Tips and Traps of Property Investing

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Wealth creation has become a primary target for most people and many are finding property investment an effective way to hit this target.

In Sydney and all throughout Australia there are said to be more than 1.7 million property investors, and a quarter of these have investments in more than one property, according to the Australia Taxation Office.

While property investing can be rewarding, you can't fully reap these rewards if you don't know what you're doing. This is why each investor needs to be fully aware of what needs to be done to ensure property and financial growth.

Here are a nine tips you should keep in mind to get you started.

1. Plan – start with the end game in mind

Map out and write down your goals and vision for what you want to achieve (this could be financial or lifestyle goals) and how the next property will help you reach them.

It's important to know the purpose of your next investment and to regularly remind yourself of the end game. For some, it could be they are looking to build up their portfolio to create a passive income stream to fund retirement one day. For others, it could be that they want to create a 'business' of buy, renovate and sell to release them from their 'day job' or it could be to create an instant cash flow stream to improve their family lifestyle with a holiday home.

There are a myriad of reasons why someone would want to invest in property and for each reason there should be a carefully planned strategy on what steps you need to take to fund the investment, maintain it, improve it, or sell it at various stages in line with the original intent of purchase.

For example, if you know from the outset your investment will be for a buy, renovate and sell strategy, then decision making factors like property type, location, budget, loan type and return on investment expectations will look entirely different to someone looking to purchase a family holiday home.

Knowing what you want from the start with careful consideration of what the purpose of your investment will be makes the next steps a little easier. This approach will also keep you focused on your long term vision and help you have a balanced perspective when you experience ‘speed bumps or ‘pot holes’ along the road.

2. Determine your property investment budget with the help of your Accountant

This is one of the most important factors that you need to consider before you choose a property to invest in. Set a clear budget for the investment and make sure to include not only the purchasing price but also additional costs you will incur such as stamp duty and legal costs. Most importantly, you also need to factor in maintenance costs, including initial renovation (if needed) and ongoing repairs. Involve your Accountant along this journey and get them to review your figures to make sure it all adds up. The golden rule is measure twice, cut once.

3. Seek tax planning and investment structure advice from a specialised property Accountant

Knowing why you buy is as important as knowing what to buy. But knowing how to buy is the most crucial of all. People often ask us the perennial question, ‘What name do I put on a contract?’ Sadly this occurs the Monday after the auction.

Most investors tend to purchase investment properties in their personal name. There are many tax implications as well as asset protection issues and estate planning limitations which you should discuss with your Accountant first before you think about investing. This is why having a plan in place will help to give some clarity as to what you want to achieve.

A good Accountant who understands property will be able to guide you through the process and help set up the necessary investment structures if appropriate for your situation.

4. Set up your ownership structure(s)

It will add to the overall cost of the investment, but if set up correctly will literally save you thousands in tax savings and give you the required flexibility for your investment plan.

5. Speak to a Mortgage Broker about getting the right loan for your investment plan and ownership structure

Good Mortgage Brokers will give you unbiased advice on a range of loans from a variety of lenders.

Armed with your investment plan and budget in mind, seek advice on current interest rates and property market conditions to determine if principal and interest or interest only loans are suitable and whether you should be on a fixed or a variable rate at various stages over the life of the loan. Always get pre-approval before making any investment decisions.

6. Do extensive research to find viable markets and the best locations

With your investment plan, ownership structure and finance ready to go, it's time to go shopping. But before you do, first do your homework. Researching to find the best location and market to invest in is very important.

If you've hired a Buyer's Agent to help you, don't just rely on their advice – do independent research as well. Find and download suburb and property reports and use research tools like realestate.com.au or realestateinvestar.com.au to help find the right property.

One essential factor to look for in considering the location is its property growth cycle. Australia's property cycle as a whole is on a mature stage as major cities have been experiencing a steady rise since 2012, when it bottomed. However, looking at the individual markets you'll find that these are fragmented with each city offering a different set of highs and lows. It is important to take a closer look at each of these markets to determine where best to invest in.

7. Invest in capital growth

Knowing the market conditions and property cycle, even if the property is negatively geared in the short term (i.e. the cost of keeping the property is more than the rental income it yields). Always consider properties that are in areas that are about to take off due to a combination of the following factors:

a. Walking distance to transport

b. Close to a growing commercial hub/CBD

c. Walking distance to local shops

d. Walking distance to parks

e. Early signs of redevelopment/urban renewal

f. Re-zoning or easing of Local Council's restrictions for residential or mixed-use property development

8. Look for properties with a 'twist'

Look for properties which have something unique about them that no other property has (even if it needs a little work) which renters will pay a premium for.

9. Add value

Cosmetic renovations such as kitchen and bathroom renovations could potentially add thousands to the value of the property not to mention increase rental yield which can give you leverage for further investments and increase cash flow.

Some properties could do with a structural renovation by adding an extention, an extra bedroom, additional bathrooms or an entertaining area etc. Again, careful planning from the start will help you ensure you get maximum return.

Here are nine traps to watch out for

1. Not having an investment plan or strategy

2. Not seeking advice

3. Getting bad advice

4. Getting good advice and doing nothing with it

5. Not doing your homework

6. Not treating your property investment as a business, investing out of emotions and not from a carefully considered business decision

7. Having too many credit cards and high credit limits

The financing you get will determine what type of property you can acquire. Because of this, getting financing for your property is equally important, if not more essential, than picking the right property. If you don't get the right financing this will limit your choices on the properties you can select from.

One way that can help determine the amount you can borrow is your finance history, specifically your credit card activity. All of your credit cards, regardless if these are used or not, will be taken into account by lenders when calculating the amount you can borrow. The credit limit is also another factor that they consider. To make sure you are viable for the right financing, reduce your credit card limits and cancel unused cards.

8. Poorly structuring your loan portfolio and not preparing for setbacks

It is important to have a well-structured loan portfolio right from the start. This will prevent you from incurring tax problems that can be a nightmare not only for you but also for your property and Personal Tax Accountant. This would also protect you from risks that may be experienced with a poorly-structured one. You also need to prepare for any negative setbacks that you may experience in the future. To do this you need to set up a cash reserve, through a redraw facility or line of credit, to take care of any cash flow problems you may have.

9. Not sticking to your long term game plan i.e. making short sighted decisions

Investing in property is a big financial move that you need to fully prepare for. The only way that you can gain from the investment and help grow your wealth is by doing things right. On top of taking note of these tips and traps, it is also highly important to get property investment advicefrom professionals to guide you in every step of the way.

Disclaimer: This article contains general information. Before you make any financial or investment decision you should seek professional advice to take into account your individual objectives, financial situation and individual needs.

Source: BMT