Capital
Wealth Managers

Is Everyone But Me Investing In Property?

Property is a popular asset class in Australia, attractive for its relative stability when compared with other asset types. In fact, according to ABS statistics, historically, about a third of all new housing loan commitments are to investors.

While current figures about the number of investment properties in Australia is difficult to ascertain, what we do know is that in 2011 almost a third of all Australian private dwellings were rented - 29.6%, or 2,297,460 to be precise. Of those individuals that owned an investment property, 72.8% owned just one, while a much lower 18.0% owned two and just 8.7% owned three or more investment properties.

Could I be a property investor?

Who are Australia's so-called "investors", and how is it they can afford an investment property, let alone two or more?

In most cases they're no different to you or I. For the most part, their only distinguishing factor is their age, with the largest proportion of property investors those aged 45 to 54 – in many cases simply due to more disposable income that facilitates investment loan serviceability, together with greater equity.

Interestingly, and yet unsurprisingly, this group's primary reason for investing is for capital growth to support wealth accumulation in the lead up to retirement, while those aged above 55 invest in property to produce rental income to fund their retirement.

All of this is not to say that a mid-20s to late 30s something person, or those on an average income, can't invest in property. Actually, it's quite the contrary.

Where do I start?

What does the average punter need to do today to join the ranks of their 45 plus counterpart, before they hit their mid-forties?

Effectively managing and understanding your unique financial situation is an important aspect of property investment and personal wealth creation. Many people falsely believe you require a high

income to successfully invest in property, whereas the reality is the majority of investors are everyday people with average wages.

For those considering joining the ranks of property investors in Australia, it's important to obtain strategic advice from the outset, both financial advice and property advice, and from independent experienced professionals. Unfortunately, it's not uncommon for investors to develop a distaste for property as an investment class after a negative experience resulting from purchasing the wrong type of property.

The keys to success

The real key to successful property investing is selecting the right asset.

While bricks and mortar is considered a safe investment option, not all property performs at the same level. In fact, while some properties may grow at an average of eight to ten percent, or even higher, per annum, others may decrease in value, falling below the initial purchase price. This is a common trend in many capital cities with an oversupply of new high density apartments.

The key to long-term success is selecting an asset with a high capital growth profile, which is largely determined by location, land and building size, configuration, orientation and a range of other factors.

How do I fund the purchase?

If your biggest hurdle is financing, there's hope. At present, low interest rates mean it's even easier to buy property for investment, with many lenders offering products tailored to your unique circumstances – speak with your broker and financial adviser for more details.

Saving a larger deposit, investing with a partner, family member or friend, using superannuation or government applying tax breaks or grants, or even obtaining assistance from parents are ways that may assist in kick-starting your investment property portfolio.

If you're an existing homeowner, the simplest solution may be to assess the value of your current property to determine what equity, if any, the property provides. In this case, if you've selected well, chances are your property has grown in value over recent years, providing equity, which may provide leverage to purchase your first or subsequent investment properties. If in doubt, a property valuer can assist you in assessing your property's current worth, providing you with the confidence required to speak with your mortgage broker about your loan options.

There's no one size fits all rule when it comes to property investing. Some people simply buy a property to reside in when they retire, while others invest to increase future wealth or for rental income. The speed at which you grow your portfolio, if at all, really depends on your appetite for risk, your lifestyle desires, and your long-term wealth strategy.

Published in The Urban Developer by Greville Pabst, executive chairman of the WBP Property Group: Tuesday, April 26, 2016