
- Capital growth over time
- Mitigated risk as you can insure your asset against most risks (damage, fire, tenants leaving or breaking leases), and
- Tax benefits such as depreciation and negative gearing.

What Are the Risks/Negatives of Property Investment?

Like with any investment there are risks. The risks of property investment come from not only the market (property values and interest rates) but also tenants.

The downsides or risks associated with property investment are:

- **Concentration Risk** – Putting your eggs in one basket so they say. Buying in one area has the potential to work out well or go horribly wrong. Things out of your control can affect property prices and ability to be tenanted such as a gas leak or hidden underground mine could be found and erode your property value. A large mine which employs many of the local population could close down leading to mass unemployment. Likewise, prices can increase if Governments change or promote immigration policies to a particular area which will boost demand for housing. Diversification should always be considered.
- **Bad Tenants** – Late payments, not paying at all, refusing to leave, damage to the property are all risks involved with tenanting a property. Insurance and utilising an effective property manager can help to minimise these risks.
- **Liquidity Risk** – Property is not an easily liquidated investment. It takes time to find a buyer and even a further lag to settle. If your financial situation requires you to have easily liquidated assets, property investment may not be for you.
- **Cashflow Risk** – Often with property investment the rental income may not cover the entire mortgage repayments. Therefore, there are cashflow risks associated with property investment. If you lost your job for example, you would still have to contribute payments to your investment property and other personal household commitments. Additionally, there may be periods when you don't have a tenant and you must make up the short fall in rent potentially again causing financial strain.
- **Interest Rate Risks** – Interest rates vary over time. In our current low interest rate environment, it is relatively easy to cover mortgage repayments, but would you still be able to cover the loan repayments if the interest rates increased 2 or 5%?

If you make a mistake the costs can easily run into the tens of thousands of dollars and higher.

How Much Do I Need to Buy Property?

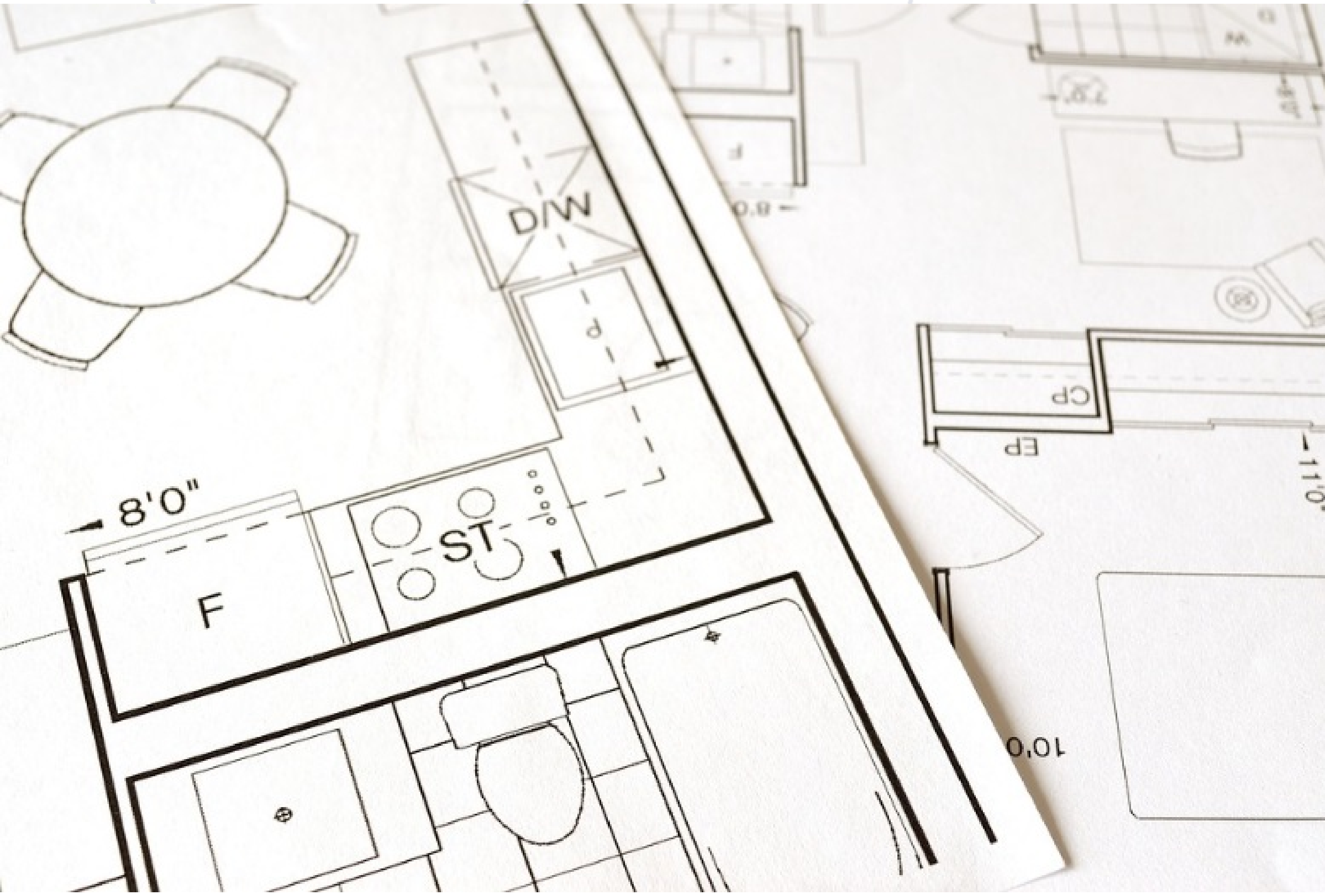
Ideally a deposit of 20% is required; once 20% is achieved you avoid having to pay lenders mortgage insurance (LMI), which is a one-off premium. If you are unable to achieve a 20% deposit LMI can run into tens of thousands of dollars.

You will also need to cover stamp duty costs on top of your deposit. Stamp duty varies between states.

Use the following calculators to estimate what LMI and stamp duty could cost you.

[LMI Premium Estimator]

[Stamp Duty Calculator]



How Should I Structure the Finance?

The way in which you structure the finance of your rental property is important as it can have implications for tax and asset protection. For questions, around whether you utilise a principal and interest or interest only loan and how you secure your loan (against your family home or purchase property and deposit), you should consult your financial planner, accountant and/or mortgage broker. These are important decisions as they can affect cash flow, tax, and the security of your home.

Can I Buy Through Superannuation?

You can buy property through your self-managed super fund (SMSF) however it is more complex, and it is advisable to receive professional advice when progressing with this strategy. You need to comply with the below rules:

The property:

- Must meet the 'sole purpose test' of solely providing retirement benefits to fund members
- Must not be acquired from a related party of a member
- Must not be lived in by a fund member or any fund members' related parties
- Must not be rented by a fund member or any fund members' related parties.

SOURCE: ASIC

One exception to these rules is you could potentially purchase your business premises through your SMSF, allowing you to pay rent directly to your SMSF at the market rate.

What Else Can I Invest in?

When deciding on where to invest your money it is important to consider diversification (i.e. not putting all your eggs in one basket). Investing in property has its advantages and risks. Consider your investment portfolio as a whole and make sure you have spread your risk across a range of investment options such as stocks, property, bonds and cash.

There is also the opportunity cost which you need to consider. Would your money be better invested in another type of asset which may give you a higher return?

How Do I Get Started?

You can either begin to research the property market yourself or speak with an expert. Be mindful that, as with all investments, there is an element of risk and you need to make sure you take your personal circumstances into consideration. Also, be cautious of property spruikers. Unfortunately, the property industry is not currently regulated.

Research, research, research! Do your homework – it is important to do your due diligence on:

- Location (infrastructure, population, developments)
- Market value (are you buying above or below market value)
- Rental return (how much rental income will contribute to mortgage repayments)
- Your financing options (are you getting the best interest rate and asset protection)
- Hidden costs (maintenance, repairs, insurance, land tax, rates)

Once you have done your homework and are confident in your decision at the end of the day you will still be at the mercy of the market. Property investment is a good way to grow your wealth over time. If you have any questions it is important to seek professional advice.

Location, location, location

Get Expert Advice

*For comprehensive investment advice contact the award-winning team at Elliot Watson Financial Planning on **02 4038 1623** for an initial consultation.*

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