

# Quarterly question



*I want to purchase an investment property but I'm not sure where to start. What is required to make a good - AND safe - investment decision?*

## Good question, thank you.

Due to continued low interest rates, better household savings and increased home equity we are experiencing greater enquiries about how to use property as an investment vehicle for creating financial security.

Property has been considered a popular path to wealth for Australians for many years. It has the potential to generate capital growth (an increase in the value of the asset) as well as rental income. There are also tax advantages associated with negative gearing. However, when buying an investment property, it is wise to remember you are making a business decision. It's worth taking the time to plan.

## Here are our tips!

### 1. Do your homework

You are buying from the head - not the heart - so it is important to assess your current financial position. What are your cash reserves and what equity do you have in your present home? Look at your long term objectives and factor in potential changes to your current situation (eg the birth of a child or loss of one income).

### 2. Understand negative vs positive gearing

**Positively geared properties** - rental income is higher than your loan repayments and outgoings. Tax is likely to

be payable on the net income.

**Negatively geared properties** - rental income is less than your loan repayments and outgoings. The loss can be offset against other income earned, reducing your assessable income and therefore your tax payable.

### 3. Decide how to fund your investment

You'll probably need an investment loan. The deposit can come from your savings or from equity in your principal residence. It is also becoming popular to invest in property via a self managed superannuation fund.

### 4. Determine how much you can borrow

This is an essential step. Be realistic in your expectations and focus your house-hunting time on properties within your budget.

### 5. Select the right loan

Interest only loans are the most popular for investors because borrowing costs are fully tax deductible. However, there are many other options so talk to us about your requirements and we will make some recommendations.

### 6. Calculate up-front costs

Remember to factor in up-front costs such as stamp duty, loan application fees, valuation fees and legal costs. A building and pest inspection is also a must to avoid expensive headaches down the track.

### 7. Estimate ongoing costs

All properties incur ongoing expenses (eg rates, insurance etc). Your rental income will cover most or all of these but you might need to have some spare cash set aside until you start receiving rent (most agents pay the owner at the end of each month so you won't receive rental income straight away).

### 8. Find the right property

An investment property doesn't have to be one you would live in or even be in the same suburb or state that you live in. Think about the features that are universally appealing and of course remember the old adage - location, location, location!

It's also worth investigating both current and future government planning initiatives for infrastructure, services and transport.

### 9. Appoint a good property manager

Local agents are usually the best at understanding the current market place, tenant type and rental expectation. Interview a few well known agents and ask them for references or testimonies from some long term tenants and landlords.

Ask them what makes them different and why you should choose them.

Remember - it's not always about the amount they charge. You get what you pay for.

### 10. Invest in risk protection

Some insurance companies now combine building cover with specialist landlord insurance. You should also consider life and income protection insurance to ensure your family doesn't suffer financial hardship repaying loans if the main income earner is unable to work.



## Call the office today

for a copy of our **Investment property checklist** to give you more information on how to select the right investment property.



## Fit Loans

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