Steps to successful property investment

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 your 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 that you are making a business decision and it's worth taking the time to plan.

1. Do your homework

You are not buying from the heart, but from the head, 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 (e.g. the birth of a child or the 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 it

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

4. Choose the right loan

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

5. Find out how much you can borrow

This is an essential step to be realistic in your expectations and focus your house hunting time on properties you can afford.

6. Calculate your up-front costs

Remember to factor in stamp duty, loan application fees and legal costs into your plans. A building and pest inspection are also a must to avoid expensive headaches down the track.

7. Estimate ongoing costs

All properties incur ongoing expenses (e.g rates, insurance etc). You'll use your rental income to 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 wont receive rental income straight away).

8. Finding the right property

This is obviously the area in which you will spend the most time. It doesn't have to be a home you would live in. Think about which features are universally appealing and of course remember the old adage – location, location, location!

9. Find a good property manager

Personal recommendations from tenants and landlords.

10. Cover yourself with suitable insurance.

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 our Investment Property Checklist for more information on how to select the right investment property for you.