

q&a

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Q 1: I have been considering taking out a loan to buy an investment property, to start building a negatively geared investment portfolio. Do you have any comments that I should be aware of before buying one?

P.S., Kambah

A 1: Borrowing money to buy an investment property can be a great way to create and accumulate wealth over the long term. We emphasise over the long term (10 years or more) so that you can set a clear expectation in your mind about how long it may take to have a successful investment experience. You also need to be aware that you can borrow money to buy other assets such as managed funds or direct shares, which may be a more appropriate investment in your circumstances. In many cases where you may already have a family home, then building your investment portfolio into assets other than direct property can be useful for diversification.

If, for a range of reasons, purchasing an investment property is your choice, then the simple key to be mindful of is the property needs to be a place you anticipate people will want to live into the future (whether renting or owning), and that there will be reasonable demand to live in that property. The forces of supply and demand will drive the price up over time. This is why attractive features such as proximity to schools, shops, public transport, views, etc assist in increasing the value of your property.

Here are some pros and cons to consider regarding purchasing an investment property:

Pros

- 1) You can borrow up to 100% of the purchase price plus stamp duty costs of a property (in the right circumstances) which can allow you to have as great a negative gearing benefit as possible.
- 2) You will receive some rental income which can assist with your cashflow to help pay the interest on the loan and costs such as rates, body corporate, insurances and repairs and maintenance.
- 3) You can have a large exposure to the direct property market once you have purchased the property, ie \$500,000.
- 4) You can see and feel the property!
- 5) Long term returns from a quality property should be good,

Cons

- 1) You need to take out a large loan to purchase the property, whereas for managed funds say you can start with \$1,000 in an investment.
- 2) You rely on having a tenant to receive rental income, and while rental vacancy rates are very low right now, this is not assured into the future, and having no tenant may put a strain on cashflow in the future.
- 3) You have issues to consider such as repairs and maintenance, whereas a managed fund can have very little ongoing maintenance.
- 4) The property is not liquid, so if you did need to sell it, it can take months to find a buyer and then have the property settle, whereas a managed fund can be sold within a few days.
- 5) You have a concentrated investment exposure to one property in one geographic location, whereas a managed fund can give you diversified exposure to 16,000 individual assets around the world.

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If you are going to buy a direct investment property then you can seek the help of an Investment Property Specialist who can help you understand what to look for in a property and help find a suitable one for you.

Phil Thompson is a certified financial planner and authorized representative of Rise Financial Pty Ltd (ABN 86350987645), AFSL 311718, a principal member of the Financial Planning Association. Answers should be used as a general guide only and professional advice should be sought before making investment decisions.

Send your financial questions to phil@risefinancial.com.au