

# 7 things to consider when purchasing an investment property

## >1. Capital Growth Versus Income

What is your investment strategy? Are you seeking to supplement your income, or do you require capital growth? Generally, capital growth is strong and consistent in the inner urban areas, and much slower and sometimes negative in rural/country areas. The outer areas typically provide a much better cash flow or income return, however, when compared to the inner suburbs.

Note: Be cautious about purchasing properties in the CBD (Central Business District or city) and in high density developments, as there may be lending restrictions.

## >2. Choose the right property for the area

It is most effective to buy a “typical” property for the area. For example, a tiny 2 bedroom flat in South Yarra will attract trendy, young, professional renters, but the same property in the outer house & land package belts, where people value space and yards, would struggle to get a tenant! Work out what type of properties are in demand.

## >3. Rental return

The average rental return in Australia is currently around 4.6%. For a \$350,000 property, you would expect a rental return of about \$310 per week.  $(310 \times 52) / 350000 = 4.6\%$ . So when the agent tells you a \$200,000 property will rent for \$250 per week, when the average is \$180 per week, be cautious. Do your research. It is possible to achieve a greater return than the average, because it is an average, but consider that higher returns are likely to be in the country areas. If you can get 4.6% in the inner suburbs, you are doing quite well.

## >4. Research

Do plenty of research. Someone once said: “The deal of century comes around about once a week”. To recognize the deal, you must know your market thoroughly. Utilise resources such as the internet, real estate magazines, local newspapers, etc. You can get previous sales information for an area by postcode at [www.domain.com.au](http://www.domain.com.au). Attend seminars, talk to other investors. Look through the REIV web site and [realestate.com.au](http://realestate.com.au).

## >5. Do all the math

Learn what all the costs will be before you buy. Calculate and understand your return. Understand what will happen if your property is empty for 3 months. You need to know what it will cost you to hold the property each week, and practice putting that money aside now to see how it impacts your life.

## >6. Insure Your Property

Always get appropriate insurance for the property including:

- Building insurance (may be covered under a body corporate). Your lender will insist that you have current building insurance, as they are using the property to secure the loan.
- Contents insurance – to cover carpets, blinds and other fittings and fixtures not covered under the building policy.
- Landlord insurance – covers malicious damage, tenants vacating without notice, etc. This insurance is relatively cheap, and protects you from the horror renter stories you see on tabloid TV shows!

## >7. Insure yourself

During the initial phases of accumulating property, you are relying heavily on your income to start building and growing your portfolio. Your capacity to earn an income is one of your greatest assets and should be protected. Since you are taking on more debt, you should also consider your own personal insurance including:

- Income protection (in case of extended illness)
- Total and permanent disability
- Life

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