9 STEPS TO SUCCESSFUL PROPERTY INVESTMENT

Property has long been considered a popular pathway for Australians to achieve their long term financial goals. It has the potential to generate capital growth (an increase in the value of your asset) as well as rental income.

For many first time investors it can be a little overwhelming as to the actions required and determining what makes a good investment. With the formulation of a plan, research and gaining the necessary assistance, the journey can be made a reality.

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/or 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 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 subject to qualifying capital allowance deductions.

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

Generally, many investors accept a negatively gearing scenario on the expectation of future capital gains. However, if significant capital gains are not expected there is a need to ensure that the property is positively geared.

3. Decide how to fund your deposit

You'll probably need a property investment loan. The deposit can come from your savings or alternatively from the equity in your home. It can also be possible to invest in property via a self managed superannuation fund using your super savings as a deposit*.

4. Find out how much you can borrow

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

5. Choose the right type of finance

There are generally two types of loans being 'principal and interest' and 'interest only'. Interest only loans defer

the obligation to repay the principal. The most suitable loan type for you will be dependent upon your individual circumstances so it is best to talk to us.

6. Calculate your costs

Remember to factor in up-front costs such as stamp duty, loan application fees and legal costs. Building and pest inspections are also a must to avoid expensive headaches down the track. You also need to estimate the property's ongoing expenses (eg rates, insurance etc). Your rental income will cover most or all of these costs but you may 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).

Be sure to understand the likely monthly costs or financial benefit as a result of purchasing the investment property and that this matches your financial capacity.

7. 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 the features that are universally appealing and of course remember the old adage – location, location, location!

8. Find a good property manager

It may be a good idea to look for personal recommendations from tenants and landlords you know.

9. Cover yourself with suitable insurance.

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

** Different rules apply to an SMSF borrowing arrangement, i.e. higher deposit and lower maximum LVR with minimum required cash reserves in the fund as per lender guidelines.*