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YOU

INVESTING IN PROPERTY? IS IT RIGHT FOR YOU?

Investing in property is a huge decision, and it may suit some investors more than others. Here are some things to keep in mind before you dive in.

It seems like everyone in Australia is leaping on the investment property bandwagon these days. And with historic low interest rates and soaring house prices, it's easy to see why.

As a long-term investment, real estate has an obvious advantage in that the demand for housing will continue to grow as the population grows. But it's important to remember that property is just that: a long-term investment – and it could be many years before you start to reap the rewards.

So is property the right investment vehicle for you? It all depends on your financial situation, your investment horizon and your current and future needs.

If your heart's set on entering the market but you don't want to commit to buying an investment property outright, here's some good news. There are other investment vehicles available, such as managed funds and real estate investment trusts, which can give you a piece of the property pie without you having to buy the bricks and mortar yourself.

Why invest in property?

Property is considered to be a less volatile investment than other types of growth assets, like shares. There's also more than one way to make money on your investment: you can generate a steady income by renting to tenants, and then hopefully turn a profit if you ever decide to sell.

And if the rental income you earn is enough to cover your loan repayments, you can potentially treat the property as a 'set and forget' investment while your tenants are paying off your mortgage.

There are also possible tax advantages associated with borrowing to invest, especially if you apply a negative gearing strategy. This is when your mortgage interest repayments (and other tax-deductible property expenses) are higher than your rental income, you use this shortfall to reduce your other taxable income, which in turn can reduce your tax bill.

Are there any downsides?

Of course, there are risks associated with every investment, including property. Property investment is not a one way bet and there can be extended periods where property values fail to increase or even fall in value, particularly outside of capital cities. It's also worth remembering that if you only invest in property, you're putting your eggs all in one basket, even more so if you are buying a single investment property, concentrating your risk in a single area and property type, a risk that investors in once booming mining towns are now all too familiar with.

When you're looking to buy, it's not just the property's price tag you need to consider. There are plenty of other costs involved as well, from upfront expenses like stamp duty, legal fees, conveyancing costs and loan establishment costs (if borrowing to purchase the property) and ongoing expenses like rates or strata fees and maintenance expenses. When disposing of a property in the future you also need to consider conveyancing costs, estate agent fees, associated expenses and capital gains tax.

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If the rental income you earn isn't enough to cover your mortgage repayments, it might help to reduce your tax bill but it can also place a major strain on your cash flow. If interest rates rise, or your tenants move out and you can't immediately replace them, you could be saddled with additional costs you haven't planned for. For negative gearing to work, the overall after tax and after costs gain on the property when it's sold needs to outweigh the amounts lost each year while negative gearing.

You should also keep in mind that an investment property isn't an asset you can easily convert to cash. If you ever need access to some money quickly it could take months to sell your property and you may be forced to sell it for less than market value.

Alternative ways to invest

One way to get the benefits of property investing – but without having to buy a property yourself – is to join a managed fund that invests in Australian or international property. This allows you to leave the day-to-day management of your investment to a fund manager with expertise in property investment portfolios. Another option is to invest in an Australian Real Estate Investment Trust (A-REIT), also known as a listed property trust. Similar to a managed fund, an A-REIT is a pool of investment capital that is used to invest in a shared portfolio of commercial and industrial real estate. Returns are based on the rent earned by the underlying property assets.

Because of the strength of this collective pool of funds, A-REIT investments can give you access to high-quality properties like shopping centres and office complexes, which would otherwise be inaccessible to most sole investors. You can also diversify your property investments across multiple sectors and regions, reducing their overall risk compared to an investment in a single property.

Another advantage is that you buy and sell units in the trust rather than an entire property – so you can cash in your investment whenever you need to. On the other hand, since A-REITs are listed on the stock exchange, your investment will be subject to share market fluctuations. So it's essential that you understand this and other risks, such as your potential exposure to debt, before going down this investment path.

As with any major financial decision, it's a good idea to consult your financial adviser before you decide to invest in property. They'll help make sure you choose the right option for your financial needs and goals.

Past performance is no indication of likely future performance.

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