Investing in Property: Foundations

This webinar looks at the practical aspects of investing in property, including:

- Your Initial Steps
- Your Finances
- Ongoing Management

Your Initial Steps

Successful property investment starts with having a clear strategy as to why you are investing. You need to ask yourself: what type of financial strategy makes the most sense for you: capital growth, cash flow or a combination of both. This will then determine whether the property should be positively or negatively geared:

- **Negative gearing** occurs when the investment property expenses are greater than the income received from the property. The intent is that the property will grow in value over time, making up for the short term cash shortfall. This supports a **capital growth** strategy.
- **Positive gearing** occurs when the income from the investment property (i.e. rent) is greater than the expenses related to it. This supports a **cash flow** strategy.

Another important consideration of your investment strategy is deciding when to buy your property. Investment property tends to run in cycles. Understanding this cycle will give you some insight into when it may be an ideal time to buy.

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<tr>
<th>Prices peak</th>
<th>Prices rise</th>
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<td>This is the top of the investment cycle. There is generally a high supply of properties available, with a potential for over-supply that can lead to a slowed investment environment and flattening rents.</td>
<td>Developers generally return in force and there is strong investment, increasing the volume of building constructions and houses available.</td>
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<th>Prices soften</th>
<th>Prices trough</th>
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<td>Housing stock starts to decline as investors become more inactive and developers slow down their work.</td>
<td>This is the low point of the investment cycle, and generally when investors increase their activity. House supply is at its lowest, leading to vacancy pressures and rising rents.</td>
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Finances

When banks finance an investment property there are generally two key elements they’ll consider:

1. **Your personal cash flow** which is generally made up of your salary or wage, and any income from other sources such as rent from the property being purchased.
2. **Your equity** which is the difference between the value of your home, and how much you owe against it. To get a loan for your investment property, you need to demonstrate that you already have a deposit of some description. This tends to come in the form of savings or accessible equity that exists in your current property that you can use to buy into an investment.

When buying an investment property you need to take into account upfront and one-off costs that you may incur. This can include items such as stamp duty, registration, building inspection reports, repairs or renovations and solicitor fees. There are also ongoing management and maintenance costs that need to be considered.

Ongoing Management

Property, unlike some other forms of investment, is not a ‘set and forget’ option. When you buy a property you, in effect, become a landlord and need to look at things such as property management, getting the right tenants, being paid rent on time and more.

A key consideration in the ongoing management of property investment is deciding whether or not to operate as the property manager yourself. Here’s a brief look at the costs and benefits associated with both options:

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<th>Benefits</th>
<th>Costs</th>
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| **Property Manager** | • Up to date on legislation  
• Skilled across all key management areas | • Approx 5% - 10% of weekly rent  
• National average is approx. 7% (eg: a $500 per week property at 7% would cost $35 per week) |
| **Self-Managed** | • Can keep an eye on your investment  
• Cheaper  
• Leverage own skills | • Time  
• Focus  
• Research |

Any information provided is of a general nature. Before making any decisions please ensure you seek appropriate professional advice to ensure it is appropriate to you.