



# BUYING AN INVESTMENT PROPERTY

YOUR **FREE** GUIDE WITH COMPLIMENTS FROM **ALL ABOUT CONVEYANCING**

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If you are looking to buy an investment property, whether it be your first investment or one of many, there are some important things to be aware of:

## Leverage

Understand your leverage, which is how much you can borrow to finance an investment. For example, typically lenders will loan a higher percentage of value for property than they will for shares. So, when you consider your potential capital gain, it should be in relation to your CASH capital outlay, not the purchase price.

## It's all to do with the Purchase Price

Normally, an investment property starts with negative equity because of establishment costs. You hope then that, over time the equity becomes positive through capital growth and/or yield. It is sometimes possible though, to start with positive equity and that may be achieved by finding a property that is in need of cosmetic refurbishment. Sometimes minor renovations can add significant value to the property in a short time frame. The nearer you can get to positive equity at the start, the better it will be in the long run.

## Equity or Cash Flow

Depending on which you are trying to grow, what you buy and the strategy you employ to buy it can be quite different.

## Holding Costs

If you are buying to re-sell at a profit, you must consider such costs as stamp duty, agents fees on sale, legal costs, loan interest, and of course renovation costs. When all of these are considered, the picture can be quite different to simply sale price v purchase price. Have you considered what happens if interest rates rise ?



## **Vacancy Rate**

Often a property may be vacant for extended periods of time, particularly commercial property. If the property is vacant, then you have no return for a time and the holding costs are increased. Be aware of what tenants are looking for – in a residential property this is usually a good neighbourhood, a decent kitchen and bathroom, good size lounge area and car parking.

## **Tax Benefits**

If you are buying on reliance of a particular tax saving initiative, then there is a risk that the tax saving initiative (such as negative gearing) may be removed in the future. You may also want to explore your options regarding a buying entity – do you establish a corporation, do you use a self-managed super fund, do you use a partnership. All of these options have different tax implications when it comes to capital gains tax and land tax.

## **Seek The Advice Of Your Accountant**

All About Conveyancing are not financial planners or tax advisors and this information should not be taken as advice on any of these matters. We recommend you seek advice from a professional in the field if any of these issues are relevant to you.