

Property is back in the headlines

If you are to believe what you hear in the mass media, the property market in Australia is experiencing a stellar recovery, with prices even surprising the property experts. These headlines have created a stampede of people rushing to get in while the going is good.

Whether this commotion has been caused by the steady increases in interest rates or just Australia's ongoing love affair with property, when weighing up your decision to invest in property, it's worth thinking carefully about a number of issues that simply aren't relevant when considering investment alternatives such as shares.

One location, one tenant, one type of housing

Unless you are able to group together with other investors, your investment is likely to be held in a single piece of real estate.

Lack of diversity in this context should not be, of itself, a reason to avoid direct property investment altogether, but it is an important aspect to consider. How much will your finances suffer if your tenant moves out, or damages the property? Are the people living in the area in which you are buying all employed in the same industry? (which could impact on finding a replacement tenant if that industry suffers a downturn) Will the rental demand hold up throughout the economic cycle?

If you already have one or two properties and are looking to expand, achieving some diversity through a different location or housing type to your current investments can be a valuable part of the equation.

Bricks and mortar

The traditional love of property for Australian investors tends to come down to your ability to see it, touch it and smell it.

Keeping debt under control

A related issue is that you are more likely to need to borrow significant amounts to purchase the property. Depending on your situation, your adviser may suggest this is a good thing for negative gearing purposes.

But in the current environment of low interest rates that are steadily moving upwards, it is crucial to build a buffer into your cash flow. You want to make sure you can still afford the repayments if rates go up 2% or 3% in the short term. On a \$400,000 loan, for example, this could mean the bank will be asking you for an extra \$150 to \$250 per week.

And unlike most share investments, you may also be able to profit from improving the property—whether for sale or for rent. The degree of improvements you plan for will depend on your skills, time and aptitude for this task... and the extra money required. Is the potential profit greater than the costs?

Your reasons for choosing to invest in property will be different from those of other investors. Due to the higher financial commitment involved in direct property investment, you should obtain suitable advice and make sure the property is affordable and fits into your overall investment strategy.

Riverina Financial Planning are dedicated to providing you with information so that you can make the decision that is right for you. We invite you contact us on 02 6921 7853 or email admin@riverinafp.com.au to make an appointment today.

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