

# The long and the short of property investment

When we hear of properties selling at eye-watering profit margins it is tempting to think the vendors got 'lucky'. Shows such as 'The Block' also create the impression that it is easy to jazz up a bargain buy (if you can find one!) and then 'flip it' for a quick profit.

In reality, research from the March 2017 quarter reveals properties that resold at a profit have typically been owned for an average of 9.1 years (houses) and 7.6 years (apartments)<sup>1</sup>. The same report found properties that resold at a loss have typically been owned for less than 7 years.

**While there are no hard and fast 'rules' for investing in property, history shows that when it comes to capital growth many investors have benefited from a long term vision.**

Clearly, some markets are hotter than others, possibly contributing to an increase in 'flipping' amongst some investors. But as with ANY investment decision it is essential that the possible risks associated with an investment are well researched and considered.

## How do you know?

Nobody has a crystal ball to predict what may happen in the future. However, just some of the conditions that may alter between the time you buy and resell a property are:

- market fluctuations
- selling season fluctuations
- interest rate changes
- loan product changes
- a boom in local developments

- your target market moves to a new hotspot
- property improvements
- PLUS....

## Beware of the costs!

It pays to crunch the numbers BEFORE selling. A potential profit figure based on current market values might seem tempting but when you add up the costs associated with buying, holding AND selling over the short term versus the long term, that potential profit margin may not seem so appealing.

Upfront costs for **buying property** are typically about 5% of the property price - but can go much higher. These may include:

- buyer's agent fees
- stamp duty
- loan application fees
- legal fees
- pest and building report fees
- LMI (if deposit is less than 20%)

If renovating an investment property with a view to making a quick profit, the renovation costs should be added as well as other holding costs.

The costs of **holding a property** may include:

- interest payments and bank fees
- council and insurance costs
- property management fees (or labour and your own loss of income if you are doing the labour for a renovation)
- lost rental income (during a renovation)

The **selling costs of property** may include:

- agent's commission
- marketing/advertising costs
- auction costs
- legal fees
- lender fees, eg early exit fee

Lastly, for investors (including quick flips) you will also have to pay capital gains tax (CGT) if your sale price (less your cost base) results in a capital gain. If you renovate and flip a property within 12 months then your CGT will be 100% of your profit. You have to know your numbers to ensure the effort will return the result you are after - it is recommended you seek advice from your accountant before any potential sale.

We have helped many clients take that first step onto the property investment ladder. Ultimately, the investment strategy a client chooses will be dependent on their individual circumstances and their future financial goals. As your finance specialist we can assist you to find finance and a loan structure suitable for your particular situation.

## Changes to investment loan products

You have possibly noticed changes to some investment loans over the past few months - particularly interest only loans. Confused? You're not alone! So what's that all about?

In a nutshell, regulators want to reduce the substantial growth of interest only (IO) loans (popular with investors) in an effort to reduce risk to both lenders and borrowers.

**If you currently have any IO finance then it is essential that you contact us to discuss your options.**

As your finance specialist it is our job to help you navigate a complex financial market and source the most suitable loan product and structure for your circumstances AND we have access to a broad range of investment loan products from a range of lenders.

**Whether you are considering your FIRST investment property or another one, if investing in property is on YOUR mind then call us TODAY - we'd love to chat!**

1. Core Logic Pain & Gain report - March 2017