PROPERTY INVESTOR FACT SHEET

Investing in property is an alternative to investing in the share market. For many people it is preferable, as they can "see" their investment.

When buying a property for investment, it is imperative that proper research is done to ensure that the property being purchased will provide a reasonable rate of return.

There are many types of rental properties, and each one has its own set of conditions that must be fulfilled if the investment is to be successful.

Consideration should be given to:

Residential Properties –depth of the rental market, proximity to public transport, schools and shopping centres.

Holiday Residential Properties – consider the area's drawcards, occupancy rates, proximity to local entertainment areas, proximity to public transport, what outgoings will be incurred, on or off-site management.

Commercial Properties – proximity to traffic areas and target markets, occupancy rates, local rental returns, type of industry and local government rules and regulations.

It is usual to borrow for an investment property, which allows the purchaser to offset the interest on the mortgage against the rental income earned. All costs of borrowing are deductible, some as incurred and others are written off over the life of the loan.

Assessable Income from a Rental Property

Rents received, and Rental bonds recovered

Refunds of payments made – ie insurance refunds and recoveries

Deductible expenses from a Rental Property

Annual costs – rates, insurance, land tax, body corporate fees, advertising for tenants, commissions paid to property agents, repairs *, gardening

Investing costs – mortgage interest, borrowing costs*

Other – depreciation of fixtures and building allowance. Travel for property inspections, phone expenses in relation to property management.

- Borrowing costs are the expenses of obtaining the loan – applications fees, mortgage registration and mortgage stamp duties. They are written off over 5 years, or the term of the loan.

  Repairs on the property are deductible, except if they are initial repairs, or constitute and "improvement" to the property.

Non-Deductible expenses from a Rental Property

Initial expenses of finding the property, ie, phone, travel, and inspections.

Purchase costs – property stamp duties and legal fees

Initial Repairs to the property.

Calculating your cash flow and tax position

There are two considerations of Property investment –

Cash flow - the difference between the incoming rental and the outgoing expense and mortgage payments. This is a test of affordability. The difference in the income and outgoings will be the amount you will be required to input from personal funds.

Tax – The amount of profit or loss made on the investment. A loss from this investment will be offset against other taxable income, resulting in a reduction in tax payable (commonly referred to as negative gearing). A profit made from the investment will add to your taxable income and increase the tax payable.

Contact us to arrange a detailed review of any property purchase you are considering.