10 Steps to successful property investment

Property has been considered a popular path to wealth creation for Australians for many years. It has the potential to generate capital growth (an increase in the value of your asset) as well as rental income. There are also tax advantages associated with negative gearing. However, when buying an investment property it is wise to remember that you are making a business decision and it's worth taking the time to plan.

1. Do your homework

You are not buying from the heart, but from the head, so it is important to assess your current financial position. What are your cash reserves and what equity do you have in your present home? Look at your long term objectives and factor in potential changes to your current situation (eg the birth of a child or the loss of one income).

2. Understand negative vs positive gearing

Positively geared properties - rental income is higher than your loan repayments and outgoings. Tax is likely to be payable on the net income. Negatively geared properties - rental income is less than your loan repayments and outgoings. The loss can be offset against other income earned, reducing your assessable income and therefore your tax payable.

3. Decide how to fund it

You'll probably need a property investment loan. The deposit can come from your savings or alternatively from equity in the home you live in. It can also be possible to invest in property via a self managed superannuation fund.

4. Choose the right loan

There are generally two types of loans: 'principal and interest' and 'interest only'. Interest only loans defer the obligation to repay the principal. The best loan type will be dependent upon your individual circumstances so it is best to talk to us.

5. Find out how much you can borrow

This is an essential step to be realistic in your expectations and focus your property hunting time on properties you can afford.

6. Calculate your up-front costs

Remember to factor stamp duty, loan application fees and legal costs into your plans. A building and pest inspection is also a must to avoid expensive headaches down the track.

7. Estimate ongoing costs

All properties incur ongoing expenses (eg rates, insurance etc). You'll use your rental income to cover most or all of these but you might need to have some spare cash set aside until you start receiving rent (most agents pay the owner at the end of each month so you won't receive rental income straight away).

8. Finding the right property

This is obviously the area in which you will spend the most time. It doesn't have to be a home you would live in. Think about which features are universally appealing and of course remember the old adage – location, location, location!

9. Find a good property manager

It could be a good idea to look for personal recommendations from tenants and landlords you may know.

10. Cover yourself with suitable insurances

Some insurance companies now combine building cover with specialist landlord insurance. You should also consider life, tpd and income protection insurance to ensure your family doesn't suffer financial hardship repaying loans if the main income earner is unable to work.

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