

10 tips for choosing an investment property

So, you're thinking of buying your first residential investment property? There are a few things to consider before making the move. Here are our top 10 tips for avoiding potential difficulties and ensuring success.

Know your goal

Understanding your financial objectives is key to finding the right investment property. The actual property itself is rarely the end goal when it comes to investing - the financial elements should be your key focus. First, decide what your investment goal is and then create a plan to achieve it within a realistic time frame.

Are you looking for a plan for retirement? An income-generator to fund your children's education? Or building equity to gain a regular income? Define a plan and review it regularly as your situation and the market changes.

Research, research, research

Understanding which property is going to work best for your situation is key. It needs to be one that will be of high demand from renters and, possibly, owner-occupiers down the track. Be sure to research which types of properties are in demand and rents quickly in particular areas, and those that don't. Is this an area popular with families who want three- or four-bedroom homes, or with singles looking for studio apartments? Speak with property managers and check ads to find out what renters are currently looking for, and how their needs may change in the future. What developments are planned nearby? Get to know the neighbourhood you're planning to invest in.

Old or new?

It's the age-old debate: should you buy a renovator's delight or something you can rent straight away? It's great if it can be rented out as is, but potential to renovate should also be considered. The ability to easily and economically add value to a property is a plus, as it could increase rental returns. Don't immediately write off a property just because it needs a paint job or the kitchen cabinets need replacing, but at the same time avoid overcapitalising if it's not going to deliver returns. It's a balancing act, so consider your skill levels, the extent of makeover required, and your access to funds to pay for renovations.

Location, location, location

Location is critical to performance. Some of the things to consider include:

How far is the property from the CBD or business areas?

Are there schools nearby?

How's the shopping? Can tenants walk to local shops or will they need to drive?

What and where are the public transport options?

What other amenities are close by? Are there cafes, a medical centre, a pharmacy, a gym?

Do your sums

Always check your finances before deciding to purchase a property. Get pre-approval and make sure you can cover repayments as well as extra upfront costs such as conveyancing,

inspections and taxes. There are also ongoing costs to consider including landlord insurance, strata and property management fees, property maintenance, council rates and utilities.

You need to set yourself a realistic picture of a property's cash flow, rather than vague idea of whether rent will cover expenses, so use a spreadsheet to calculate all foreseeable expenses. If cash flow is negative, can you afford to maintain the property? What happens if it's vacant for a couple of months? Do your sums carefully and always ensure you factor in a financial buffer to [avoid mortgage stress](#).

Choose the right setup

When it comes to investing, it's important to understand how to set up the purchase to receive the most benefit. The entity should be tax-effective and protect any existing assets. You can purchase in your name, through your super or through a trust, but always understand how the purchase will affect you and your family. Expert advice can assist in maximising your benefits.

Pick the right features

You want to appeal to the highest number of tenants, so look for properties that offer that little something extra, like a second bathroom or a lock-up garage. Also, look at properties that appeal to many segments. For example, a lift may appeal to both retirees and a young family, as both will be looking to avoid stairs. Just make sure the benefits outweigh any extra costs.

Check your emotions at the door

Remember, you won't be living in this home, so there doesn't need to be an emotional connection to the home or the area. Your decision should always be about which property will give you the best return, not which one is most suited to your own tastes and lifestyle.

Timing is key

It's a great idea to keep on top of the market's movements and its dynamics. While there are investment opportunities available most of the time, some market conditions are more favourable. Do plenty of research and, if you don't fully understand it, ask for help.

Get expert advice

Your broker can put you in touch with experts when it comes to real estate and investment. This means accountants, real estate agents, lawyers and valuers. These people are immersed in the industry and will be able to guide you in your decision-making.

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