10 rules to help you buy well

After helping hundreds of new residential projects come to fruition throughout the country, I've seen what works and what doesn't work when it comes to buying investment property. Here are my 10 rules for success. MICHAEL MATUSIK

I have 10 rules for successful investment buying. These rules apply to 'passive' investors – the 'set and forget' types (which is the vast majority of the market – more than 90 per cent of investors, according to recent survey results) and not the 'renovator junkies' as I like to call them.

Nothing wrong with getting your hands dirty, heck I've done it many times before; but if you just want to buy and forget, then the rules on this page apply to you.

10 rules for investment success

The property must be:

1. New, or at least recently renovated, to maximise depreciation/tax return and gross rental returns.
2. In a small or multi-staged development, preferably under 50 dwellings.
3. In a strong location – infill highly favoured with high existing amenity; a great 'walk score'; existing, and more importantly potential, for above-average mid to long-term capital growth.
4. In an area with five or more pillars of economic support, including cumulative demographic/rental demand and high employment/wages growth.
5. Within five minutes of hard-core infrastructure, i.e. major work nodes, secondary schools, entertainment precincts and public transport, especially rail.
6. Delivered by a proven development team.
7. High quality in terms of design, materials and construction. It must require minimum maintenance.
8. End prices under $600,000; better still, less than $500,000. And they must yield more than a five per cent gross rental return.
9. Limited new dwelling supply when compared to underlying demand.
10. Sold with independent Australian Property Institute-registered valuation support and within an acceptable range of sales/marketing commission.

In my opinion, well-located and actively managed investment property is one of the best ways for everyday Australians to generate wealth, with its attractive combination of capital growth, rental income and generous tax breaks.

By following my 10 rules I believe you can, with a little effort and know-how, convert a modest deposit into a sizeable nest egg. You must, however, seek independent investment advice, have accumulated at least a 10 per cent deposit and have a truly spare $100 per week available to afford to buy an investment property.

Investors represent a very large proportion of the property market today, with 45 per cent of all new loans (by value) now going to investors. While many owner-occupiers sit on the sidelines or hesitate to make decisions due to worries about the global economy, it seems investors are being far more proactive in realising the opportunity to buy well right now, with prices generally soft and weekly rents continually rising.

Successful property investment is more about good decisions and management than good luck.

Personally, I advocate rental growth – given the current market outlook – over all else. But essentially, there are two income factors that property investors need to consider before making a purchase.

RENTAL RETURN

I believe that looking forward – well, for the next half a dozen years or so – capital growth should be treated as a bonus and rental income for what it is – real bankable money. Too many investors see it as a primary means of covering, in part or in full, the mortgage repayments on your investment loan.

With rising rents and falling interest rates, positively geared investments are more frequently becoming the norm – and this is particularly the case for new apartments.

Rental yields are now rising (gross rental yields across Australia for detached houses are close to 4.5 per cent and for attached product – i.e. apartments, townhouses, duplexes and zero-lot line homes – are above five per cent) and with interest rates quite low – particularly following the Reserve Bank's recent cuts – investors are well-placed to manage the cost of their mortgages.

A few years back, a three to four per cent yield was the norm, but due to growing demand, yields of five to six per cent are now more common. If you're worried about repayments, fix the loan – about one in five buyers are taking this option today.

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The key to getting more rent – and a higher rental return – is to buy property that encourages tenants to stay longer and to share their accommodation. We'll cover this in more detail in an upcoming issue of API magazine.

TAX ADVANTAGES

Negative gearing is the most obvious tax advantage, but what about depreciation?

When it comes to buying new versus older investment property, an obvious consideration is price. But something else to think about in the overall investment equation is the tax depreciation benefits that can accrue.

As a building ages and items within it wear out, they depreciate in value. Property investors may claim a tax deduction for this loss, which essentially reduces the owner's taxable income.

The depreciation tax benefits of new investment property are frequently touted as an incentive to purchase. This is because new income-producing property can give rise to a significant boost in cash flow. Put simply, there's more depreciation to claim.

But surprisingly, it seems that property investors aren't

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exactly clamouring to secure their potential depreciation tax credits. Industry research from BMT indicates that 80 per cent of property investors don't take full advantage of their depreciation options. That's money down the drain in my book.

Let's look at how much money it can be. Using a simple depreciation app, a $500,000 new Brisbane apartment built to a high standard could net the buyer about $100,000 in the first 10 years, with $14,000 paid after the first year, if using the diminishing value method.

Of course, a quantity surveyor trained in the area of property depreciation needs to be employed. For new property, their work will cover a 40-year period – so there's even more savings beyond the first 10 years – and the cost of their service is also tax deductible.

It's money for jam, if you ask me.

Property investment should be approached in a business-like fashion. This purchase, unlike your home, should be devoid of all emotional attachment. api

Michael Matusik is a leader in residential market analysis. A 25-year veteran in the industry, Michael has a new venture – Think Matusik – which brings followers together with experts and buying opportunities. www.matusik.com.au