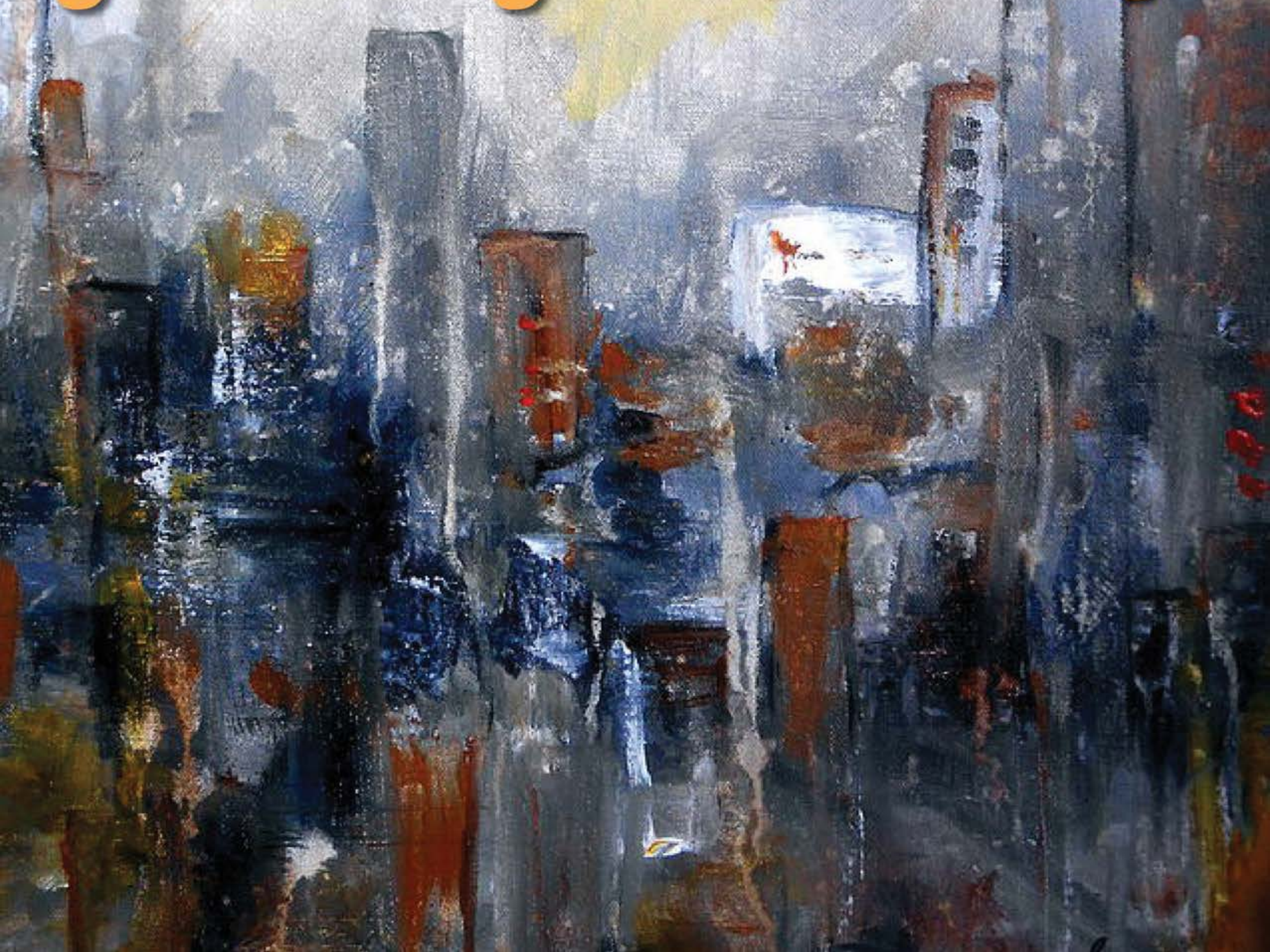
CORNERSTONE
WEALTH MANAGEMENT

Buying an investment property



Insurance

While you don't need to pay for home contents insurance, you will need to organise building insurance which cover you for building replacement if, say, the house burns down. If you buy a unit, building insurance will be paid from your strata levies.

You should also consider taking out landlord insurance. This protects you if your tenant damages the property or if they leave without paying the rent. The cost of landlord insurance is tax deductible.

If you are relying on part of your salary to cover your repayments and expenses, make sure you have adequate income protection insurance. Your ability to earn an income may be the most important asset you have.

Repairs and maintenance

You need to include repairs and maintenance in your investment property budget. If your tenant complains that the oven is not working or the shower starts leaking, you need to fix it straight away. Consider the age of the property when you are working out how much to set aside every month to cover emergency repairs and replacing items like air conditioners, hot water systems and dishwashers.

Only renovate your investment property if you think it will increase the rent you can get, or if it will make the house or unit more appealing to renters. Property improvements are not tax deductible.

Selling an investment property

If you decide to sell your property, you will have to pay agent's fees, as well as advertising costs and legal fees. You may also have to pay capital gains tax if the property has increased in value.

Where and what you buy will affect your return on investment. Here are some tips to help you identify a good investment property.

Where to buy

- **Familiar markets** - Consider buying an investment property in an area you are familiar with as it will take you less time to research. Check recent sale prices in the area to give you an idea of what you can expect to pay for local properties.
- **Growth suburbs** - Look for areas where high growth is expected, where there is potential for capital gains.
- **Rental yield** - Look for areas where rents are high compared to the property value.
- **Low vacancy rates** - Find out about the vacancy rates in the neighbourhood. A high vacancy rate may indicate a less desirable area, which could make it harder to rent the property out, or sell it in the future.
- **Planning** - Find out about proposed changes in the suburb that may affect future property prices. Things like new developments or zoning changes can affect the future value of a property.

What to buy

- **Attractive features** - Look for investment properties that will appeal to as many people as possible, like a second bathroom, lock up garage or nearby shops, schools and transport.
- **Wide appeal** - Find a property that will attract more than one segment of the rental market such as singles, couples, young families or retirees.
- **Low maintenance** - Keeping costs down is important, older homes or those with features such as a pool or extensive landscaping may cost more to maintain.
- **Property type** - Units can be easier to maintain than houses, although you will have to pay body corporate fees.

Most people will borrow to invest in property. This is called 'gearing'. Negative gearing is where the income from your investment is less than the expenses. Positive gearing is where your income from an investment is higher than your interest and/or other expenses. See negative and positive gearing for more information.

Work out your income and expenses

Positive or negative gearing

Once you have a property in mind, think about the income you expect to receive from it, and what your regular expenses will be. If there is a shortfall, think about whether you can cover it long-term. Also, work out whether you could cover all expenses short-term if you had no tenants for a while.

Source: Smart Money Asic