Our 5 proven steps to successful property investing

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15 Ways To Succeed In Property Investment

Spotting a top property deal is not all that difficult, according to industry expert John Kovacs; it's simply a matter of being organised and knowing exactly what to look for. If you're looking to buy an investment property - whether it's your first of your fifteenth - our handy property checklist will help you determine whether your potential purchase measures up

1. Get organised

Before you make the first step towards property research, make certain that your finances are in order. Pre-approval of your loan will greatly assist you in negotiations when the contract of sale is unconditional to finance; it offers you a better bargaining position, as vendors can be very wary of 'subject to finance' clauses.

2. Determine your strategy

Evaluate whether it meets your income and growth expectations. If you want a high rental return, consider apartments in areas close to universities, trendy cafes, transport and hospitals, where there is a constant supply of renters. If high capital growth is the target, look for areas with proven records of capital growth and sustainability, such as inner-city period homes.

3. Get the location right

Location, location, location really is critical. The property needs to be in a good location close to schools, shops, transport and recreational facilities. Quiet, leafy suburbs, ocean views and proximity to parks and gardens are ideal settings.

4. Identify the potential

The property should ideally have the potential to be renovated. It needs to have a neat and clean kitchen, toilet, bathroom and laundry facilities - and if it doesn't, you should upgrade these aspects as soon as possible. If you're considering a renovator's delight, be very careful not to overcapitalise on the renovations - a decorated mansion in an industrial location is sure to fail, so remember that prudent research is the key.

5. Industry research

You can find out information about capital growth, movements in property prices and average rental yields in each suburb or town in Australia through resources such as RP Data and Residex, and magazines like Your Investment Property. Their suburb reports will give you a good indication of future growth patterns, and an idea of cost comparisons of property sold within the area you are interested in.

6. Be budget conscience

Consider all of the costs associated with the purchase of your investment property, including acquisition expenses such as stamp duty, legal fees, building inspection costs and bank and mortgage establishment expenses. Ongoing expenses will include water and council rates, body corporate fees (for apartments and townhouses), accountancy costs, agent management fees, property insurance, repairs and maintenance.

7. Consider CGT

Remember that when you eventually sell your investment property, it is likely that you will incur a liability to pay Capital Gains Tax (CGT). Your accountant can assist you in reducing your liability, and will inform you of any changes to CGT. Keep in mind that this tax is not applicable to the family home.

8. Turn negatives into positives

Property investments that are negatively geared provide substantial tax benefits. A negatively geared property is when the income generated from rent is less than the expenses related to the property, such as interest incurred on the loan and all outgoings. This loss can be offset against your income such as salary and wages, or a business or income derived from other investments.

9. Depreciate your assets

New or near-new buildings are depreciable over 40 years, at a rate of 2.5% per annum. Fittings and fixtures depreciate more quickly, and can be written off over five years. Professional advice from a quantity surveyor is warranted to maximise your depreciation claim.

10. Property management

Ideally you should enlist a qualified property manager to screen and locate a suitable tenant. The property manager will prepare the leasing documents, arrange the bond, collect the rent, conduct regular inspections and arrange for repairs on the property as required, for a fee of less than 10% of the rental income. These fees are fully tax deductible against the rental income.

11. Search interstate

Consider looking outside of your state for potential property investments; it's a great way to diversify your investment portfolio and keep up with market trends and property cycles throughout the country. It also minimises your land tax liabilities.

12. Future uses

Large blocks of land are ideal for subdivisions and redevelopments, and corner blocks are the most desirable, as they can provide good street access. As a result, they are in high demand from builders and developers.

13. Building inspections

Get a building survey and a pest inspection carried out on any potential property you are considering. This will help you ascertain the property's condition, and will give you an indication of the amount of money you are likely to spend on maintenance and repairs in the future. The results of the report can assist you in negotiations with the agent and vendor.

14. Exercise caution

Be very careful buying property off the plan; when the development is still in the planning stages, it is hard to get an idea of the layout, the quality of fixtures and finishes, and the size and final outlook of your investment. Many buyers are disappointed with the final product. Rental guarantees should be heavily researched, as they often tend to over-inflate the true value of the investment

15. Buy under market value

Despite their sensitive and somewhat controversial nature, mortgagee and deceased estate properties can certainly be worth the effort, as these properties constitute real value as they can be purchased below market value. When buying a mortgagee or deceased estate property, careful analysis is required; supply, demand and location are the key factors that need to be carefully considered.

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