Investing in property.
Are you sitting on the fence?

Why people DO it

Around 20% of Australians invest in property for:

- potential capital growth
- rental income
- tax benefits

They:
tend to consider property one of the more solid, less volatile forms of investment because bricks and mortar can actually be touched,

like the feeling of getting ahead financially, and

don't want to be one of the 80% of Australians who have to rely on the aged pension when they retire

Why others DON'T

Around 80% of Australians don't invest in property.

They:
are scared they may lose their home, don't like debt,

need more information to take the first step,

don't know how to ensure their investment is not threatened by interest rate rises or unreliable tenants,

aren't sure about how to pick appealing properties for good rental return,

don't realise they can probably afford it – even if they don't have a big salary, and

think all debt is 'bad' and haven't realised that an investment property could make them money and even pay for itself.

Helen Collier-Kogtevs reveals time tested strategies to help overcome common initial jitters about investing in property. She suggests getting an education from people who are investors themselves is the fastest way - go to those 'in the know'.

1. Be comfortable with your debt level and able to afford the repayments

Borrowing to purchase income producing assets such as investment properties is considered by financial experts as 'good debt". Rental income is generally used to pay the mortgage and expenses whilst the owner benefits from any capital growth in the value of the property. Lending guidelines also reduce your risk because institutions simply won't lend to you if they don't believe you can repay the debt (and they also allow for interest rate rises).

2. How to keep making payments on your investment property if you lose your job

Positive cash flow property - This is where your rental income exceeds the mortgage payments and property expenses. Direct the excess rental income into your offset account and hold it there as your 'rainy day account' to cover loan repayments if you find yourself unexpectedly unemployed or financially strained.

Negative cash flow property - Negatively geared property is when the mortgage needs 'topping up' from your income. Your property deductions/out of pocket expenses may help you to secure a tax refund at the end of the financial year. Save your tax refund as a buffer. Alternatively, your accountant can help you request access to your tax refund as a reduction in your weekly tax. Put this extra amount aside each week and it will help accumulate a buffer to maintain the property in the unfortunate event that you lose your job or your income is reduced.

3. Risk of not securing a tenant

The best way to mitigate this risk is to carefully select a property with high rental appeal. Only buy in high rental areas where the vacancy rate is consistently less than 3%. It is also sensible to select a property manager before you settle so they can secure tenants immediately.

4. Possible problem with bad tenants

How do you pay the mortgage if the tenants don't pay their rent? Or pay for repairs or damage caused if they disappear without notice? The answer is landlord's insurance to cover any losses. The cost of this insurance is minimal when you consider the cost of not having it - and it is tax deductible as well.

5. Coping with interest rate increases

Changes to interest rates are a fact of life. If you are going to invest in property allow for interest rate increases and only purchase property that you can afford to hold onto even if rates rise.

6. An exit strategy is your 'pull the pin' plan

It is best to put this plan together in the cool light of day, before you buy, because doing it under pressure can lead to the wrong decision. An exit strategy gives you peace of mind and allows you to sleep at night.

Helen Collier-Kogtevs is the author of '47 Biggest Mistakes Made by Property Investors and How to Avoid Them.' ©2011

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