Loan Studio

Is an investment property right for me?

An investment property can be a great way for a beginner investor to kick off a wealth creation strategy. While it seems a relatively easy option to get into and the costs can be quite low, buyer beware, it can be a long road to reap the rewards and the time commitment steep.

#1 Why invest in property

For many, property investment is the first choice when considering a wealth creation strategy, mainly because it is considered accessible to most and the safest option available. Just like any other investment strategy it is important to weigh up the positive and negative aspects to decide if it is right for you.

Positives	Negatives
Capital Growth: your investment is likely to grow over time with minimal effort from you.	Lengthy exit process: selling a property that hasn't worked well in your strategy can be lengthy process, unlike shares and bonds.
Mitigated risk: insurance covers most situations that can occur, making it a safe and lower risk choice.	Ongoing costs: in addition to the upfront costs such as stamp duty, legal and conveyancing, there is also ongoing repairs, insurance, rates, landlord fees, etc.
Accessible to everyone: doesn't require knowledge of financial markets and strategy, even beginners can invest in property.	Inconsistency of return: there may be periods without tenants which will have zero return on your investment.
Tax benefits: if negatively geared there are many tax benefits available.	High involvement: in the instance of disruptive tenants, there may be a need for you to be more involved in your investment.
Flexibility: as the owner you have full control of your investment, without relying on decisions of others.	

#2 Cost of investing

While property investment might be seen as having little barriers to entry there is a significant schedule of costs to consider.

Upfront costs	Ongoing costs
Deposit Loan establishment fee Mortgage insurance (LMI) (Link:08) Uitlity connections Stamp duty Conveyancing Repairs/restoration	Insurance Mortgage fees Land tax Rates Body corporate fees Property management Repairs

#3 What is a good investment property

It makes sense to look at property investment opportunities in a buyers' market, i.e. when prices are all time low, in order to obtain a healthier return more quickly. But you should also do your homework on the right location. For your property to have the opportunity to provide a return it needs to be attractive to tenants – close to amenities, public transport, schools, hospitals. Alternatively, you may wish to look at a growth area to get into the market before prices rise, however, this may take a bit more expertise. Remember, this property is not for you to live in, so don't let your emotions take over, think objectively about what tenant you need to attract.

#4 Understanding the tax costs and benefits

Your financial advisor is best to provide you with a full run down of the tax implications when buying an investment property. Here are some (not limited to) of the tax incursions and benefits you MAY confront.

Tax costs	Tax benefits
Income tax (on the rental income) Capital Gains tax (on profit once sold) Property tax (council rates) Land tax (via council)	Buying expenses (advertising, bank fees) Maintenance costs (repairs and improvements) Depreciation (on new fixtures and fittings) Negative gearing (loss deducted from core income)

#5 Managing your investment property

To keep your ongoing costs low, you could opt to manage the investment property yourself, no one will look after it like you! But be aware of the time commitment involved, and don't underestimate the benefit of sound property market knowledge and access to tenant database that a professional real estate agent has.

#6 Check your finances

It's no use diving into a new investment property portfolio if it means you have to sacrifice on basic lifestyle needs, it has to work for you. Take the time to genuinely evaluate your current assets, incomes and costs of living and calculate what is affordable, without factoring in inflated returns. Now is a good time to re-visit the basic Budget Planner (Link:10) to prompt all your expenses.